



International  
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# ▶ The national road map for SME and worker formalization

- ▶ **The national road map for SME and worker formalization**

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## ► Acknowledgment

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Pakistan's economic strength depends on its SMEs and the millions they employ, as they drive industry, jobs and exports. However, widespread informality limits productivity, labour protection and access to finance and markets, hindering inclusive and sustainable growth.

The national road map for SME and worker formalization is a timely response that recognizes informality as a structural challenge shaped by fragmented regulations, high costs, limited incentives and weak trust. It promotes a pragmatic, phased, and facilitative approach to formality, balancing economic feasibility with social protection and decent work.

Developed through broad stakeholder consultations, this road map reflects the practical realities of SMEs and aligns international best practices with Pakistan's institutional context. It supports key national reform agendas, including the Decent Work Country Programme and the United Nations Sustainable Development Cooperation Framework (2023–2027), while responding to emerging global trade and compliance requirements.

The Ministry of Industries and Production views formalization as a developmental process rather than a one-time regulatory act. Equally critical is the roadmap's focus on labour formalization, particularly for workers in contractor-based arrangements, home-based work, and other vulnerable forms of employment that have historically remained outside effective protection. Hence, this document sets out clear actions, responsibilities, and timelines for federal and provincial stakeholders.

I appreciate the leadership of the International Labour Organization, SMEDA, and all stakeholders in developing this road map. It offers a practical approach to formalizing SMEs and workers, strengthening compliance, protecting rights, and supporting enterprise growth, with the potential to enhance Pakistan's formal economy and livelihoods.

**Saif Anjum**

Secretary

Ministry of Industries and Production for Pakistan

## ► Preface

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Advancing the transition from the informal to the formal economy is central to achieving inclusive growth and social justice. In Pakistan, many enterprises and workers remain outside formal regulatory and social protection systems, often without stable contracts or access to social security. Formalization is therefore not only a policy objective, but a national priority linked to productivity, protection and opportunity.

The International Labour Organization (ILO) is honoured to support the Government of Pakistan in the development of this national roadmap for enterprise and worker formalization. This road map reflects a shared national commitment to pursue a coordinated and phased approach to formalization. One that strengthens institutions, expands opportunity, and protects rights at work.

Guided by ILO Recommendation No. 204 concerning the transition from the informal to the formal economy, this road map recognizes that formalization is not solely about registration or compliance. It is about creating enabling conditions in which enterprises can grow, workers can access decent work and economic progress is accompanied by social protection. Achieving this will require simpler regulatory procedures, effective labour administration, improved access to finance and expanded social protection coverage.

The Decent Work Country Programme (DWCP IV) in Pakistan places formalization at the heart of national efforts to promote productive employment, strengthen labour market governance, and extend social security to those who remain unprotected. This road map translates that commitment into a practical national framework, linking enterprise development with workers' rights, occupational safety and health, and income security across the life cycle.

Particular attention is needed for groups facing the greatest barriers to formalization. Women entrepreneurs and workers are disproportionately concentrated in informal and vulnerable forms of employment, often constrained by limited asset ownership, restricted access to finance, and unpaid care responsibilities. Therefore, a gender-responsive approach including inclusive financial services, maternity protection and safer workplaces will be essential to ensuring that formalization leads to equitable outcomes. Expanding social protection systems, including health coverage and income security mechanisms, will be fundamental to reducing vulnerability and building resilience, especially in the face of economic and climate-related shocks.

The International Labour Organization commends the leadership of the Ministry of Industries & Production in steering this nationally significant initiative and expresses its appreciation to the Small and Medium Enterprises Development Authority (SMEDA) for its dedicated technical stewardship throughout the development process. The extensive consultations undertaken, involving employers' and workers' organizations, provincial institutions, women entrepreneurs and development partners - demonstrate strong national ownership and the value of social dialogue in shaping sustainable reform.

Formalization is a gradual process that requires sustained political commitment, institutional coordination, and continued partnership. This national road map provides a strategic framework to guide that journey. By aligning enterprise development with decent work principles and expanded social protection, Pakistan is advancing toward a more productive, equitable, and resilient economy. The success of this Roadmap will now depend on its translation from strategy to reality. This requires not only the leadership of the federal government but also the active and coordinated engagement of the provincial authorities, employers and workers organisations and development partners, moving forward.

The ILO remains committed to supporting the Government of Pakistan and its social partners in turning this shared vision into lasting improvements for workers and enterprises.

**Geir T. Tonstol**  
Country Director  
ILO Country Office for Pakistan

## ► Foreword from Chief Executive Officer

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The challenge of informality in Pakistan is neither marginal nor incidental. It is deeply rooted in structural and institutional constraints that disproportionately affect SMEs. These realities were clearly articulated in SMEDA's earlier collaboration with the International Labour Organization (ILO) on a national study examining barriers to SME formalization. The study revealed fragmented regulatory frameworks, unclear registration pathways, limited incentives and overwhelming compliance requirements as key drivers of informality. Critically, it found that nearly 68 per cent of enterprises lacked clarity on registration processes, while only 5 per cent maintained written financial records—underscoring that informality is often a rational response to complexity rather than an intentional avoidance of the system.

It was this evidence-based understanding that confirmed the need for a nationally coordinated, sequenced, and facilitative approach to formalization—one that brings multiple institutions together under a unified strategic direction. Anchored in these findings, the Ministry of Industries & Production, with technical assistance from the ILO and in close collaboration with SMEDA, embarked upon an extensive consultative and analytical exercise that has culminated in Pakistan's first national roadmap for SME and worker formalization.

Throughout the development of this road map, SMEDA has served as the technical secretariat, coordinating stakeholder engagement across provinces, facilitating sectoral and thematic consultations, and ensuring alignment with the National SME Policy and federal priorities. Through focus group discussions and numerous bilateral engagements with SMEs, business associations, women-led enterprises, workers' representatives, and public institutions, the national road map has been firmly grounded in enterprise realities while identifying practical, incentive-based pathways that make formalization meaningful and achievable.

The road map reflects Pakistan's enterprise structure, where over 70 per cent of non-agricultural employment remains informal, women-owned enterprises face heightened risks of remaining undocumented, fewer than 8 per cent of SMEs access formal finance, and only a fraction of micro-enterprises are registered with any public authority. Against this backdrop, the road map positions formalization not as a compliance exercise, but as a gradual transition linked to tangible benefits—improved access to finance, business development services, social protection, and integration into domestic and global value chains.

This road map also advances Pakistan's broader national vision. It aligns with the National SME Policy, the Decent Work Country Programme, the United Nations Sustainable Development Cooperation Framework (UNSDCF) 2023–2027, and the National Women Entrepreneurship Policy, while supporting Pakistan's commitments related to labour standards, export competitiveness, and inclusive growth.

As the road map moves into its implementation phase, SMEDA will play a central facilitative and implementation-support role. SMEDA remains fully committed to supporting the Ministry of Industries & Production, Government of Pakistan by operationalizing and promoting the SME Registration Portal, strengthening business development services, and enabling structured dialogue with informal enterprises across the country. Through digital platforms, institutional partnerships, and targeted enterprise support, SMEDA will work to ensure that formalization becomes a pathway to opportunity rather than a burden.

I would like to acknowledge the leadership of the Ministry of Industries & Production, the technical partnership of the International Labour Organization, and the valuable contributions of all stakeholders who participated in shaping this road map. SMEDA stands ready to carry forward the responsibilities entrusted to it under this national framework and to work collaboratively with federal and provincial institutions to translate this Roadmap into measurable outcomes.

With sustained political commitment and coordinated action, this road map has the potential to transform Pakistan’s SME landscape—making enterprises more competitive, workers more protected and the economy more resilient and inclusive.

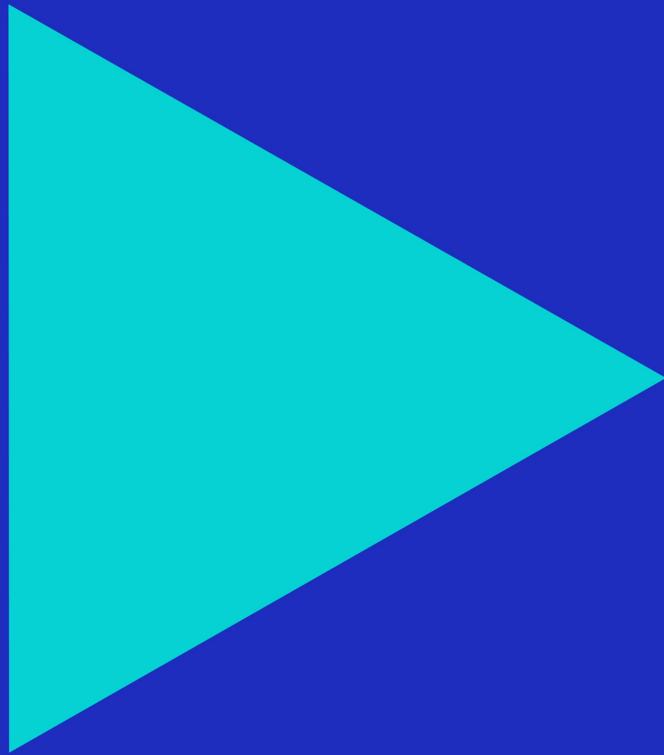
**Nadia J. Seth**  
Chief Executive Officer  
SMEDA Pakistan

## ► List of acronyms

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APTMA – All Pakistan Textile Mills Association  
BDS – Business Development Services  
BMBE – Barangay Micro Business Enterprises (Philippines)  
BOI – Board of Investment  
BOP – Balance of Payment  
CAGR – Compound Annual Growth Rate  
CBAM – Carbon Border Adjustment Mechanism  
CCP – Competition Commission of Pakistan  
CIT – Computer and Information Technology  
CNIC – Computerized National Identity Card  
CSDDD – Corporate Sustainability Due Diligence Directive  
DWCP – Decent Work Country Program  
EFP – Employers’ Federation Pakistan  
EOBI – Employees’ Old-Age Benefits Institution  
EPA – Environmental Protection Agency  
ESG – Environmental, Social, and Governance  
EU – European Union  
ETP – Effluent Treatment Plant  
FBR – Federal Board of Revenue  
FPCCI – Federation of Pakistan Chambers of Commerce & Industry  
STR – Final Tax Regime  
GDP – Gross Domestic Product  
GOP – Government of Pakistan  
GSP+ – Generalized Scheme of Preferences Plus  
GST – Goods and Services Tax  
HBWs – Home-Based Workers  
ILO – International Labour Organization  
KYC – Know Your Customer  
LFS – Labour Force Survey  
LLC – Limited Liability Company  
LLP – Limited Liability Partnership  
LRI – Labour Rights Index  
MoIP – Ministry of Industries and Production  
MSME – Micro, Small, and Medium Enterprises  
NADRA – National Database and Registration Authority  
NBP – National Bank of Pakistan  
NCC – National Curriculum Council

NIBAF – National Institute of Banking and Finance  
NIC – National Incubation Centre  
NOC – No Objection Certificate  
NTN – National Tax Number  
OEM – Original Equipment Manufacturers  
PAAPAM – Pakistan Association of Automotive Parts & Accessories Manufacturers  
PAMA – Pakistan Automotive Manufacturers Association  
PBS – Pakistan Bureau of Statistics  
PESSI – Punjab Employees Social Security Institution  
PHMA – Pakistan Hosiery Manufacturers Association  
PLC – Private Limited Company  
POS – Point of Sale  
PRA – Provincial Revenue Authority  
PREGMEA – Pakistan Readymade Garments Manufacturers and Exporters Association  
PRMI – Pakistan Regulatory Modernization Authority  
PSDP – Public Sector Development Program  
PSW – Pakistan Single Window  
RCCI – Rawalpindi Chamber of Commerce and Industry  
RLCOs – Registrations, Licenses, Permits, and No-Objection Certificates  
SBP – State Bank of Pakistan  
SECP – Securities and Exchange Commission of Pakistan  
SESSI – Sindh Employees Social Security Institution  
SMC – Single Member Company  
SME – Small and Medium Enterprises  
SMEDA – Small and Medium Enterprise Development Authority  
SMEF-AT – SME Formalization and Transition Project  
SNA – System of National Accounts  
STRN – Sales Tax Registration Number  
TVET – Technical and Vocational Education and Training  
UNSDCF – United Nations Sustainable Development Cooperation Framework  
WEP – Women Entrepreneurship Policy  
WWF – Worker Welfare Fund



**Section I**

## ► Introduction

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### Background

A high prevalence of informality has wide-ranging implications for Pakistan's economy. It is important to distinguish informal activity from illicit activity: informality does not necessarily imply illegality, but it does increase the likelihood of certain risks. Workers in the informal economy are more exposed to gaps in labour rights and social protection. Informality is associated with lower productivity and enterprises are less likely to comply with legal and regulatory frameworks. In Pakistan, the informal economy is estimated at around 44 per cent of GDP, while informal employment accounts for nearly 84 per cent of the workforce, including those in agriculture, operating outside the formal system. Informality is particularly widespread among Small and Medium Enterprises (SMEs) and their supply chains, especially in export-oriented sectors such as textiles and garments where informal employment reaches 87 per cent. Sectors like auto parts manufacturing also exhibit high levels of informality, with many SMEs functioning as unregistered, entities not associated with the original equipment manufacturer (OEM). While these patterns highlight clear linkages between informality and economic or social challenges, it is important to recognize that such issues are not caused solely by informality — they can and do exist in the formal economy as well. Addressing informality, therefore, offers an opportunity to improve compliance, productivity and protection particularly by facilitating the formalization of SMEs and in turn, their workers.

The study conducted by the International Labour Organization (ILO) in collaboration with Pakistan's Small and Medium Enterprise Development Authority (SMEDA) has identified several barriers hindering SME formalization and jobs within those units. The key challenges include a perceived lack of benefits associated with formalisation and the high compliance costs that often outweigh potential advantages for SMEs. Moreover, the inconsistent enforcement of regulatory frameworks exacerbates the situation, as supervisory efforts focus on manufacturing while allowing other sectors such as trade and agriculture, to remain informal.

With Pakistan's Generalized Scheme of Preferences Plus (GSP+) status and upcoming EU regulations on due diligence and green initiatives, there is mounting pressure on federal and provincial governments as well as development partners to not only formalize SMEs but also the formalization of jobs within these SMEs with the focus to enhance labour conditions and compliance across export-oriented value chains. Climate change considerations are also influencing production processes within these sectors, necessitating adaptation among SMEs and home-based workers (HBWs).

The increasing requirements under the EU Green Deal and EU Directives of Circularity require greater traceability within the supply chains. However, in contexts marked by high levels of informality, this poses a significant challenge as many businesses lack the skills, resources and enabling environments needed to manage such complex transitions effectively.

The transition from an informal to a formal economy—encompassing both enterprise and employment formalisation—is a central priority under Pakistan's Decent Work Country Programme (DWCP) and aligns with the United Nations Sustainable Development Cooperation Framework (UNSDCF) for 2023-2027. The National SME Policy 2021 also emphasises the importance of enterprise formalization. This concept of enterprise and employment formalisation will be further emphasised in the upcoming Women Entrepreneurship Policy (WEP). These frameworks and policies highlight the need for integrated approaches to facilitate formalization positioning it as a key objective within the SMEF-AT project of ILO.

## ► Road map for SME formalization

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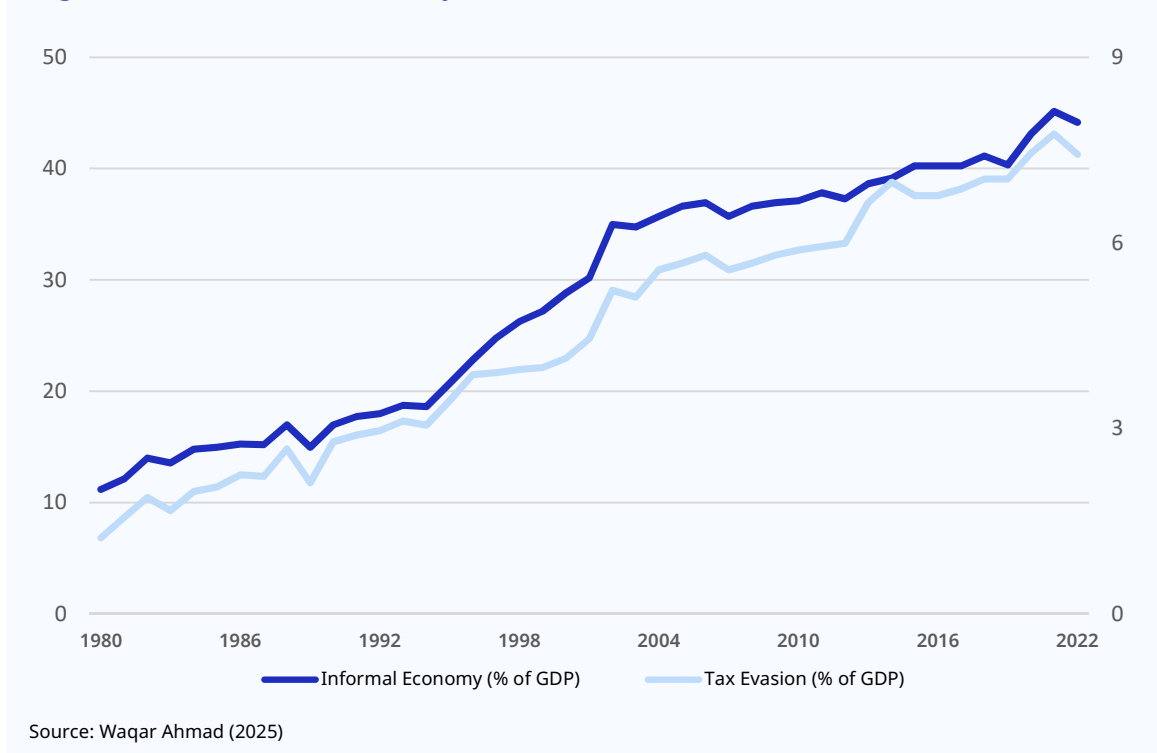
The enterprise formalization initiative under the SMEF-AT project spearheaded by the ILO in partnership with SMEDA and other stakeholders aimed at developing a national roadmap for enterprise and employment formalization. This document provides a roadmap developed through extensive stakeholder consultations, review of key issues, borrowing from good examples and actions undertaken internationally to improve formalization—this document is not a diagnostic but comprises specific actions for the GOP to

enable the economy transition towards formalization and ensure formality in labour markets with better working conditions. The roadmap outlines priorities, roles and responsibilities among stakeholders to effectively drive this essential transition inline current business environment and GOP's on going reform efforts. The objective is to establish enabling provisions and mechanisms to facilitate the transition of the economy towards formality by taking small yet concrete steps as a hundred per cent formalization is neither possible nor economically feasible. This was the key conclusion under the discussion on *innovative approaches to addressing informality and promoting transition to formality* at the International Labour Conference. The conference called for gradual processes of transition from the informal to the formal economy.

## ► Scale and form of informality in Pakistan

Estimating economic informality in Pakistan remains a complex but critical challenge, given its substantial and multidimensional impact on the economy. The informality, encompassing unregistered and unregulated businesses operates parallel to the formal economy distorting national income estimates, weakening fiscal capacity and undermining market competition. In Pakistan, structural issues such as a low tax-to-GDP ratio, utility shortages and costs, inflationary pressures and unfriendly tax regimes with consideration to shocks like natural disasters and COVID-19, have further contributed to the expansion of informality in both labour and employment levels. While household enterprises in informality often serve as safety nets and income sources, their exclusion from formal systems leads to misallocated resources and limited public service provision. Accurate estimation is further complicated by the blurred lines between legal and informal activities.

► **Figure 1: Size of informal economy & tax evasion in Pakistan (Per cent of GDP)**



A recent study presents a precise quantification of Pakistan's informal economy and tax evasion from 1980 to 2022. While establishing causality may not be possible, the study does provide insights regarding informality. Using the monetary approach, it estimates that the informal economy now represents 44.14 per cent of GDP, a significant increase from 11.17 per cent in 1980. Similarly, tax evasion has grown from 1.23 per cent to 7.43 per cent of GDP over the same period. On average, informality accounted for 28.33 per cent of GDP and tax evasion for 4.49 per cent despite numerous tax reform efforts.

These findings reveal critical weaknesses in Pakistan's formal economic structures and highlights potential inaccuracies in national accounts. The estimates over the longer term are presented in Figure 1 above.<sup>1</sup>

Moreover, SMEDA estimates over 5.2 million SME establishments; against this number, only 200,000 are registered as firms in district registries and about 245,000 with the Securities and Exchange Commission of Pakistan (SECP). However, there are 15 million individuals registered as sole proprietors out of which 4.8mn filed returns for tax-year 2024 (the registration includes deceased taxpayers as well).<sup>2</sup> If one were to look at the number of sole proprietors registered as businesses with the Federal Board of Revenue (FBR), the overall trend would present a similar picture. This is less than 10 per cent, suggesting close to 90 per cent informality in the SME sector.

The pervasive nature of economic informality in Pakistan extends into institutional and contractual domains particularly affecting labour rights and protections. As per the Pakistan Bureau of Statistics Labour Force Survey 2020–21, informal employment remains a defining characteristic of Pakistan's labour market. According to the Labour Force Survey, 27.1 per cent employment is in the formal sector while 72.5 per cent in the informal sector. Within the employed category, the informal sector accounts for more than 70 per cent of non-agricultural employment, more in rural (76.2 per cent) than urban areas (68.5 per cent). On the other hand, formal sector activities are concentrated more in urban areas (31.5 per cent) than in rural areas (23.8 per cent). Informal Sector Workers by Major Industry Divisions are primarily in the wholesale and trade sectors, followed by the manufacturing sector. This high level of informality spans multiple forms of employment including unregistered contractual employment within the formal sector, employees with the informal sector, unregistered businesses (informal enterprises) and wage work lacking social protection or contractual safeguards.

The agricultural sector is particularly marked by informality where the majority of employment occurs outside regulatory oversight despite the recent introduction of labour codes. In the non-agricultural sectors, informality persists across wholesale and retail trade, construction, transport and domestic work. The widespread nature of informal employment has critical implications for labour rights and socio-economic development. Most workers in informal employment are excluded from key protections such as social security, occupational safety and the mechanisms to uphold their rights. This not only hampers the effective implementation of labour legislation but also undermines inclusive growth, weakens state revenue potential and poses structural challenges for policy design in employment, social protection and formalization strategies.

This has direct implications for labour compliance in the country, which remains critically inadequate and largely dependent on informal mechanisms rather than robust legal frameworks.

According to the ILO's SDG Indicator 8.8.2, Pakistan scores 5 on a scale from 0 (full compliance) to 10 (no compliance), indicating significant deficiencies in both the legal underpinnings and enforcement capacity for upholding workers' rights.

Despite Pakistan's ratification of ILO Conventions 87 and 98 on freedom of association and collective bargaining, systemic obstacles persist such as limitations on trade union formation, restricted access to collective bargaining processes and weak labour law enforcement.

Some key gaps include:

- Legal exclusions and fragmentation – Provincial industrial relations acts exclude large categories of workers (e.g., civil servants, armed forces and much of the informal workforce) creating statutory gaps with C87/C98.<sup>3</sup>
- Weak enforcement capacity – Labour inspectorates are under-resourced, inspections are sporadic, and penalties are low, making enforcement ineffective.<sup>4</sup>

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<sup>1</sup> W. Ahmad (2025). Estimating the Informal Economy and Tax Evasion in Pakistan: Insights from Monetary Approach. Critical Review. 02. 1281-1294. 10.59075/1ww93185.

<sup>2</sup> Board of Investment and FBR, Government of Pakistan.

<sup>3</sup> ILO CEACR, Observation on Pakistan – Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87) (2023)

<sup>4</sup> [https://www.hrw.org/report/2019/01/23/no-room-bargain/unfair-and-abusive-labour-practices-pakistan?utm\\_source=chatgpt.com](https://www.hrw.org/report/2019/01/23/no-room-bargain/unfair-and-abusive-labour-practices-pakistan?utm_source=chatgpt.com)

- Employer resistance and reprisals – Harassment, dismissals and intimidation of union organisers remain widespread, leading to extremely low unionisation rates.
- Restrictions on bargaining/strike rights – Overly broad “essential services” designations and cumbersome registration/conciliation procedures severely restrict workers’ ability to bargain collectively or strike.<sup>5</sup>

In terms of regional performance, Pakistan fares poorly compared to other South Asian countries. The Labour Rights Index (LRI) assigns Pakistan a score of 53.5 out of 100, categorizing it within the “Basic Access to Decent Work” tier. This rating falls below the regional average and lags countries such as India and Bangladesh. Furthermore, Pakistan ranks among the lowest globally in terms of trade union rights, with minimal legal protections enabling workers to organize or seek collective representation. Within the country, there are notable provincial disparities; while provinces like Sindh and Balochistan have made some legal advancement, overall frameworks remain fragmented and implementation continues to be severely inconsistent.

Progress has been made under labour compliance under the Generalized Scheme of Preferences Plus (GSP+) status granted to Pakistan in 2014. Pakistan has demonstrated measurable progress in legislative reform and export performance. The GSP+ arrangement, which allows duty-free access to the EU market on over 6,000 tariff lines, including key export sectors like textiles, has proven to be a significant economic incentive. Exports to the EU increased by 86 per cent, rising from €3.56 billion in 2013 to €6.64 billion in 2021. This preferential access has functioned as a catalyst for labour-related reforms but has not fully translated into improved implementation and compliance outcomes.<sup>6</sup>

Pakistan has enacted several legislative reforms aligned with ILO conventions, particularly in provinces. Notable examples include the Sindh Bonded Labour System Abolition Act 2015 and efforts to consolidate fragmented labour laws into comprehensive labour codes. Tangible progress has also been recorded in key outcome areas: child labour declined from 4.02 million in 2014 to 3.03 million in 2021 and the gender wage gap narrowed significantly from 42 per cent to 18 per cent. Occupational safety indicators have improved, with annual workplace accidents falling from 4.3 per cent to 2.7 per cent and the number of formally protected workers growing from 8.4 million to 11.58 million. Additionally, the share of formal employment in the non-agricultural sector saw a modest rise from 26.4 per cent in 2013 to 27.5 per cent in 2021.<sup>7</sup> ILO has also supported provinces in developing labour codes that consolidate all regulations and these are under the process of approval and implementation.

Despite these gains, Pakistan continues to face major structural and operational deficits in labour rights enforcement. For example, women’s labour force participation has declined marginally from 22.2 per cent to 21.4 per cent, reflecting entrenched socio-economic barriers. Furthermore, modern forms of slavery have reportedly increased from 2 million individuals in 2014 to 3.19 million in 2018, pointing to growing vulnerabilities. A consistent issue across provinces has been the absence of operational rules and implementation frameworks for the enacted laws, particularly in KP and Sindh.<sup>8</sup>

Pakistan’s legislative advances since acquiring GSP+ status underscore the power of trade incentives in driving reform, a good lesson for the implementation of the roadmap. However, the lack of enforcement capacity, data infrastructure and compliance tools poses a significant risk to long-term progress. For Pakistan to capitalise fully on its GSP+ access and align with global labour standards, a strategic pivot is needed—from legislative formulation to operational delivery. This includes strengthening labour inspectorates, finalising rules for recent legislation, expanding coverage in labour surveys and institutionalising compliance planning tools. GSP+ offers Pakistan both opportunity and leverage; effective utilisation will depend on translating laws into tangible protections for workers across sectors.

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<sup>5</sup> [https://webapps.ilo.org/public/english/standards/realm/ilc/ilc87/com-appl.htm?utm\\_source=chatgpt.com](https://webapps.ilo.org/public/english/standards/realm/ilc/ilc87/com-appl.htm?utm_source=chatgpt.com)

<sup>6</sup> GSP+ and compliance with fundamental labour standards, Ministry of Overseas Pakistanis & HRD, 2023-24

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

## ► Stakeholder feedback and situation analysis

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The road map is based on extensive consultations held from April to June 2025. It draws on 18 focus group sessions and 23 individual meetings with SMEs, associations, chambers, start-ups and government entities across different regions and sectors, including textiles and auto parts. These discussions explored barriers to formalization across size, sector and gender, and focused on how rules, institutions and incentives shape business behaviour in practice. The evidence that follows reflects lived experience on the ground rather than only policy design. It also shows a clear picture of why many firms stay informal or move in and out of formality. The key findings are:

### **Information gaps, weak incentives and low trust**

- A central barrier to SME formalization is the lack of clear, credible and accessible information on what formalization really means and how it can help firms. Many small, home-based and seasonal businesses mainly see formalization as tax, inspections and complex registration. They do not view it as a route to finance, protection or new markets. The state's current messaging does not connect with its daily reality and does not explain the full pathway from basic registration to improved business outcomes.
- Even when firms take the first step and obtain a registration number, they often struggle to access the incentives and services that were promised. Support in areas such as credit, training and market linkages is either missing, slow or hard to claim. As a result, entrepreneurs feel that the costs of visibility are certain while the gains are rare and coincidental. Some firms that tried to formalize, have moved back into informality because they did not see a sustained benefit. This weak link between compliance and reward has damaged trust in state institutions and in the idea of formalization itself.

### **Regulatory and institutional barriers to SME formalization**

- The formalization environment is complex, fragmented and costly for SMEs. Multiple agencies, such as SECP, FBR, provincial revenue bodies, PESSI and EOBI, each have their own rules, documents, inspections and timelines. Nonetheless, many small firms are still governed by laws such as the 1932 Partnership Act, which no longer fits modern business models or digital systems.
- Therefore, since corporate forms lack flexibility, Firms that try to grow or change their legal form often have to start again. When a partnership moves from a province to SECP or when a single-member company moves to a private limited company, the entity in practice loses its history and track record. This can affect its ability to benefit from incentives and public schemes. There is also weak coordination and low digital integration between agencies. Systems do not talk to each other, and firms must repeatedly submit the same information. This raises transaction costs for small businesses and slows their entry into the formal net.
- Across many sessions, a strong fear of the tax administration was reported. Firms that are already in the tax net complain about procedures, rates and the daily interface. Those outside the net fear that once they register, they will be penalised for past periods that are not recorded. For many, this fear is the single biggest brake on taking the first step towards formalization.

### **Informality, compliance aversion and the role of the state**

- Low trust in regulatory bodies and weak service delivery reinforce a culture of informality as many entrepreneurs see the state more as a source of pressure and uncertainty than a partner in growth. They shared examples of on-site harassment, rent seeking and surprise inspections that disrupt operations.
- Partial or gradual compliance is not recognised as firms that make efforts to register some workers or start using bank transfers do not see any acknowledgement or lighter treatment. Penalties are often used as a starting point for negotiation instead of as a fair rule-based outcome. There are no strong and trusted grievance systems. Enforcement is seen as selective and unpredictable. For many SMEs, the rational response is to stay under the radar rather than engage. This widens the gap between the state and the small firm segment that is central to jobs and exports.

### **Labour formalization and contractor-based employment**

- Labour contracting has become a central feature of production in several sectors. It gives firms flexibility to adjust workforce levels with seasonal or project-based demand and it reduces their direct administrative burden. At the same time, it is now a major driver of informality in labour relations.
- Contractors often bypass payroll systems, underreport worker numbers and avoid registering workers with EOBI and social security institutions. Many workers do not have CNICs, social security cards or access to benefits. Even where cards are issued, they are delayed or of limited use in practice. Contractors often control the flow of information, access to benefits and wage payments. There are reports of withheld wages, denial of maternity and sick leave and weak safety standards.
- Existing labour laws and codes do not fully cover home-based workers, gig workers and seasonal workers. Entire sectors such as agriculture and parts of mining and construction remain under-protected. In some cases, employers rely on older laws such as the Workmen's Compensation Act to meet only basic compensation obligations and avoid broader social protection costs. New labour codes are being drafted in some provinces to cover more worker categories but their impact will depend on full approval and on building real capacity in labour departments.

### **Financial exclusion and missing credit incentives**

- SMEs across sectors report that years of tax compliance do not translate into improved access to credit. No clear and predictable pathway links formalization to better financial terms. After three to five years of paying taxes, many firms still find that banks do not consider them creditworthy.
- Loan products remain rigid. Processes for account opening, loan application and rescheduling are complex and slow. Women-led firms report particular difficulty in dealing with forms, documentation and male-dominated banking offices. Banks often do not understand new business models, for example start-ups with digital or platform-based activity.
- Digital payment histories, including those captured through mobile wallets are not used to assess business performance or risk. As a result, the basic promise that formalization unlocks finance is not credible and access to credit does not function as a strong pull factor into the formal net.

### **Gendered dimensions of SME informality**

- Women-led SMEs mostly face more barriers than other SMEs since they operate at a smaller scale, have less access to information and networks and are more exposed to procedural exploitation when they try to formalize. Women reported discriminatory treatment during inspections and tax enforcement. An example cited was the presence of tax officers outside women-run salons, which was experienced as intimidation rather than simple enforcement.
- Existing SME policy tools do not match the realities of home-based, part-time and micro women-led businesses. Women's chambers have asked for sandbox-type regulatory regimes and simple digital sign-up options that allow women to enter the formal net at low cost and low risk.
- Women-led SMEs access to finance is even more constrained due to gaps in documentation, collateral and social norms. Similarly, women-led formal businesses face unfair competition from fully informal sellers who avoid taxes and compliance. Unlike many male entrepreneurs, women often have less room to manage informal deals that partly offset these distortions. This combination deepens exclusion and slows the growth of women-led enterprises.

#### **1. Sector insight: Auto-parts SMEs**

In the auto parts sector, there is a sharp contrast between business registration and labour formalization. Many SMEs that supply to original equipment manufacturers are registered for tax and are in the sales tax net. However, only a fraction of their workforce is enrolled in social protection schemes. The majority of helpers, daily wage workers and semi-skilled workers remain outside formal labour registration.

Employers point to the poor quality of services in social security systems as a key reason for low compliance. They report long delays in issuing cards, limited services in social security hospitals

and frequent demands for informal payments. This weak value proposition makes it harder to convince both employers and workers that contributions are worthwhile.

Stakeholders in this sector propose digital, central systems that reduce human contact, integrate different labour-related payments and make registration simpler. Some suggested linking contributions to utility payments as a way to expand coverage while lowering administrative burdens. At the same time, basic registration steps such as obtaining a sales tax number remain hard, with physical visits, assessments and consultant costs that are high for smaller firms. Public sector banks are seen as rigid in times of financial stress and do not offer flexible restructuring options. In this environment, informality is not only a choice to avoid costs but also a way to cope with systemic weaknesses in policy and service delivery.

## 2. Sector insight: Textile and garment SMEs

In garments and towels, informality is shaped by seasonal demand, piece rate pay systems and tight margins. Firms state that minimum wage laws are difficult to meet when productivity is low and export prices are fixed.

Despite the case, the firms recognize that formalization is becoming necessary for continued access to foreign markets.

Global frameworks such as the EU Green Deal and corporate due diligence rules require exporters to show compliance and traceability across their supplier networks, including small units and subcontractors. This creates a strong external push for formalization, but SME capacity to respond is limited. Basic infrastructure, such as effluent treatment plants, is often non-functional. Domestic regulators are seen as corrupt and unhelpful. This undermines trust and reduces the willingness of firms to engage with local enforcement agencies.

Efforts to include informal producers in formal value chains are emerging. For example, association-led cluster registration models are being discussed to bring very small units into formal membership and link them to training and social security. However, these remain small pilots and need sustained policy and donor support to scale. At the same time, local brands serving the domestic market remain outside formal systems because they face no buyer pressure.

New requirements for inventory and transaction traceability, such as detailed reconciliation of inputs and outputs, are difficult for SMEs without digital systems. Firms call for one window digital platforms that combine labour and tax data, reduce in-person interactions and offer tiered contribution models that reflect SME capacity while protecting workers.

### Employers' perspective on formalization

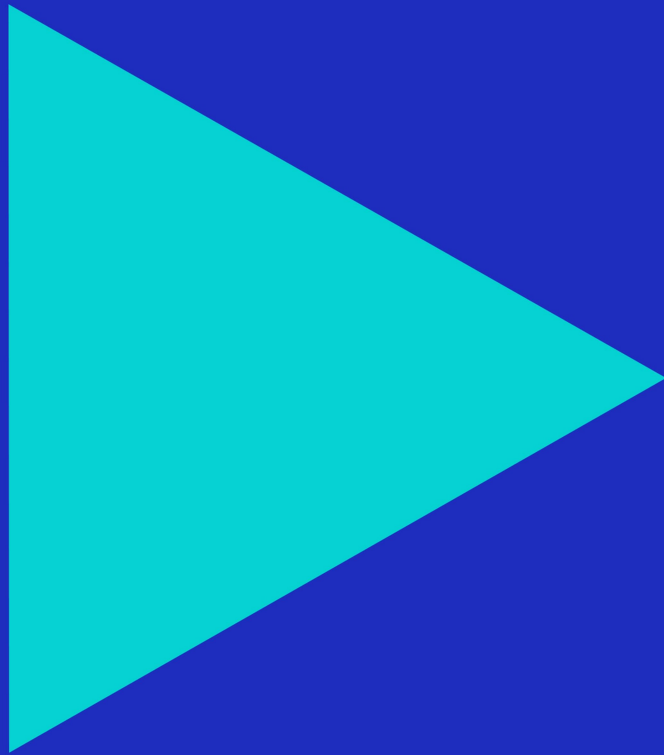
- Employers, speaking through platforms such as the Employers' Federation of Pakistan and sector associations, accept that formal labour contracts and minimum wage commitments are part of the legal framework. They do not present themselves as opposed to formality as a principle. Instead, they argue that current systems are not viable in practice.
- They highlight weak services in social security, delays in worker benefits and harassment during inspections as key reasons why both employers and workers see little value in formal registration. They point to gaps between laws on paper and the capacity to enforce or apply them. There is limited integration of data across agencies and uneven practice across provinces.
- Employers call for integrated online one window systems that combine all labour related obligations, such as EOBI, social security and insurance, on a single digital platform and propose tiered contribution systems for SMEs, where the state fills the gap to ensure that workers receive their due benefits. Employers also call for harmonised and simplified labour laws that support standard HR practice and include guidance, templates and training for SMEs. Finally, they emphasise the role of digital payments and e-commerce as tools that can support formalization if the supporting infrastructure is in place. Their main ask is for a state that reduces dysfunction and risk in the process of doing the right thing.

### Workers and unions perspective on formalization

- Workers and unions present a different but complementary view. They describe a context in which legal provisions on minimum wages, safety and social protection exist, but are regularly bypassed. From their point of view, employers use contracting, outsourcing and piece rate work to avoid direct responsibility and to keep workers in a grey zone.
- They acknowledge that social security and EOBI services are weak and often non-functional, especially in some provinces. However, they stress that weak state performance cannot be a reason for employers to ignore their legal obligations. They see both employers and the state as sharing responsibility for keeping workers informal and unprotected. They note that even in sectors with foreign investment or public contracts, labour standards remain low and enforcement is selective.
- Unions argue that the core issues are power imbalances, weak enforcement and lack of political will rather than only system design. They insist that workers and their representatives must be directly involved in shaping reforms. For them, the goal of formalization is not only to ease business constraints but to secure dignity, fair wages and safe work for Pakistan's labour force.

### Conclusion

- Taken together, the consultations show that SME and labour formalization in Pakistan is held back by multiple, reinforcing barriers. Registration systems are complex and fragmented. Trust in state institutions is low. Labour protection is uneven and often weak, especially for workers in contractor based arrangements and in sectors that are traditionally informal.
- Micro and small enterprises face high transaction costs at every step, from registration and taxation to access to credit and worker registration. Women-led businesses face deeper information gaps, procedural risks and unfair competition. Existing regulatory and fiscal frameworks treat very different firms in the same way and are slow to recognise new forms of work and production.
- Informality is therefore not simply a matter of deliberate evasion. It is also a response to overlapping weaknesses in policy, law, service delivery and enforcement. Without an integrated approach that simplifies entry into the formal net, improves services, links compliance to real and visible benefits and brings employers and workers into a shared reform space, SME formalization will remain limited and uneven. The broader goals of inclusive economic development, decent work and a more resilient tax and social protection base will remain out of reach.



## Section II

## ► Framing the road map

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This section provides the framing for road map recommendations and is based on the feedback obtained during the field work and on global good practices.

### Defining aspects of informality

Pakistan does not have an agreed definition of formality. Current practice shows that informality is not limited to unregistered micro and small enterprises; it also exists inside fully registered firms through informal, casual, contract-based and piece-rate employment. These arrangements often fall outside the scope of statutory protections such as minimum wage, social security and occupational safety. In the Pakistani context, informality is therefore better understood through the nature of employment relationships and supply-chain contracts, not only enterprise size or registration. This duality complicates regulation and weakens the practical realization of ILO Conventions 87 and 98, as many workers in informal arrangements lack the legal visibility and organizational space needed for freedom of association and collective bargaining. A broader, shared definition of formality is therefore needed.

The ILO framework distinguishes between the formal and informal sectors and between formal and informal employment. Under this approach, formal employment depends on access to legal protections and benefits, regardless of whether the enterprise itself is formal. Informal employment covers all jobs without paid leave, sick leave or employer contributions to social security, including those carried out in formal enterprises, informal units or households. Pakistan's Labour Force Survey (LFS) follows the same approach. It defines the informal sector as units not registered under the Factory Act, employing fewer than ten workers and having no regular employees. It sees the informal sector as an important source of employment for vulnerable groups and a potential stepping-stone into formality. The formal sector includes government, state-owned entities, international organizations, and incorporated or registered businesses.

Definitions used by other institutions, such as the State Bank of Pakistan and the Competition Commission of Pakistan, largely focus on enterprise registration, accounting records and legal structure. However, each institution uses the definition that suits its mandate, and there is no single owner or consensus definition. For example, in the existing LFS, agriculture is treated separately, though updated definitions approved in 2023 will be reflected in the next round. Internationally, the ILO defines informality as economic activities not covered or insufficiently covered by legal and regulatory arrangements, while formality is associated with documented, registered and disclosed economic practices.

More broadly, formality in business is understood through legal recognition and regulatory compliance. A formal enterprise is registered with government authorities, complies with tax rules and labour laws, and is integrated into state institutions such as property registries, financial systems and contract enforcement mechanisms. Informal enterprises operate partly or fully outside these structures, either by choice or because barriers make full formalization impractical. Informality can also be partial, where a business may be legally registered but still underreport revenue, employ workers without contracts or avoid social security contributions. Such firms appear formal on paper but behave informally in practice.

Formality offers potential advantages, including access to credit, public procurement opportunities and smoother integration into domestic and international markets. Many countries define formality through requirements such as tax registration, audited financial accounts and compliance with labour protections including minimum wages, workplace safety and social security. These norms also extend to governance requirements like transparent financial records and clear corporate structures.

Overall, defining informality and formalization in Pakistan is complex because it spans enterprise structures, employment relationships, sector practices and regulatory gaps. A shared national definition anchored in global principles would help build consistency across institutions, support better policymaking and improve pathways for both enterprises and workers to move towards formality.

## Defining formality

An SME in Pakistan may be assessed on the following three characteristics to assess formality:

### Informal sector characteristics

Enterprises in the informal sector are typically not registered with any government authority such as the SECP, FBR or provincial firm registries. They do not possess a valid NTN or STRN, where applicable and are not recognized as separate legal entities from their owners. Instead, they operate as household unincorporated enterprises, often using the personal identity of the proprietor. These businesses also generally lack formal financial structures, such as a business bank account, a credit profile or audited financial records.

### Informal employment within enterprises

Jobs in such enterprises are often not covered by labour or social protection arrangements. Workers are not issued written contracts and employment is typically based on verbal agreements, kinship ties or casual arrangements. Employers frequently fail to contribute to mandatory labour welfare schemes such as EOBI, PESSI/SESSI, or the Workers Welfare Fund. Wages may not comply with minimum wage standards, are often paid in cash and rarely routed through formal payroll or banking systems. Even in formal enterprises, such practices can result in informal employment, where jobs exist but remain outside the scope of legal or social protection.

### Informal productive activities

Informality also extends to productive activities that, in law or practice, are not effectively covered by commercial, fiscal or labour regulations. This includes enterprises that do not comply with reporting obligations, do not maintain proper accounts or subcontract portions of their supply chain to unregistered or unprotected units. Such activities remain outside effective regulatory oversight, even when they are technically eligible for coverage under the informal economy umbrella concept.

Together, these conditions may form part of the informal economy in Pakistan, which encompasses:

- Economic units in the informal sector (unregistered enterprises),
- Informal employment (jobs lacking legal/social protection) both inside and outside the informal sector, and
- Informal productive activities that occur outside effective regulatory arrangements.

The following sequence is proposed under the roadmap to develop a holistic assessment of formality:

► Table 1: Assessment of formality	
Dimension	Criteria for formal status
<b>Business / Economic unit (Informal VS Formal sector)</b>	<p>Registered with a competent authority (SECP, FBR, provincial registry/district registry)</p> <p><i>The idea is to create multiple pathways for businesses/economic units to be considered formal. These pathways are to be defined to enable the businesses and not act as regulators. The following is suggested:</i></p> <ul style="list-style-type: none"> <li>• Any entity that is registered with SECP or Provincial/District Firm Registrar will be considered a formal business.</li> <li>• All sole proprietors on the database of FBR who are filing their taxes will be considered a formal business.</li> <li>• The sole proprietors will be given a voluntary choice to transform their FBR status to a single member company with SECP.</li> <li>• The registration with SMEDA Portal may be taken as first minimum step for formal business registration.</li> </ul>

<p><b>Employment relationship (Informal VS Formal employment)</b></p>	<p>A business/economic unit that is classified formal as above will be considered formal in its employment relationships if:</p> <ul style="list-style-type: none"> <li>• <i>The workers have a written employment contract or equivalent legal recognition</i></li> <li>• <i>The workers are covered by labour laws and protections (e.g., minimum wage, working hours, paid leave, decent and safe working conditions)</i></li> <li>• <i>The workers are enrolled in social protection systems (EOBI, PESSI/SESSI, WWF)</i></li> <li>• <i>The workers are paid via formal payroll systems and bank transfers</i></li> </ul>
<p><b>Productive activities (Informal VS Formal activities)</b></p>	<p>A business/economic unit that meets the above two conditions will be considered formal in its productive activities if:</p> <ul style="list-style-type: none"> <li>• <i>Businesses/economic units complies with regulatory reporting requirements (e.g., Bank Accounts, Maintained Books of Accounts, NOCs, licences, etc.)</i></li> <li>• <i>Subcontracting arrangements are documented and regulated</i></li> <li>• <i>Provide and use formal markets for transactions</i></li> <li>• <i>Provide and use formal channels of dispute resolution</i></li> </ul>

## ► Improved policy frameworks and pathways for business registration and entry

### Challenge

- SMEs face many obstacles when they try to enter the formal economy. Registration systems are fragmented across multiple institutions. Rules under older laws, such as the Partnership Act of 1932, restrict the ability of simple sole proprietors to register as formal firms. Digital systems exist but are not integrated, and information is often incomplete. Many small firms do not know which registration pathway applies to them. District registries operate on outdated procedures and business owners are forced to visit several offices before they can begin operating formally.

### Response

- SECP's successful business centre model in Islamabad should be expanded to all regional offices and placed inside major chambers and trade associations. This approach makes registration easy and guided.
- Provincial rules under the Partnership Act need to change so that district level registries can register single partner firms. This will allow small businesses to enter the formal system without complicated legal structures.

- SMEDA must fully operationalize its SME Registration Portal and use it to guide newly registered firms toward full formalization. Registration should not be the end of the journey. It must become the first step in a continuous process of support.
- Pakistan should move toward a single national firm registry. This requires back end integration between FBR and SECP so that sole proprietor tax registrations are recognised automatically. A pilot that merges the Islamabad Capital Territory registry with SECP will test the model. Over time, district registries should be replaced with one unified registry that operates nationwide.
- The Asaan Karobar Act will anchor these reforms. Its enactment and the activation of SMEDA's SME One Window Initiative will create a smoother transition into compliance. The long term goal is the Pakistan Business Portal, a digital platform that brings all registration, licensing and regulatory procedures together.

## ► **Promoting the culture of formality**

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### **Challenge**

- Many SMEs fear taxation. They view the tax system as unpredictable and difficult to navigate. Even when incentives exist, firms do not know how to claim them. There is limited trust between the tax authority and the private sector. Tax processes are often seen as complicated. The result is a continued preference for informality and a belief that formalization brings more risk than benefit.

### **Response**

- FBR should conduct a formal assessment of the simplified SME tax scheme to see whether it truly encourages firms to formalize. The findings will show how to improve uptake and whether different definitions are causing confusion.
- The FBR Transformation Plan must be fully implemented. The interfaces for taxpayers should be simple, clear and intelligent. A friendlier digital experience will reduce fear.
- Corporate tax rates should gradually fall from 29 per cent to 26 per cent over three years. Global experience shows that when tax rates become more reasonable, compliance rises and revenue increases.
- There must be regular and structured dialogue between FBR and businesses. FBR should produce clear public information that explains how tax payments contribute to public goods and services. This will help build trust.
- SMEDA and FBR should organise targeted information sessions for informal enterprises to explain how to formalize and why it matters.

## ► **Improved compliance with labour regulations**

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### **Challenge**

- Labour informality is widespread in Pakistan mostly to workers in agriculture, retail, construction and home based which makes their works to remain outside the protection of labour laws. Many employers rely on labour contractors who operate informally meanwhile Social security institutions use different definitions and different practices, which creates loopholes for non-compliance.

- The administrative costs in labour institutions are high, while the quality of services is very low leading workers have limited access to grievance redress and the employers to feel burdened by inconsistent enforcement. Workers feel unprotected and unheard.

## Response

- The new labour codes for Punjab and Sindh should be approved without delay. Once approved, provinces must build digital and institutional capacity to enforce them. Sectors that have historically received little attention, including agriculture and wholesale and retail, need targeted training on rights and obligations. Provincial mineral laws should be updated to strengthen worker safety. Exemptions that exclude entire sectors or small employers from EOBI and social security must be removed so that coverage becomes universal.
- Definitions used by EOBI, WWF and provincial social security institutions should be harmonised. Once this is done, Pakistan can move toward a single contribution rate and a self reporting inspection system monitored digitally. Lower rates for new firms and small businesses can encourage early compliance.
- All labour contractors must be formally registered and required to disclose all contracts under their management. Enterprises that use unregistered contractors should face significant penalties. A digital portal listing all approved contractors with compliance ratings will bring transparency to the system.
- Provinces must build digital labour contract portals that record contracts, track compliance and allow analysis of benefits. Independent assessments should measure the value that social security institutions provide relative to the money they collect. Administrative costs must be reduced and should not exceed one fifth of total collections. Options such as outsourcing and group insurance should be explored to improve efficiency.
- Labour contractors should train workers on their rights. SMEDA should help create platforms that bring together worker organisations, employers and trade bodies to deepen understanding of compliance and improve dialogue.

## ► Enhanced financial access

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### Challenge

- A very small proportion of SMEs maintain bank accounts or access formal credit. Many small firms rely on cash transactions because account opening procedures are complex and documentation requirements are high. Women led and micro enterprises face even greater exclusion. Digital payments are growing, but the data is not used to support formalization or credit assessment.

### Response

- SBP's recent reforms that simplify account opening and digitise documentation must be fully implemented and widely publicised. SMEDA and NIBAF should provide financial literacy training to informal enterprises so that they can use digital payments and banking tools with confidence.
- SMEDA should help firms register movable assets in the digital asset registry. This will help small enterprises demonstrate collateral for loans. SMEDA should also work with mobile money providers to analyse transaction data and propose how it can be used to support creditworthiness and formalization. Tiered financial incentives linked to progressive compliance should be developed.

## ► Improved access to business development services

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### Challenge

- SMEs lack reliable and accessible advisory support. Many do not know which BDS providers they can trust. Most women-led businesses rely on informal networks and lack specialised support for formalization.

### Response

- SMEDA should introduce a ranking system for BDS providers under the SME one window and the Womenpreneurship platform.
- A digital AI based BDS system should be developed to offer tailored guidance to new firms and the BDS support should be structured in tiers so that firms receive different levels of assistance as they progress toward formalization.

## ► Making dialogue more inclusive and impactful

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### Challenge

- Policy dialogue often includes only organised business groups. Informal enterprises rarely have a voice. This limits the state's ability to understand real constraints that keep firms informal.

### Response

- SMEDA should create a formal mechanism that ensures informal enterprises can participate in dialogue.
- The Pakistan digital dialogue can be used to hold customised consultations and reach firms across the country.

## ► Support to home-based workers

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### Challenge

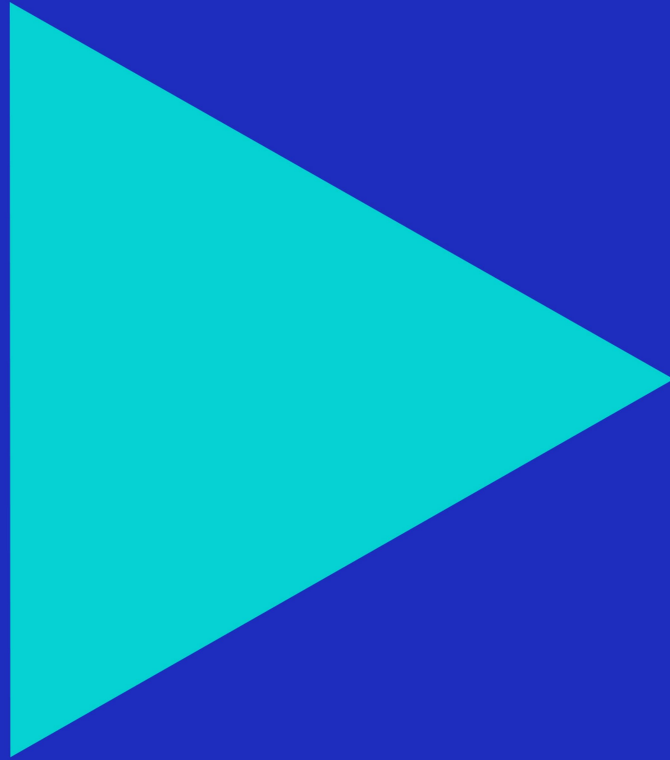
- Home based workers remain one of the most invisible and vulnerable parts of the labour force. The workers often work through contractors, have no written contracts and remain excluded from labour protections and social security.
- The provincial differences in legislation create further gaps.

### Response

- The principles of the Punjab Home Based Workers Act should be expanded nationwide. All employers, contractors and intermediaries should be required to register home based workers and the registration procedures must be simplified and digitised.
- The HBW Welfare Fund should become operational and aligned with ILO standards and the benefits to be extended only when workers have valid registration and contracts.

► **The national road map for SME and worker formalization: Section II**

- Awareness campaigns should be delivered through unions, HBW associations and community partners. Stronger supply chain traceability is needed to hold contractors accountable for wages and contracts.
- A unified digital portal for HBWs should be created for registration, contract submission and benefit claims.
- Provinces should harmonise their laws to ensure portability and equal protection.



## Section III

## ► Road map

The analysis above culminates in the following road map to support formalization.

No.	Description of the action	Rationale	Indicators	Timeframe	Responsibility
<b>Defining formality</b>					
1.1	1.1. All national and provincial entities should harmonize the definition of SMEs and the same classification should be used across the board.	<ul style="list-style-type: none"> <li>A lack of consistent definition makes it impossible to ensure uniform application procedures, incentives, etc. For example, FBR uses a much narrow definition as compared to SMEDA, thus creating gaps.</li> </ul>	Agreed notified definition	6 months	NCC and provinces
1.2	1.2. Classification criteria to define informal enterprise and workers in informal employment is notified consistently across all jurisdictions. <i>Those criteria should follow the recommended criteria as provided in the 21<sup>st</sup> ICLS resolution concerning statistics on the informal economy.</i>	<ul style="list-style-type: none"> <li>There is no formal holistic criterion to define informality which limits the intervention space. (A detailed criteria is provided for consideration)</li> </ul>	Agreed notified criteria	6 months	SMEDA through NCC
1.3	1.3. Statistics on informal enterprises, informal employment and forms on informality to be made part of standard national data collection effort	<ul style="list-style-type: none"> <li>The statistics are essential for targeted policy measures</li> </ul>	Statistics developed	12 months	SMEDA/PBS

Improved policy frameworks and pathways for business registration and entry					
2.1	Registration pathways				
	2.1.1. Expansion of SECP business centers across all 10 regional offices.	<ul style="list-style-type: none"> <li>The business centre in Islamabad has been a huge success and same self-service model with some trained support should be replicated.</li> </ul>	X number of business center portals made live	12 months	SECP
	2.1.2. Expansion of SECP business centres across all key Chambers & Trade Association Offices.	<ul style="list-style-type: none"> <li>At present a simple sole proprietor has no pathway to register as a firm as SMC becomes too complicated.</li> </ul>	Rules amended by all provinces	12 months	Provinces, coordinated via NCC
	2.1.3. Amend the rules under the Partnership Act 1932 to allow district level registries to register single partner firms, similar to SMC under SECP.	<ul style="list-style-type: none"> <li>The SME registration should not be an end in itself but the data should be effectively used to support formalization</li> </ul>	Number of SMEs registered Use of data, formalization cases	Ongoing	SMEDA
	2.1.4. SMEDA to fully operationalize and market the SME registration Portal. Add automatic nudging to these registered firms to formalize and provide guidance on pathways.				
2.2	Single national registry				
	2.2.1 Develop and execute back-end data integration to transfer FBR sole proprietors' registration as recognized registrations by SECP.	<ul style="list-style-type: none"> <li>This will harmonize the registration process and will make it easier to register and comply (detailed analysis provided in the report)</li> </ul>	Pilot executed and assessed.	6 months	Cabinet committee on regulatory reforms & BoI

	<p>2.2.2 Undertake a pilot activity to merge the ICT (Islamabad) firm registrar and merge with SECP.</p> <p>2.2.3. Based on the pilot implement the sequence of reforms proposed in the road map document to eliminate district registries and move towards one unified national firm registry.</p>		Reforms initiated and implemented	12-18 months	
2.3	<p>Pakistan business portal</p> <p>2.3.1 Enactment of the Asaan Karobar Act, 2025 and its implementation.</p> <p>2.3.2 Operationalization of SMEDA's SME One Window Initiative</p> <p>2.3.3 Launch of fully integrated Pakistan business portal as envisioned in the Asaan Karobar Act – also includes digital mapping of all RLCOs and legislations and Rules</p>	<ul style="list-style-type: none"> <li>This is essential to stream regulatory burden and bring more transparency.</li> <li>This is essential to get a head start in facilitation.</li> <li>This is the ultimate fully integrated national system allowing a fully digital process.</li> </ul>	<p>Act notified</p> <p>Facility made live</p> <p>Portal live</p>	<p>3 months</p> <p>6 months</p> <p>3 years</p>	<p>National assembly / BoI</p> <p>SMEDA</p> <p>BoI</p>
<b>Promoting a culture of compliance/formality</b>					
3.1	<p>3.1.1 Conduct a formal assessment of the simplified SME Scheme by FBR and look at implications of use of a different SME definition, awareness on the how and what segment of the scheme to use, and expansion on the use through rapid registration via SMEDA.</p>	<ul style="list-style-type: none"> <li>The FBR offer a major discount on tax rates to SMEs, there is a need to see if the incentive is promoting formalization.</li> </ul>	Evaluation report	6 months	SMEDA

	<p>3.1.2 Full implementation of the FBR transformation plan with specific focus on making taxpayer facing interfaces easy and intelligent.</p>	<ul style="list-style-type: none"> <li>• Need to reduce the fear of taxation and improve understanding.</li> </ul>	<p>New interface of IRIS launched</p>	<p>6 months to 3-year Plan approved by the PM</p>	<p>FBP</p>
	<p>3.1.3 Reduction in rates of taxation and moving towards easy to enforce tax policy. The recommendation is to reduce corporate rates to 26 per cent from 29 per cent over three years.</p>	<ul style="list-style-type: none"> <li>• Evidence show that reducing tax rates will increase compliance and enhance revenues.</li> </ul>	<p>Rate reduced</p>	<p>3 years</p>	<p>MoIP/FBR</p>
	<p>3.1.4 Enhanced dialogue between FBR and businesses to create a better understanding on both sides and build comfort and trust. FBR to produce citizen friendly information to show how taxes translate into benefits</p>	<ul style="list-style-type: none"> <li>• People to contact is key to building trust and enhancing comfort.</li> </ul>	<p>Sessions</p>	<p>Ongoing</p>	<p>SMEDA/FBR</p>
	<p>3.1.5 Organize targeted education/information sessions for informal enterprises that wish to formalize.</p>	<ul style="list-style-type: none"> <li>• There is a need to direct provision on knowledge and understanding.</li> </ul>	<p>Sessions</p>	<p>Ongoing</p>	<p>SMEDA</p>

Improved compliance with labour regulations						
4.1	Labour legislation					
	4.1.1	Immediate approval of the new Punjab and Sindh labour codes.	<ul style="list-style-type: none"> <li>Without streamlined and fully inclusive legal instrument labour informality cannot be managed.</li> </ul>	Approved codes	6-18 months	NCC/SMEDA ILO & Provinces
	4.1.2	Initiate implementation and building institutional digital capabilities to enforce new labour codes		Institutional reforms and digitalization		
	4.1.3	Dedicated training sessions on new labour codes for historically excluded sectors like agriculture and wholesale and retail.		Training sessions held		
	4.1.4	Revision of provincial mineral sector laws for enhanced protection of workers		Mineral sector laws revised		
4.1.5	Ensure full coverage of all sectors and segments and abolish exclusions such as banking sector, construction sector, employer with less than 10 employees for EOBI exemptions.			12 months	NCC and provinces / BoI via CcoR	

4.2	<p>Harmonization</p> <p>4.2.1 Harmonization of all definitions used for minimum wages, classification of employed and others across EOBI, WWF, and social security entities.</p> <p>4.2.2 Post harmonization of definitions, advocate to move towards single rate and single inspection based on self reporting and digitally monitored. The overall cost must be considered and rate reduced for new entrants and small businesses.</p>	<ul style="list-style-type: none"> <li>• At present non-harmonized definitions are used as a way on non compliance -</li> <li>• Harmonization of rates and unification will simplify implementation and enforcement.</li> </ul>	<p>Definitions harmonized across</p> <p>Digital unified labour payment system</p>	<p>18 months – 24 months</p> <p>18 months</p>	<p>NCC and provinces / BoI via CcoR</p> <p>NCC and provinces / BoI via CCoRR</p>
4.3	<p>Labour contractors</p> <p>4.3.1 Legislation or rules as maybe the case should be amended to make it mandatory for all labour contractors to be formal and registered with full disclosure on labour contracts under their management. Enterprises not using formal labour contractors must be heavily penalized. Additionally, for key sector where business registrations are formal government may</p>	<ul style="list-style-type: none"> <li>• The informality of the contractors is major issue limiting enforcement and workers and the firms both are committed to resolving this.</li> </ul>	<p>Legislation and enforcement</p>	<p>18 months</p>	<p>NCC and provinces / BoI via CCoRR</p>

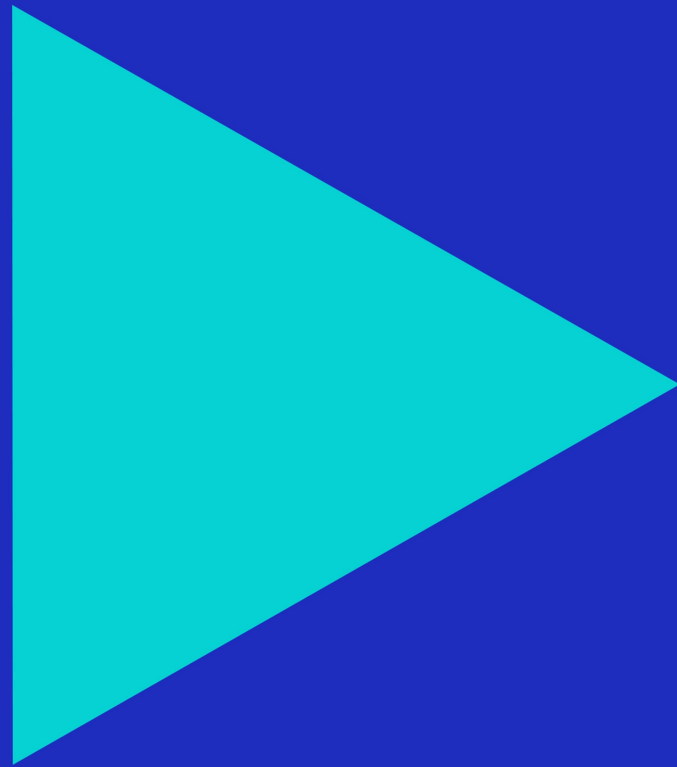
4.4	4.3.2	Digital portal of all registered contractors and their rankings must be established.	<ul style="list-style-type: none"> <li>• Transparency on contractors and their compliance rating will help employers get better deal.</li> </ul>	Portal live	18 months	Provinces via Third parties
	Labour contracts					
	4.4.1	Legislation to be amended and provincial level labour contract portals are to be established that contain information regarding all labour contracts, their compliances, and analysis of benefits	<ul style="list-style-type: none"> <li>• Easy access to labour data and self-reporting by enterprises will support formalization.</li> </ul>	Labour contracts begin to get digitalized along with compliances	Ongoing	Provinces
	4.4.2	Annual independent assessment of benefits provided by the government institutions against payments made by enterprises and workers. This should be done for at least the social security contributions.	<ul style="list-style-type: none"> <li>• This is essential to depict value for money preposition.</li> </ul>	Evaluation report	Ongoing	SMEDA/ Provinces
	4.4.3	Administrative costs of managing and providing services need to be reduced and must not exceed 20 per cent of the total collection made by entities. There is a need to outsource and use group insurance to enhance coverage and quality of provision.	<ul style="list-style-type: none"> <li>• Essential to enhance efficiency of service delivery.</li> </ul>	Cost to delivery ratios	Ongoing	

	4.4.4	Labour contractors are to hold mandatory training session with labour on their rights and obligations under their contracts.	<ul style="list-style-type: none"> <li>Improve understanding and knowledge provision.</li> </ul>	Sessions	Ongoing	
	4.4.5	SMEDA to help in establishing platforms to engage worker organizations / workers and trade bodies to engage dialogue on formality compliance			Ongoing	
<b>Enhanced financial access</b>						
5.1	5.1.1	Fully implement and expand awareness of SBPs recent effort to ease out opening of accounts and digitalizing document requirements.	<ul style="list-style-type: none"> <li>Only a very small number of enterprises have bank accounts and they report lack of access.</li> </ul>	New accounts data	Ongoing	SBP
	5.1.2	SMEDA & NIBAF to expand trainings to cover informal enterprises on financial literacy and digital banking	<ul style="list-style-type: none"> <li>Financial literacy and use of digital payment services is low and limits formal transactions.</li> </ul>	Sessions	Ongoing	SMEDA/ NIBAF
	5.1.3	SMEDA to train and help informal enterprises access FIs and register non-movable assets in digital asset registry	<ul style="list-style-type: none"> <li>Online registry of movable assets is a good way to demonstrate collateral to access financial products and services.</li> </ul>	Number and value of assets registered	Ongoing	SMEDA

	<p>5.1.4 SMEDA to work with mobile money providers to undertake data analytics on how to use transaction data for formalization</p> <p>5.1.5 Develop tiered financial incentives as described in the road map document</p>	<ul style="list-style-type: none"> <li>The data on transactions is not being used to support formalization efforts.</li> </ul>	Evidence based policy recommendations	6 months	SMEDA
<b>Improved access to business development services</b>					
6.1	<p>6.1.1 SMEDA to add a component on ranking the BDS providers under the SME One Window and the Womenpreneurship Platform</p> <p>6.1.2 SMEDA to develop a customized AI based digital BDS to provide customized responses to new entrants</p> <p>Develop tiered support via BDS to encourage formalization as depicted in the report.</p>	<ul style="list-style-type: none"> <li>BDS provide a fundamental support to help firms formalize and acquire information.</li> </ul>	<p>Rankings of BDS online</p> <p>Digital AI assisted BDS made live</p>	<p>12 months</p> <p>18 months</p>	SMEDA
<b>Making dialogue more inclusive and impactful</b>					
7.1	<p>7.1.1 Formal dialogue mechanism developed by SMEDA to ensure meaningful participation of informal enterprises.</p>	<ul style="list-style-type: none"> <li>Getting the voice of the stakeholders is essential for effective policy making</li> </ul>	Dialogues held	Ongoing	SMEDA

	7.1.2	SMEDA to use Pakistan digital dialogue to develop customized dialogues and get national outreach				
<b>Support to home based workers</b>						
8.1	8.1.1	Expand Punjab’s HBW Act nationwide, mandate all employers, contractors, and intermediaries to register HBWs with written contracts, simplify and digitize registration procedures, and establish compliance checkpoints in key value chains.	<ul style="list-style-type: none"> <li>Expanding good principles and harmonizing.</li> </ul>	Legislative changes	Ongoing	SMEDA and Provinces
	8.1.2	Operationalize the HBW Welfare Fund, align benefits with ILO Resolution 204, and make access to entitlements conditional on valid contracts, registration, and contributions.				
	8.1.3	Partner with unions, HBW associations, chambers, and community groups to run awareness campaigns and deliver legal literacy and capacity programs so HBWs can demand contracts and access grievance redress.				

	<p>8.1.4 Enforce supply-chain traceability, hold contractors and intermediaries legally responsible for wages and contracts, impose penalties for evasion, and restrict outsourcing of core functions unless worker contracts are formalized.</p> <p>8.1.5 Create a unified HBW digital portal for registration, contract submission, and benefit claims, integrate with social security databases, and enable mobile-based registration for remote workers.</p> <p>8.1.6 Ensure all provinces adopt HBW legislation aligned with Punjab and Sindh Acts and harmonize definitions, rights, and entitlements to guarantee equal protection and portability across provinces.</p>				
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## Section IV

## ► Pilot actions for the garments & the auto-parts sector

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### Garments sector

The garments sector in Pakistan is uniquely positioned to lead SME's formalization in all three dimensions discussed in this report, primarily due to mounting international compliance pressures linked to export market access. Requirements under the EU Green Deal, the Circular Economy Directive and GSP+ are increasingly non-negotiable, especially concerning labour standards, environmental safeguards and traceability across the supply chain. As these global frameworks tighten, compliance is no longer optional—it is a prerequisite for continued access to lucrative European markets.

Given this urgency, a targeted pilot project focused on export-oriented garment SMEs offers a strategic entry point. Partnering with PREGMEA and identifying a cohort of approximately 20 willing SMEs can allow for practical, scalable experimentation with formalization pathways. This group can serve as a demonstration cluster to showcase how compliance, when aligned with global buyer expectations, can open up market opportunities rather than impose burdens. The processes will include to;

1. Conduct a comprehensive baseline assessment of each SME's (and the workers they employ) formalization status using the criteria defined under this SME formalization roadmap. This includes evaluating legal registration, tax status, labour documentation, social protection coverage and environmental compliance. This diagnostic will identify gaps and guide tailored interventions.
2. Introduce and support full adoption of open book accounting across all 20 SMEs (all formally registered but having varying degree of labour informality). This means ensuring that firms maintain transparent, verifiable records of input costs, production expenses, labour wages, and revenues. Accounting systems should be digitized where possible to facilitate traceability, financial access, and alignment with buyer due diligence requirements.
3. Develop a dedicated digital portal for labour contractor registration linked to the pilot firms. All labour contractors engaged by the participating SMEs should be onboarded through this platform, creating a centralized database that improves oversight, accountability, and regulatory integration.
4. Ensure that all registered contractors are formally incorporated and fully capable of generating digital records of their operations. This includes comprehensive labour records, names, CNICs, payment history, as well as documentation of compliance with EOBI, provincial social security institutions (e.g., SESSI), Workers Welfare Fund (WWF), and other applicable laws. Technical support may be provided to help contractors transition from informal paper-based methods to a digitized system of compliance reporting.
5. Support the digital tracking of pilot SMEs to develop traceability of the supply chain required for exports to the EU. This may involve formalizing some service providers of waste recycling. SMEDA and TDAP can work to further engage EU buyers who are willing to work on digital traceability, with these pilot firms investing to meet compliance.

### Application of road map for garments

The garments sector provides a strategic entry point to operationalize the national SME formalization roadmap, particularly because external export pressures now align perfectly with domestic reform priorities. Under the roadmap's first pillar—defining formality—export-oriented garment SMEs can be the first sector where harmonized definitions of enterprise size, informal employment and labour contracting are practically applied. A baseline assessment of approximately 20 pilot SMEs, in partnership with PREGMEA, would classify their legal status, tax registration, labour documentation and environmental compliance using the criteria recommended under the 21st ICLS resolution. By generating enterprise-level statistics on informality and mapping informal employment types, this pilot can support national efforts under SMEDA and PBS to standardize data collection. The sector also directly contributes to advancing the

second pillar—streamlined registration and regulatory access—where existing registered garment firms can be connected to the SME Registration Portal, Pakistan Business Portal and SECP records, enabling automatic nudging, regulatory facilitation and digital formalization pathways. These pilot firms reflect the urgency behind the Asaan Karobar Act as international requirements such as the EU Green Deal and GSP+ make seamless compliance not just desirable but essential for market survival.

The garments sector also becomes a proving ground for the roadmap's third and fourth pillars—promoting compliance culture and formal labour regulation. Through adoption of open-book accounting and digitized financial systems, the sector can demonstrate how transparency supports both FBR's simplified SME tax scheme and global buyer due diligence processes. Formalized and transparent tax reporting can be supported through improved IRIS interfaces and reduced rates under the three-year corporate tax reform plan, encouraging SMEs to transition voluntarily rather than through enforcement. Labour compliance is the most critical reform area for garments, especially as buyers now demand traceability of labour conditions across the supply chain. Under the roadmap's labour compliance actions, participating SMEs can begin implementing new provincial labour codes, ensure social protection coverage through EOBI, SESSI and WWF, and abolish exclusions for outsourced workers. A dedicated digital portal for labour contractor registration—as proposed under Action 4.3—can be piloted in this sector to formalize labour contractors, enforce mandatory registration, establish rankings, and introduce digital labour contracts under Action 4.4. These steps align with the roadmap's goals of harmonizing definitions, enabling self-reporting and establishing unified labour payment and inspection systems.

Finally, the garments sector can drive reforms under the roadmap's remaining pillars—financial access, business development services, inclusive dialogue and home-based worker integration. Digitized open-book accounting provides verified financial records, enabling pilot firms to access SBP's simplified digital account opening, movable asset registry and tiered financial incentives. SMEDA and NIBAF can deliver targeted financial literacy and digital banking training to both SMEs and their labour contractors, while mobile payment data can support formalization evidence. Business development services under the SME One Window can offer AI-assisted guidance, sector-specific compliance toolkits and ranking of service providers. Most importantly, garments can anchor a structured dialogue mechanism integrating informal enterprises, contractors, worker organizations and EU buyers under SMEDA's Pakistan Digital Dialogue platform. Given the high proportion of home-based workers in garment value chains, the roadmap's HBW actions—digital registration, contract enforcement, welfare fund operationalization and supply chain accountability—can be piloted alongside traceability systems required by European markets. In doing so, the garments sector not only adopts the roadmap but also demonstrates how formality, when strategically aligned with export competitiveness, becomes a pathway to resilience, market expansion and global credibility rather than a compliance burden.

## Auto-parts

The auto-parts sector presents a strategic opportunity to drive SME formalization by leveraging the structural dynamics of OEM-led supply chains. Original Equipment Manufacturers (OEMs) in Pakistan typically maintain high standards of quality, delivery timelines and documentation, giving them substantial influence over their vendors. This influence can be harnessed to embed compliance and formalization requirements across the supplier network—particularly for smaller, informal SMEs seeking long-term contracts and growth opportunities.

A dedicated formalization program can be initiated in partnership with a leading OEM, where participation in the supply chain is made contingent upon meeting key regulatory and labour compliance benchmarks. Under this initiative, SMEs would be onboarded through a structured process that includes digital registration, transparent recordkeeping of financial and labour practices, and streamlined integration with tax and social protection systems (e.g., EOBI, social security, minimum wage compliance). The OEM, acting as both a quality gatekeeper and compliance enabler, can facilitate this by standardizing supplier audit protocols and offering technical assistance to SMEs transitioning to formal status.

Through this model, formalization becomes a value proposition rather than a regulatory burden—providing SMEs with assured business, reputational credibility and access to new markets, while offering OEMs a more resilient and compliant supply base. Digitally managed compliance across the supply chain also allows for real-time monitoring, risk mitigation and alignment with ESG standards increasingly demanded by global auto brands. Ultimately, this approach can serve as a replicable framework for formalizing clustered, high-potential SMEs across Pakistan's manufacturing sector.

## Application of road map to auto-sector

The auto-parts sector offers one of the most practical pathways to apply and test the national roadmap for SME formalization because of its structured value chains, the dominance of Original Equipment Manufacturers (OEMs) and the growing pressures of Global Compliance, ESG reporting, and localization policies. Under the first pillar of the roadmap—Defining formality—OEMs can act as institutional anchors to ensure harmonized application of SME definitions, as well as standard criteria for informal enterprises and informal employment across provincial jurisdictions. As required by Action 1.1 and 1.2, all suppliers and sub-vendors within the OEM network should be classified according to a uniform SME definition (as harmonized through NCC, SMEDA, and provinces) and the 21st ICLS criteria on the informal economy. OEMs already maintain vendor master lists, which can be linked with PBS and SMEDA to create real-time statistics on informality across tiers of suppliers—including micro-workshops and self-employed machinists involved in tool fabrication, welding, moulding and machining. This aligns directly with action 1.3, where the auto sector can be a pilot for integrating informal employment and enterprise data into the national statistical framework. Doing so not only supports policy design but also equips OEMs with more accurate ESG reporting for global buyers and investors.

This foundation supports implementation of the Second Pillar: Improved policy frameworks and business registration pathways. Most tier-1 and tier-2 auto vendors are already registered with SECP or provincial registrars, but tier-3 and small machine-parts workshops operate without legal documentation, bank accounts, or tax numbers. Through the roadmap's Actions 2.1 and 2.2, OEMs—supported by SMEDA, SECP, and provincial industries departments—can require suppliers to complete registration via the SME registration portal, be listed on the Pakistan business portal and transition towards a Single national registry of firms. To operationalize this, SMEDA and Board of Investment can work with a chosen OEM to launch a structured onboarding program for around 30–50 small suppliers. These suppliers would be digitally registered, their FBR NTN and provincial Labour registrations verified, and their information integrated into SECP systems through back-end data exchange, as recommended in Action 2.2.1. For sole proprietors supplying basic services (mould polishing, wire harnessing), amendments under the Partnership Act 1932 (Action 2.1.3) should allow registration of single-owner firms at the district level, removing a major entry barrier for small vendors. Over time, this tiered formalization would feed into the longer-term objective in Action 2.2.3—transitioning towards a unified national firm registry, reducing fragmented district registrars, and harmonizing entry pathways.

The Pakistan business portal, mandated under the Asaan Karobar Act, becomes essential here for mapping all required certifications—engineering development board licensing, PSQCA quality standards, provincial labour registrations, excise duties, and environmental NOCs—in a single digital interface. That directly supports SMEs in navigating compliance rather than interacting with 7–10 separate departments. Alongside this, fully operationalizing SMEDA's SME One Window Initiative and linking it with auto-sector supplier databases can help automate nudges to unregistered vendors, reminding them of labour, tax or technical licensing requirements as part of their contractual obligations with OEMs.

Under the third pillar—Promoting a culture of compliance and formality—auto-parts SMEs can immediately adopt the road map provisions relating to tax, incentives and trust-building. Most small suppliers fear entering the tax net because of perceived harassment and complex filings. Here, the roadmap's Action 3.1.1 proposes an assessment of the simplified SME tax scheme by FBR, which could be piloted in the auto sector to determine whether existing low-rate tax incentives are adequate to motivate supplier formalization. At the same time, OEMs can use supply agreements to encourage vendors to adopt open-book accounting systems, digitize wage records, input costs and sales documentation—meeting both FBR requirements and OEM audit protocols. Adoption of digitized IRIS platforms, as proposed under Action 3.1.2, reduces filing complexities and if the recommended corporate tax reduction from 29 per cent to 26 per cent (Action 3.1.3) is approved, SMEs will have stronger incentives to formalize. Moreover, building structured dialogue mechanisms between FBR, OEMs, vendors and SMEDA (Action 3.1.4) via supplier associations such as PAAPAM (Pakistan Association of Automotive Parts & Accessories Manufacturers) will reduce distrust and ensure compliance is seen as a growth pathway rather than a penalty.

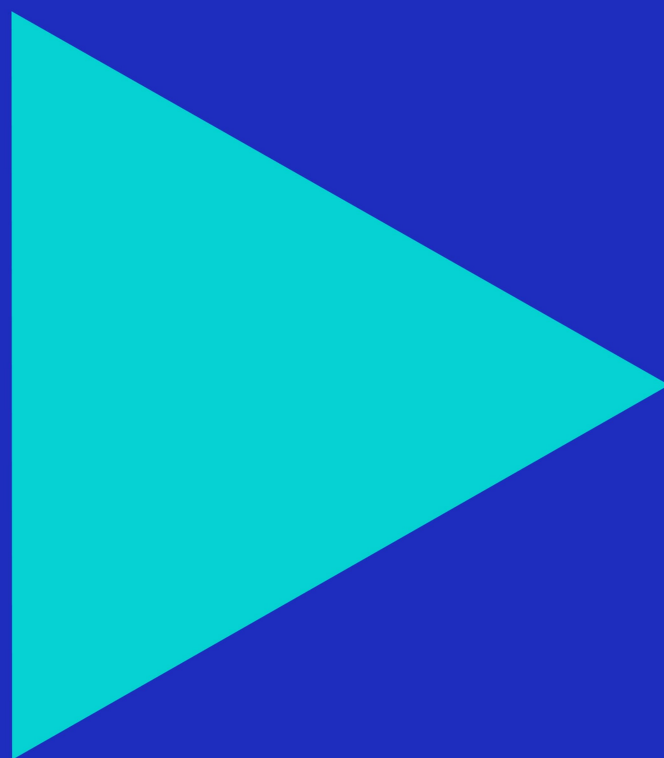
The fourth pillar—Improved compliance with labour regulations—is especially critical in this sector due to the layered use of labour contractors, informal apprentices, daily wagers, and outsourced work from home-based metalworkers and painters. The new Punjab and Sindh Labour Codes (Actions 4.1.1 and 4.1.2) must be implemented with OEM support to ensure that suppliers follow mandated rules for written

contracts, minimum wage compliance, EOBI registrations, social security payments (PESSI/SESSI) and Workers Welfare Fund contributions. Under Action 4.3, all labour contractors supplying workers to OEM factories and machine-parts workshops must be formally registered, documented and listed on a digital contractor portal. This portal—aligned with Action 4.3.2—should publish contractor compliance rankings, NOCs, and labour coverage status, enabling OEMs to only engage with compliant ones. This mirrors the roadmap’s proposal to enforce mandatory contractor formalization, digital labour contracts (Action 4.4.1), self-reporting, and annual evaluation of government social protection benefits (Action 4.4.2). Importantly, auto-parts SMEs spend significant sums on health and accident insurance informally—if these costs are consolidated into provincial social security systems efficiently, as the roadmap proposes, their administrative burden reduces and worker welfare improves. SMEDA and labour departments can further support dialogue between worker groups, unions and supplier firms (Action 4.4.5), ensuring transparency in labour rights, grievance mechanisms and safety standards.

The fifth pillar—Enhanced financial access—offers practical tools for auto vendors who struggle with collateral, creditworthiness and access to formal banking. As per Action 5.1.1 and 5.1.2, SBP’s digital account opening mechanisms, mobile wallets and reduced documentation requirements should be aggressively promoted through OEM-vendor workshops held in collaboration with SMEDA and NIBAF. Vendors must be trained in financial literacy, digital payments and use of the movable assets registry to register machinery, moulds and tools as collateral (Action 5.1.3). This is particularly useful for small machining units that have assets but no credit. Additionally, data flowing from digital transactions between OEMs and suppliers can be used for formalization-linked credit scoring (Action 5.1.4), enabling step based incentives such as lower mark-up loans, export financing or vendor development funds, as recommended in Action 5.1.5.

Under the sixth pillar—Improved access to business development services (BDS)—SMEDA, in coordination with Engineering Development Board (EDB), can develop a ranking system for technical training centres, tool-making services, CAD/CAM experts and certification labs used by auto vendors (Action 6.1.1). An AI-assisted digital BDS system linked to the SME One Window can provide tailor-made advisory on taxation, SECP filings, ISO/TS certifications, labour laws and cost accounting—especially useful for small tool manufacturers and auto electricians transitioning from informal setups (Action 6.1.2).

The seventh pillar—Making dialogue more inclusive and impactful—can be operationalized by incorporating informal suppliers, labour contractors, machine operators and auto vendor associations into OEM-led roundtables and Pakistan Digital Dialogue platforms (Action 7.1.2). This allows policies to reflect the realities of ground-level actors—who often lack representation despite being critical to the sector’s productivity.



**Annexes**

## ► Annex I: Sessions for SME formalization road map

	Meetings	Location	Date
<b>Sessions</b>			
1	Women Chamber Lahore	Chamber Office, Lahore	17-03-2025
2	PAPAM & PAMA Lahore	PAPAM Office, Lahore	20-03-2025
3	Lahore Chamber of Commerce	Chamber Office, Lahore	24-03-2025
4	Towel Manufacturer Association	Association Office, Karachi	07-04-2025
5	Pak Suzuki Team	Suzuki HQ, Karachi	07-04-2025
6	Hoisery Manufacturer Association	Association Office	07-04-2025
7	PAPAM Karachi	ILO Office, Karachi	08-04-2025
8	Employers Federation of Pakistan	ILO Office, Karachi	08-04-2025
9	Karachi Chamber	Chamber Office, Karachi	08-04-2025
10	Worker unions in auto & textile	ILO Office, Karachi	09-04-2025
11	PREGMEA South	PREGMEA office, Karachi	09-04-2025
12	PREGMEA North	Delta Garments, Lahore	11-04-2025
13	KPK session with SMEs	Online	11-04-2015
14	Auto sector session	Lexus Grant, Lahore	11-04-2025
15	Ignite, NIC-Lahore	NIC Office, Lahore	22-04-2025
16	Women Resource Center, Lahore	WRCI Office, Lahore	23-04-2025
17	Balochistan SMEs	Online	15-05-2025
18	Technical Working Group	Islamabd	18-02-2025
<b>Meetings with key stakeholders</b>			
<b>Industry related and private</b>			
1	Yulia Bazhenova, GIZ	Lahore	14-03-2025
2	Mr Mashood Ali Khan, Auto sector	Karachi/Online	25-03-2025
3	Mr Anees Khawaja, MG Textile	Lahore	15-04-2025
4	Mz Dur-e-Shahwar, APWA	Lahore	04-06-2025
5	Mr. Jehanzeb Jillani, Jillani Plastic & Packaging	Lahore	27-05-2025
6	Mr. Abdul Haseeb, Haseeb IMPEX	Karachi/Lahore	05-05-2025
7	Mr. Adeel Alam, Alam Textile	Karachi	04-05-2025
8	Mr. Asad Malik, Leathertex	Lahore	25-05-2025
9	Ch. Saad Muhammad, PWF	Lahore	27-05-2025
10	Mr. Mian Khalid Rehman, Ex- Chairman PPMA	Karachi	16-05-2025
11	Director WWF, (Ashraf sb)	Lahore	27-05-2025

<b>Public sector</b>			
1	Director Industries, Punjab	Lahore	25-03-2025
2	Member Ops, FBR	Islamabad	20-05-2025
3	Director Reforms, EOBI	Islamabad	20-05-2025
4	SECP	Islamabad	20-05-2025
5	AS Reforms, BOI	Islamabad	21-05-2025
6	Chairman & Officers, PESSI	Lahore	22-05-2025
7	Secretary Labour, Sindh	Karachi	05-05-2025
8	SMEDA, (GM Policy)	Lahore	15-03-2025
9	SMEDA, (GM Policy)	Lahore	25-05-2025
10	Secretray MoIP	Islamabad	15-05-2025
11	CEO, Punjab Investment Board	Lahore	28-05-2025
12	PD, Regulatory Reforms, Punjab	Lahore	02-06-2025

## ▶ Annex II: Recommendations and innovations

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Proposed by Stakeholders during the Interviews

### 1. Digital, unified and simplified registration

- Fully digitalize the SME and workers formalization journey through a unified portal integrating SECP, FBR, ProvincialRA, EOBI, Social security, WWF and others.
- Introduce biometric verification and utility meter-based registration for micro-enterprises.
- Allow post-facto NOC approvals and reduce physical inspections.

### 2. Fiscal and regulatory incentives

- Establish a tiered SME tax regime based on revenue, employment size, and gender.
- Provide time-bound regulatory amnesties for new and women-led businesses.
- Offer interest-free or low-interest loans to SMEs showing steady tax compliance.

### 3. Labour governance and protection reform

- Changes in attitude of public sector regulators
- License and regulate labour contractors, tying them to digital worker registries.
- Merge EOBI and PESSI contributions into a single payment.
- Move to direct benefit transfer models for worker entitlements using CNIC-linked systems.

### 4. Association-led formalization and compliance hubs

- Industry associations (e.g., PAPAM, TMA, PREGMEA) can incubate formalization, act as compliance intermediaries and provide certification support.
- Pilot cluster formalization models in key value chains (e.g., garments, auto parts) using joint registration and HRDD approaches.

▶ **The national road map for SME and worker formalization**

The national road map for SME and worker formalization marks an important step towards a more inclusive, productive and resilient economy.

By supporting enterprises to grow and enabling workers to access decent work and social protection, formalization becomes a pathway to shared prosper rather than a regulatory burden.

Sustained commitment, strong partnerships and coordinated action will be essential to transalte this visiion into a lasting impact. The journey towards formalization is gradual but with continued collaboration among government, social partners and development stakeholders, meaningful progress is within reach.

The International Labour Organization remains committed to supporting this transition ensuring that no enterprise and no worker is left behind.

