

Business Case: Aadam Textiles- Formalization Journey

1. About the Enterprise

Aadam Textiles, established in 2018 in Karachi, is a medium-sized garments manufacturer specializing in exports to the US and EU markets. The enterprise is registered with SECP, FBR, Social Security, EPA, and EOBI, and has consistently fulfilled regulatory requirements while maintaining compliance. Currently, the company employs 175 workers, of which 25 are registered with FBR and 130 with Social Security and EOBI, while the remainder are engaged on contractual or daily wage terms. To strengthen compliance and operational efficiency, the company has developed and implemented its ERP system, aligning its operations with both local regulatory requirements and international buyer standards.

2. Pre-Formalization Status

Before registering as a private limited company, Aadam Textiles operated as a small unit with limited visibility in export markets. The workforce was largely unregistered, with no social security or pension coverage, and transactions were handled manually on a cash basis. The company relied heavily on informal suppliers for raw materials and support services, which resulted in inconsistent quality and weak traceability. With no formal recognition, the enterprise faced barriers in accessing institutional finance, export opportunities, and long-term contracts with larger buyers. Like many small garment manufacturers, its growth potential was restricted by informality, highlighting the need for transition towards compliance and formalization.

3. Why They Decided to Formalize

The leadership of Aadam Textiles viewed formalization as an essential step for growth, competitiveness, and workforce welfare. International clients, particularly in the US and EU, required documented compliance with labor, quality, and environmental standards, which could only be achieved through registration and adherence to regulatory procedures. Although the process involved multiple approvals, documentation, and bureaucratic delays, formalization provided the company with legal protection, trust with customers and suppliers, and the ability to secure larger export contracts. The decision was also driven by the owner's commitment to providing employees with formal jobs and access to social protection schemes, positioning the company as a responsible and future-oriented enterprise.

4. Comparative Analysis: Pre vs Post Formalization

Aspect	Pre-Formalization	Post-Formalization
Market Access	Local traders and small buyers	Export to US & EU through buying offices
Workforce	Unregistered, informal arrangements	155+ registered with FBR, Social Security, and EOBI
Finance	Cash-based, personal funds	Access to institutional finance and credit facilities
Technology	Manual production, limited documentation	ERP adoption, digitized records, compliance systems
Supply Chain	Heavy reliance on informal vendors	60–65% formal vendor base developed
Reputation	Low recognition with formal buyers	Credibility with global clients, compliance exporter

5. Challenges Faced by the Enterprise

- Competition from informal sector players avoiding compliance costs.
- Limited availability of registered raw material suppliers, especially for embroidery, printing, and accessories.
- Bureaucratic hurdles and scrutiny from FBR during compliance processes.
- Corruption and inefficiencies in ESSI and EOBI, discouraging worker engagement.
- Financial constraints due to high interest rates and limited SME-friendly loan options.
- Poor infrastructure, including road networks, power supply, and digital connectivity.
- High logistics costs and frequent policy changes creating uncertainty in planning.
- Lack of local testing and standardization laboratories, restricting export facilitation.

6. Strategies Adopted to Overcome Challenges

To overcome these challenges, the company adopted a multi-pronged strategy. It differentiated itself from informal competitors by emphasizing product quality, compliance, and reliability, thereby gaining stronger trust from international buyers. To address supplier gaps, the company developed long-term partnerships with selected registered vendors and in some cases invested in partial in-house facilities for embroidery and printing. Regulatory hurdles with FBR, ESSI, and EOBI were managed through the engagement of professional consultants and digitalization of record-keeping to ensure transparency and minimize discretionary scrutiny. On the financial side, the company leveraged supplier credit, export refinance schemes, and reinvested profits to reduce reliance on high-interest borrowing. Infrastructure challenges were mitigated by establishing backup power systems, adopting digital solutions to bridge connectivity gaps, and optimizing logistics through bulk shipments and reliable third-party service providers. Finally, in the absence of local accredited testing laboratories, the company collaborated

with international labs and invested in its own internal quality assurance systems to meet global standards and sustain export growth.

7. Outcomes of Formalization

Formalization transformed Aadam Textiles into a credible and trusted exporter, enabling it to build strong relationships with global clients and expand into US and EU markets. Registration with SECP, FBR, and social protection institutions enhanced credibility with regulators, buyers, and banks, while ERP adoption strengthened compliance, record-keeping, and operational efficiency. The enterprise gained legal protection and improved its ability to attract and retain skilled employees by offering formal job opportunities and access to social protection. Although reliance on informal suppliers persists, with 35–40% of procurement still outside the formal sector, Aadam Textiles has been able to secure 60–65% of its supply chain from registered companies, improving traceability and consistency. Overall, formalization positioned the enterprise for sustainable growth despite ongoing systemic challenges.

8. Recommendations from the Enterprise

The company recommends greater government facilitation to ease SME formalization and strengthen competitiveness. This includes relaxation of advance taxation, reduced interest rates, and increased access to affordable financing. Accelerated digitalization of FBR processes and reforms in ESSI and EOBI are critical to improve transparency and encourage broader employee participation. Establishing accredited testing and standardization laboratories within Pakistan would facilitate exports and enhance compliance with global buyers. In addition, pooling mechanisms for raw material procurement, donor-supported programs for technology transfer, and cluster-based vendor collaborations could strengthen supply chain reliability. Incentives for taxpayers, such as international travel rebates, exhibition fee discounts, and concessions on education, would further encourage formalization and reward compliance.

9. Lessons Learned

The formalization journey of Aadam Textiles highlighted several key lessons. First, regulatory compliance enhances trust with buyers, regulators, and financial institutions, opening doors to larger markets and long-term growth. Second, providing employees with access to formal jobs and social protection strengthens workforce loyalty and productivity, even when institutional inefficiencies persist. Third, adopting ERP and certifications improves operational efficiency, transparency, and alignment with global standards. Finally, while informality remains a systemic challenge in supply chains, enterprises that embrace formalization are better positioned to compete internationally and contribute to industry-wide progress.

10. Conclusion

Aadam Textiles' experience demonstrates that formalization is not only achievable but also a strategic enabler of growth and sustainability in Pakistan's garment sector. Despite bureaucratic hurdles, high compliance costs, and infrastructure challenges, the enterprise successfully leveraged formalization to gain legal protection, credibility, and international market access. The case underscores the need for a supportive business-enabling environment, government incentives, and donor engagement to address systemic constraints. Ultimately, the journey of Aadam Textiles reaffirms that formalization is both a business growth strategy and a pathway to improved employee welfare, industry credibility, and integration into high-value global value chains.