Business Case: Bajwa Agro Industries (Pvt) Ltd

1. About the Enterprise

Bajwa Agro Industries (Pvt) Ltd, based in Lahore, is among the pioneering auto parts manufacturers in Pakistan. Established in 1975, the enterprise operated informally for its initial years, gradually strengthening its systems and practices before being registered as a private limited company in 1990. Over this 15-year period, it steadily progressed on the path of formalization and was subsequently listed with SECP, FBR, Social Security, EPA, and EOBI. This journey reflects its long-term commitment to structured growth and to producing high-quality, diversified auto components for the country's automotive industry.

With a dedicated R&D function led by skilled engineers, the company not only enhances its internal technical expertise but also contributes significantly to the development of Pakistan's engineering industry. Bajwa Agro has also invested in a modern machine shop equipped with Capstan lathes, milling machines, boring machines, radial drills, and vertical lathes. To support mass production, the company designs and builds special-purpose machinery in-house.

The enterprise employs 40 people, all of whom are registered with Social Security and EOBI, though only 5 employees are registered with tax authorities. Bajwa Agro has developed its own ERP system and is working towards full compliance with internal and external regulatory requirements.

2. Pre Formalization Status

Before its formal registration in 1990, Bajwa Agro Industries operated as a small-scale auto parts workshop established in 1975, functioning largely within the informal sector. The enterprise relied on traditional manufacturing methods and limited machinery, with around 20–25 workers engaged without social protection coverage or formal wage structures. Financial practices were informal and cash-based, restricting access to institutional credit and banking facilities. Market linkages were confined to local traders, mechanics, and replacement parts dealers, with little opportunity to engage directly with OEMs due to the absence of certifications, documented systems, or regulatory compliance. The lack of formal recognition also limited its ability to expand operations, attract skilled engineers, or invest in modern technology. Like many enterprises of its time, Bajwa Agro's growth potential was constrained by informality, highlighting the challenges faced by early auto parts manufacturers in Pakistan before transitioning towards formalization.

3. Why They Decided to Formalize

The owner emphasized that the company willingly embraced formalization and found it relatively hassle-free. Transitioning to the formal sector provided new business opportunities, especially access to OEMs such as Millat Tractors and Al-Ghazi Tractors. However, the enterprise continues to face stiff competition from the informal sector, which can undercut prices by bypassing compliance costs. Approximately 50% of Bajwa Agro's supply chain is formalized, but the limited availability of registered suppliers compels reliance on informal procurement for raw materials and components, creating challenges in record-keeping and compliance.

The owner further noted that being a registered enterprise often puts businesses "on the hit list" of FBR and intelligence wings, leading to additional scrutiny compared to informal competitors.

4. Benefits of Formalization

Aspect	Before Formalization (Informal Practices)	After Formalization (Compliant & Certified)
Market Access	Restricted to small/local buyers	Access to OEMs (Millat Tractors, Al-Ghazi Tractors)
Customer Trust	Limited credibility, vulnerable to disputes	Improved credibility with OEMs & regulatory authorities
Supply Chain	100% reliance on informal suppliers	50% supply chain formalized, improved traceability
Finance & Investment	Limited access to formal financing	Better credibility with banks, potential for SME loans
R&D & Technology	Limited product/process innovation	In-house R&D by engineers, ERP adoption
Employee Benefits	Informal workforce, no structured welfare	100% employees registered with Social Security & EOBI
Business Growth	Restricted market opportunities	Expanded growth potential, entry into OEM vendor base

5. Challenges Faced by the Enterprise

- Unfair competition from informal sector enterprises avoiding compliance costs.
- Limited availability of formal raw material suppliers, forcing partial reliance on the informal sector.
- Scrutiny from FBR and intelligence departments, creating compliance pressure.
- Corruption and inefficiency in ESSI and EOBI, discouraging employee engagement.
- Financial constraints, particularly high interest rates and limited SME loan access.
- Lack of testing and standardization labs in Pakistan to support compliance and exports.

6. Strategies Adopted to Overcome Challenges

- Certification programs supported by matching grants to enhance competitiveness from SMEDA etc.
- Technology transfer initiatives and ERP adoption support.
- Awareness on tax schemes and compliance processes to employees.

- Participated in domestic exhibitions to enhance outreach.
- Engage ESSI and EOBI for improved employee services.

7. Outcomes of Formalization

The formalization of Bajwa Agro Industries (Pvt) Ltd transformed the enterprise from a modest auto parts workshop into a recognized and credible player in Pakistan's automotive industry. Through registration with SECP, FBR, Social Security, EPA, and EOBI, the company gained legitimacy that enhanced its reputation with regulators, banks, and major customers. This credibility enabled stronger market linkages, particularly with OEMs, while compliance with labor and social protection laws improved employee welfare and workforce stability. Investment in modern machinery, an in-house R&D function, and the development of ERP systems further strengthened operational efficiency, product quality, and transparency. As a result, the enterprise was able to scale production, diversify its components, and position itself competitively for both domestic demand and future export potential.

8. Recommendations from the Enterprise

Bajwa Agro Industries believes that the government needs to make it easier for SMEs to become formal businesses. For this, there should be stricter action against informal enterprises so that fair competition exists, and more registered suppliers should be added to make supply chains stronger. The company suggests faster digitalization of FBR processes and reforms in ESSI and EOBI to cut down on corruption and delays. It also recommends setting up testing and standardization labs in Pakistan so that exporters can meet international requirements.

To ease financial challenges, Bajwa Agro calls for simpler access to loans, lower interest rates for SMEs, and grant programs to help companies with certification and new technology. Finally, it proposes incentives for businesses that pay taxes regularly, such as discounts on school fees or support to join international exhibitions, which would encourage more enterprises to formalize and stay compliant.

9. Lessons Learnt

Bajwa Agro's journey towards formalization demonstrates that compliance, while initially challenging, creates long-term benefits for enterprises. Firstly, regulatory registration enhances credibility, helping companies build trust with customers, regulators, and financial institutions. Secondly, investing in workforce welfare through Social Security and EOBI strengthens employee loyalty and productivity, even in the face of institutional inefficiencies. Thirdly, the adoption of technology, including ERP systems and certifications, plays a critical role in improving efficiency and ensuring quality assurance. Lastly, the experience shows that while the informal sector poses competitive challenges, enterprises that embrace formalization are better positioned for sustainable growth, international competitiveness, and industry-wide recognition.

10. Conclusion

The case of Bajwa Agro Industries (Pvt) Ltd highlights how formalization opens avenues for growth, credibility, and access to OEMs. Yet, sustaining competitiveness requires systemic reforms—fair enforcement against informal players, improved access to finance, transparent labor institutions, and investment in quality infrastructure. Institutions like the ILO and sectoral associations can play a crucial role in addressing governance gaps, advocating for worker welfare, and creating an enabling environment for SMEs. With targeted government support and collective industry reforms, enterprises like Bajwa Agro can not only thrive domestically but also strengthen Pakistan's position.