



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.

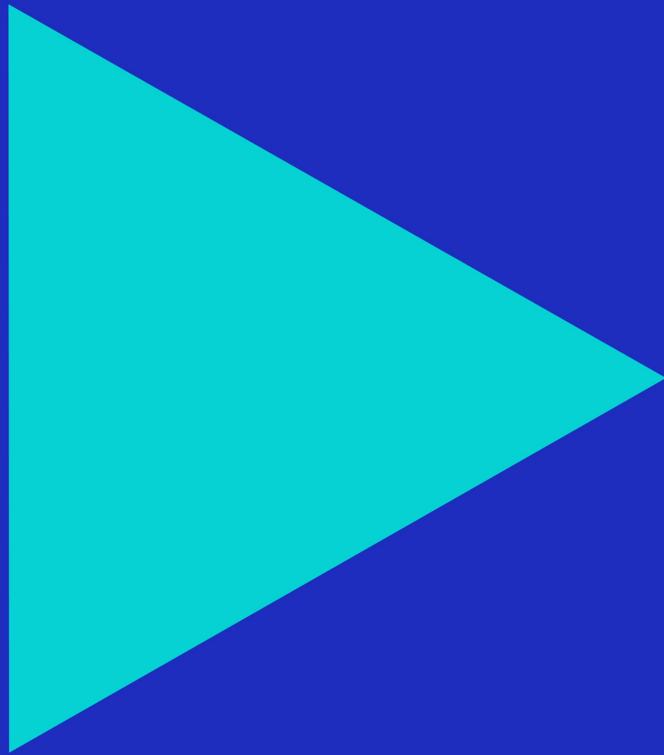
**Nadia J. Seth**  
Chief Executive Officer  
SMEDA Pakistan

## ► 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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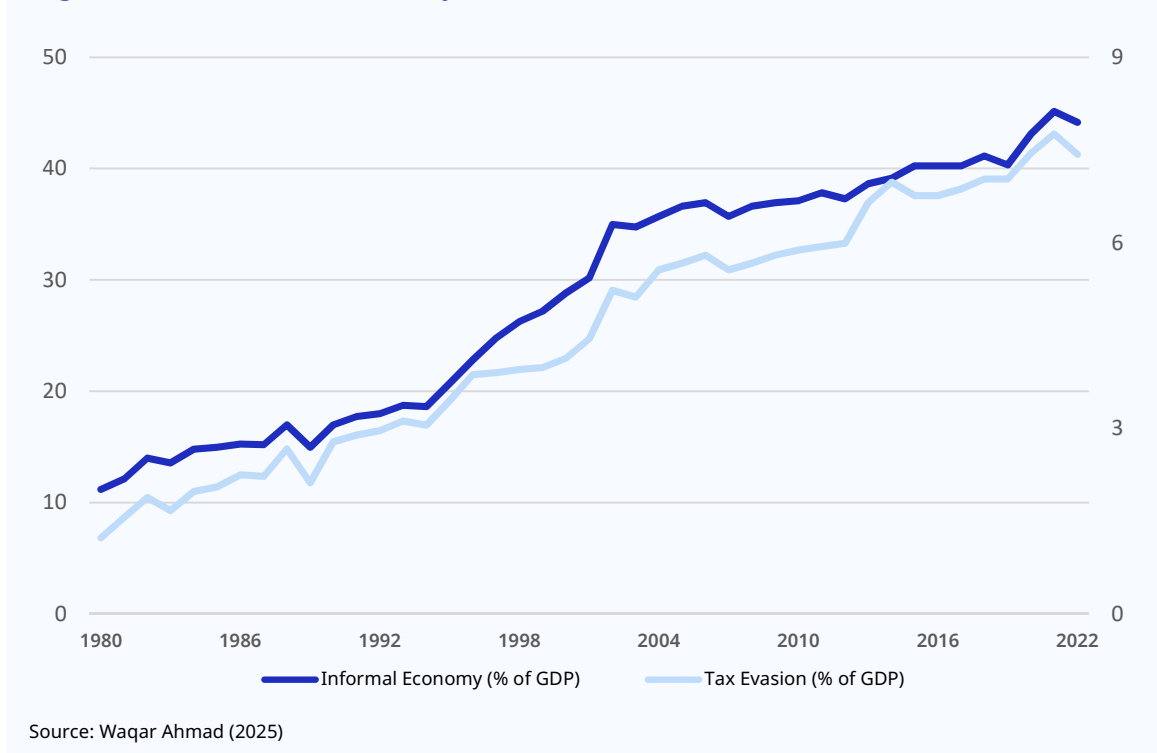
The enterprise formalization initiative under the SMEF-AT project spearheaded by the ILO in partnership with SMEDA and other stakeholders aimed at developing a national roadmap for enterprise and employment formalization. This document provides a roadmap developed through extensive stakeholder consultations, 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 15mn 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

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The development of the road map is based on an extensive set of stakeholder consultations. Eighteen focus group sessions and 23 individual meetings were held from April to June 2025. The consultations spanned various geographies and sectors, including textile, auto parts, start-ups, chambers and government entities. The discussions focused on uncovering barriers to formalizations, exploring divergent experiences across sectors and genders, and proposing pathways for reform. The list is provided in Annex I.

The main findings based on stakeholder interaction are summarized below:

### Key issues

Insights from interviews and sessions with SMEs, associations and intermediaries across sectors reveal that a major barrier to formalization is the lack of clear, credible information about its benefits, the actual incentive structures and the lack of trust, coupled with inconsistency and continuity of measures. Many entrepreneurs, especially those operating small, home-based, or seasonal enterprises, do not fully understand what formalization entails or how it could practically improve their business outcomes. Interviewees emphasized that the state's current messaging often fails to connect with ground realities. Formalization is commonly associated with burdens, such as taxation, inspections or registration hurdles, rather than with tangible incentives like access to finance, protection from exploitation or entry into new markets.

Even among businesses that take the first step towards registration, many do not complete the process or maintain their formal status. This is largely because formalization is treated as a one-off administrative step rather than a pathway to sustained support. Entrepreneurs report that, beyond obtaining a registration number, they struggle to access the incentives and services they were promised, whether it is subsidized credit, training or market connections. This mismatch between expectations and experience leads some firms to revert to informality, believing it offers greater flexibility and fewer risks. In short, they feel that the cost is certain while the gains are coincidental.

There is a clear need for a more inclusive and coherent formalization strategy that aligns communication, incentives and institutional support. Interviewees suggested that intermediaries such as associations, chambers and service providers should play a more active role in educating entrepreneurs, especially in key sectors like garments and auto parts on when, why and how to formalize. This includes simplifying messaging, delivering it through trusted platforms and ensuring that incentives are not just advertised but accessible. Without this, mistrust and misinformation will continue to discourage businesses from stepping into the formal fold. The key issues identified by the Stakeholders are discussed below.

### Barriers to formalization

The regulatory landscape for SME formalization in Pakistan remains excessively complicated, disjointed, and resource-intensive, discouraging businesses from transitioning into the formal economy.

#### 1. Structural and institutional barriers

- **Fear of the tax administration:** This was consistently highlighted as the most serious concern limiting the move towards basic formalization. Those who are formal in the sense of taxation complain about rates, procedures and a difficult interface. The ones who are not registered for tax purposes express the fear of being in the system. A main fear is that FBR will penalize for past periods that are neither relevant nor recorded.
- **High administrative complexity:** Entrepreneurs cited the lack of institutional coordination among SECP, FBR, PRA, PESSI, EOBI and other entities as a key impediment. The requirement for multiple documents, such as notarized partnership deeds and site inspections, especially under the 1932 Partnership Act (provincial), remains out-dated and unsuited for modern SME dynamics.

- Inflexibility of corporate structures: Sole proprietors have limited legal identity and face restricted growth options. The individual businesses struggle to initiate formal pathways to be recognized as entities. The NIC Lahore consultation emphasised the absence of mechanisms for registering or transitioning small enterprises without overhauling their entire structure. Moreover, there is a concern regarding the inability to grow the same entities—a partnership registered in a province will have to start afresh with SECP and similarly, a Single-member Company (SMC) at SECP has to reinitiate the application of moving to a private limited company. In both cases, the entity loses its previous history and track record, which may also restrict its ability to benefit from any institutional incentives or government support.
- Lack of legislative modernization: Stakeholders highlighted the urgent need to amend obsolete laws (e.g., Partnership 1932 Act), which still govern most small businesses. This legal inertia discourages innovation and perpetuates informal structures. Limited integration across various registration interfaces has also had an impact on digitalization. As systems, processes and requirements are not integrated where IT systems are available, they pose similar delays and consequences.

## 2. Informality, compliance aversion and trust deficit

A consistent lack of trust in the intentions and effectiveness of regulatory bodies reinforces informality across sectors. This trust deficit is rooted in both historical experiences and ongoing encounters with inefficiency, corruption and unpredictability. Many business owners perceive regulatory bodies not as partners in growth but as rent-seeking entities that impose unpredictable costs and procedural burdens (an experience quite opposite to China, where the regulators' KPIs are linked with growth performance rather than control). This is especially acute for smaller and women-led enterprises, where the fear of being trapped in a web of compliance-related harassment outweighs any perceived benefit of formalization. The absence of transparent grievance redress mechanisms and inconsistent enforcement further deepens this mistrust. Entrepreneurs commonly express that despite making good faith efforts to comply, they still face stringent audits or arbitrary penalties—there is no consideration for a gradual move towards compliance. Without demonstrable improvements in service delivery, clarity in procedures, and predictability in enforcement, the state's credibility will remain questioned, thereby pushing enterprises to remain under the radar. The key points in discussions include:

- Coercive vs. Enabling state Paradigm: Many entrepreneurs view the state's role as punitive rather than facilitative. This is reinforced by stories such as PRA officers stationed outside women-owned beauty salons or EOBI audits triggered by small discrepancies.
- Rent-seeking and corruption: Corruption remains a predominant pathway to achieve compliance, especially in key labour institutions. Auto sector representatives estimated a bribe rate of Rs. 500,000/- to avoid inspections, while delays in the issuance of social security cards disincentivise participation.
- Disproportionate penalties: Partial compliance is not recognized or rewarded. As one stakeholder stated, "Even at 60 per cent labour registration, we are treated the same as those with 0 per cent, there is no space for gradual compliance." The compliance inspectors usually determine a substantially higher fee/penalty/charge and that is then used as a negotiation leverage.

## 3. Labour formalization and the informal contracting ecosystem

The practice of hiring through third-party labour contractors is both a facilitator of flexibility and a driver of structural informality. On one hand, these intermediaries offer SMEs a convenient mechanism to scale labour inputs according to seasonal or project-based demand without the administrative burden of direct employment. This model is particularly prevalent in sectors like textiles, auto parts and broader manufacturing, where production cycles are volatile.

However, this convenience comes at a significant cost to labour formalization, worker rights and regulatory oversight. Contractors often act as informal gatekeepers, circumventing formal payroll systems, underreporting employment numbers and violating minimum wage laws. They exploit ambiguities in the law to exclude workers from EOBI, social security and health protections. Stakeholders across sectors cited that contractors routinely manipulate piece-rate payments and often control workers' access to benefits, including identity documentation like CNICs, further entrenching vulnerability.

The governance vacuum surrounding contractor practices also allows for the proliferation of exploitative arrangements, including withholding of wages, arbitrary dismissals and denial of maternity or sick leave.

Moreover, the entrenched political economy of contracting, where contractors maintain strong local political ties and informal protection, makes them resistant to regulatory reform. Attempts to bypass contractors are often met with institutional friction, labour resistance or compliance backlash, making it difficult for businesses to transition to direct employment. Thus, while contractors provide a certain measure of flexibility to SMEs, they systematically erode the foundations of decent work, social protection, and formalization in all its forms, including enterprise formalization, workers' formalization with access to labour and social protections, as well as informality within formal enterprises and associated employment.<sup>9</sup>

- **Contractor-based Informality:** Contractors often bypass labour laws, reduce wages, manipulate piece-rate systems and compromise worker safety. Their political economy is entrenched—making regulatory reform difficult. As noted in the textile sector, "contractor business models are built around informality."
- **Weak labour protections:** Many workers lack CNICs, EOBI or SESSI cards, or access to benefits. Even when cards are issued, they arrive late or are functionally not of much use. Union representatives described social security hospitals as "facilities without medicine, X-rays or even dental services."
- **Inadequate institutional & legal architecture:** Current labour codes do not fully reflect today's diverse employment structures— home-based workers, gig labour, or seasonal work. Also, the coverage across the country is uneven. There calls for the development of a new classification and coverage framework. Moreover, there are gaps in coverage of legal instruments. For example, the agriculture sector historically has been an uncovered sector. However, the Sindh province introduced the Women's Agricultural Workers' Act 2019 that allows for protection for female agricultural workers. The workers in the mines and minerals sectors are not covered under any law, other sectors such as the banking sector is exempt from EOBI. The draft Punjab Labour Code, 2024, proposes rules for the registration of agriculture workers, domestic workers and home-based workers while these improvements have been proposed, its equivalent implementation will follow after full ratification and building suitable capabilities within the implementing agencies.

It was reported that some employers exploit a loophole by invoking the outdated Workmen's Compensation Act, 1923 as a substitute for registering workers under the provincial social security systems. This act, which only provides limited compensation in cases of workplace injury or death, allows businesses to avoid the recurring costs and administrative requirements of proper social protection compliance. Labour departments, constrained by weak enforcement or complicit in the workaround, often accept this as sufficient. As a result, thousands of workers remain excluded from critical health, maternity and long-term benefits.

This legal escape undermines the intent of universal labour protection and highlights the urgent need to harmonize and modernize labour laws.

#### **4. Financial exclusion and the credit disconnect**

Despite contributing taxes, SMEs remain largely excluded from formal credit and investment flows. Therefore, the incentives that push for additional financing or credit do not really offer a viable pathway to formalization.

The main issues highlighted by stakeholders include:

- **Lack of recognition for compliance:** SMEs reported that even after three to five years of consistent tax payments, they are not considered creditworthy by banks. The absence of a reward mechanism for sustained compliance exacerbates disillusionment.

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<sup>9</sup> This covers the three permutations of informality. The contractors who are running informal set-ups (i.e. not registered), the workers are not on formal contracts, and the workers are not getting all benefits legally available.

- Loan rigidities and process complexity: Public sector banks were criticized for their rigidity, especially in loan rescheduling. Women entrepreneurs described bank forms as unintelligible and structurally inaccessible. Moreover, it was elaborated in several sessions that the process of opening an account has become unnecessarily tedious and thus has reduced the interest of SMEs in moving towards formal transactions. Mobile wallets/digital accounts have however, provided an alternate to conventional banking options but still a lot of ground needs to be covered.
- Disconnection between documentation and lending: Start-ups at NIC Lahore highlighted a lack of understanding by banks regarding their legal and operational models. This results in lengthy delays, inconsistent requirements and repeated rejections. Furthermore, it was explained that a large number of informal SMEs are operating payments through digital payments nevertheless, these records do not count for any consideration to determine the financial scale or credibility of the business.

#### **5. Gendered dimensions of informality**

The experience of women-led SMEs differs substantially from their male counterparts, requiring dedicated support. The women-led SMEs operate at an exceptionally small scale and are usually at a greater information disadvantage. This case of information disadvantage results in procedural exploitation if these businesses try to become formal enterprises. The women's chamber was exceptionally vocal about the limited pathways to formality.

- Discriminatory interface: Women entrepreneurs, especially in services like salons and tailoring reported being singled out for harassment. The presence of PRA staff at salon doors was cited as a form of intimidation. This sort of 'haggling' sets a bad example and pushes women away from growing and becoming formal.
- Regulatory mismatch: Current SME policies do not accommodate the realities of micro, home-based and part-time women-led businesses. Women Chamber proposed the creation of a sandbox regulatory regime tailored to such enterprises. This should be based on minimal digital sign-up options for supporting formalization.
- Lack of customized financial products: Women-owned businesses face compounded barriers in accessing credit due to documentation gaps, collateral constraints and male-dominated banking structures.
- Unfair market competition: While most formal businesses, including those run by men, face this issue, in the case of women-run companies, the degree is far more severe, as they struggle to compete with informal sellers who evade taxes and regulations, resulting in distorted market dynamics. The reason this is a deeper issue for women-led is that they are unable to strike deals and short-cuts that, to some extent, reduce the problem. The problem is a genuine one and needs correction.

### **Box 1: Synopsis of the formality issues in the auto-sector**

In Pakistan's auto parts manufacturing sector, especially among small and medium enterprises (SMEs), the formality of business registration contrasts sharply with the informality of labour arrangements. While most SMEs supplying to original equipment manufacturers (OEMs) are registered with the tax authorities and comply with sales tax requirements due to contractual obligations, the vast majority of their workforce—particularly helpers and semi-skilled workers—remains outside the scope of formal labour registration. Only a fraction of skilled labour, estimated between 30–40 per cent, is formally enrolled in social protection schemes such as EOBI and PESSI, while the rest continue as daily wage earners with no access to benefits. Given the small scale of these enterprises—many employing fewer than 50 workers—most SMEs opt to directly hire on a casual basis due to cost pressures and workforce volatility. Over the past two years, demand fluctuations have forced many firms to lay off unskilled workers, further entrenching precarious employment.

Compounding this issue is the poor quality of services offered by welfare institutions. Employers argue that even when they register workers, the return in terms of actual benefits is negligible. In Sindh, delays in issuing social security cards, rampant corruption and unresponsive service delivery discourage compliance. Employers question the value proposition of formalization—if the services remain dysfunctional, what incentive exists for incurring additional costs? The experience with institutions like PESSI has led many to call for a shift toward centralized, digitalized registration systems that minimize human interaction and reduce avenues for extortion. Suggestions have included integrating labour contributions into utility payments—for example, allocating a fixed percentage of electricity bills to employee social protection—thus reducing administrative burdens while widening the coverage net.

Another layer of complexity arises from the fragmented and sometimes contradictory mandates of labour-related departments. In addition to EOBI and PESSI, SMEs are now being asked by bodies like TVET to provide internships or face penalties adding pressure to already overstretched human and financial resources. Stakeholders stressed the urgent need to bring all relevant labour departments into alignment and create a coherent, centralized structure that is easy to navigate. The broader preference among auto sector SMEs leans toward a private sector-led compliance model, where data security, procedural clarity, and service delivery can be better assured.

Despite these challenges, many SMEs are not averse to formalization per se. Instead, they are deterred by the cumbersome procedures and lack of corresponding support. Businesses that have consistently paid taxes over several years see little recognition or benefit in return. Stakeholders recommended introducing incentives such as preferential loan access, lower interest rates, or even collateral-free financing for those with a proven tax track record. Establishing visible success stories and model enterprises that have thrived under full compliance could also help shift perceptions and build trust.

However, the obstacles to formalization begin even before labour issues arise. Basic registration hurdles—such as obtaining a sales tax number—remain formidable. Unlike the relatively straightforward process for acquiring a National Tax Number (NTN), registering for sales tax has become increasingly stringent due to fears of fraud. The process now involves physical visits, detailed assessments, and sometimes the hiring of tax consultants—costs that many small manufacturers cannot afford or understand due to low financial and legal literacy respectively. Consequently, businesses that are otherwise interested in becoming compliant remain stuck in limbo, unable to take the next steps.

This disconnection between the promise and practice of formalization is further widened by the rigidity of public sector institutions. In moments of financial distress such as unexpected interest hikes or demand collapses, many SMEs find themselves unable to meet debt obligations. Public sector banks like the National Bank of Pakistan (NBP) are criticized for their inflexible policies, whereas private banks are seen as somewhat more accommodating. Without options for loan restructuring or emergency relief, SMEs are driven further away from formal channels.

A broader critique also emerged around the legal environment governing labour relations. Many employers feel that existing labour laws disproportionately empower workers and unions while offering little protection to businesses. Once a labour union is formed—often with political backing—employers fear being trapped in legal disputes with limited avenues for recourse. There is no unified labour union in the auto parts sector but the threat of fragmented, factory-level unions remains a concern. Employers

called for a rebalancing of the labour law framework to ensure fairness and predictability on both sides.

In sum, informality in the auto parts SME sector is not merely a matter of evasion; it is the product of systemic dysfunctions in policy design, service delivery, and institutional behaviour. Without a clear, supportive and credible path to formalization—backed by real incentives and reformed labour governance—the informality in all three dimensions will continue to expand, despite the formal appearance of business registration. A new approach is needed—one that understands the lived reality of SMEs, builds institutional trust and embeds compliance into the core of enterprise development.

In summary, the interviews and focus groups for developing the roadmap suggest that the landscape of SME formalization in all dimensions and worker protection in Pakistan remains fragmented and characterized by significant institutional and regulatory weaknesses. Registration systems are complex, duplicative and heavily paper-based, requiring enterprises to interface separately with multiple agencies such as SECP, FBR, provincial revenue authorities, EOBI, social security institutions and the Workers Welfare Fund. This lack of integration creates high transaction costs for small businesses and discourages compliance. Micro-enterprises, in particular are constrained by burdensome approval processes, reliance on physical inspections and lengthy NOC requirements, which collectively deter entry into the formal sector. Fiscal and regulatory frameworks similarly fail to accommodate enterprise diversity, offering uniform tax treatment without regard to business size, employment scale or gender considerations. New and women-led businesses face disproportionate barriers to entry, while access to affordable credit remains limited, further constraining pathways to formalization and growth.

Labour governance reflects parallel deficiencies as public sector regulators continue to operate in isolated and rigid ways, with limited adaptation to contemporary labour market dynamics. Labour contractors, who form a critical part of the employment structure, remain largely outside regulatory oversight and are not tied to digital worker registries. Existing contribution systems such as EOBI and PESSI impose duplicative obligations on employers, while leaving workers with fragmented and often inadequate coverage. Direct benefit transfer mechanisms linked to national identity systems are absent, perpetuating inefficiencies and leakages in worker entitlements. Industry associations, despite their potential to serve as intermediaries for compliance and formalization, only play a limited role and cluster-based formalization pilots in sectors such as garments and auto parts remain underdeveloped. Collectively, these gaps illustrate a regulatory and institutional environment that perpetuates informality, weakens labour protections and undermines the broader policy objectives of inclusive economic development.

### **Box 2: Synopsis of the formality issues in the textile-sector**

In Pakistan's textile sector—particularly in garments and towel manufacturing—informality is sustained not only by the fluctuating nature of production cycles but also by structural, financial and regulatory burdens that SMEs find difficult to navigate. The seasonal nature of demand forces firms to maintain a flexible, variable workforce. While most manufacturers claim compliance with minimum wage laws in cities like Karachi, ambiguity persists around piece-rate work and underreporting. Employers argue that compliance frameworks—especially those linking compensation to hours spent on-site rather than outputs—are often misaligned with operational realities. As a result, formalization becomes more of a liability than an opportunity.

At the same time, industry voices increasingly acknowledge that formalization is no longer optional. Global frameworks such as the EU Green Deal (2025–2030) and Corporate Sustainability Due Diligence Directive (CSDDD) are placing new demands on textile exporters, requiring full visibility and compliance across supply chains—including small vendors and subcontractors. For many Pakistani SMEs, this represents both a challenge and an opportunity. While the financial and institutional capacity to meet these new standards is limited, especially around wage compliance and environmental management, alignment with these frameworks is now viewed as essential for growing and maintaining export markets.

Initiatives like Accord and the Global Fashion Agenda are reshaping how labour and environmental compliance is measured and reported. The challenge lies in the ability of SMEs to keep pace. For example, the lack of functioning infrastructure such as Effluent Treatment Plants (ETPs)—like the non-operational facility in Korangi—places compliance burdens on even the most willing enterprises. Industry leaders suggest that public-private partnerships could revive such infrastructure, with donor-

supported programs (e.g. GIZ's Community of Practice) playing a catalytic role in resource-sharing, training, and compliance support.

Despite the efforts, there is deep scepticism toward domestic regulatory authorities with institutions such as the Environmental Protection Agency (EPA) seen as corrupt, ineffective and further deterring good-faith compliance. Employers question why they should engage with enforcement bodies that lack the capacity or intent to offer meaningful support and services. These attitudes are reinforced by punitive, fragmented systems for labour registration and inspection, with EOBI and SESSI services often cited as slow, opaque and disconnected from worker needs.

On the labour side, wage compliance remains a persistent tension. The minimum wage for unskilled workers is frequently deemed unaffordable by small exporters, particularly those operating on razor-thin margins. Employers argue that the real challenge is not wilful avoidance but the structural gap between what they can afford and what is mandated. Many SMEs advocate for a revision of wage-setting mechanisms and call for a more nuanced application of minimum wage requirements especially when skill levels and productivity are low. The call for a wage mechanism that is linked to productivity and value addition. The issue is further compounded by the lack of demand driven vocational training and skill development, which inhibits workers from moving up the wage scale. Stakeholders emphasize that the Minimum Piece-Rate determination from time to time should at least match the minimum wage but that requires concurrent investments in worker training and productivity.

Efforts to include informal producers in the formal value chain are emerging but remain fragmented. Platforms like PREGMEA have started exploring cluster registration models to bring micro-units (with 5–15 machines) into formal association membership linking them to training, social security, and export compliance opportunities. However, these efforts require real policy dialogue between government, employers and workers—dialogue that as employers point out, is largely absent. Instead of coercive enforcement, stakeholders suggest starting with pilot projects that provide structured association membership, training on compliance and gradual on-boarding of benefits like EOBI and SESSI.

There is also increasing concern that local brands, which are growing rapidly, remain completely outside the formal ecosystem. Unlike exporters, they are not under pressure from global buyers and hence avoid registration, wage compliance and taxation. Employers argue that domestic regulatory incentives and pressure must also target this segment if a level playing field is to be established.

Another rising concern is around inventory and transaction traceability. Requirements like Annex J in sales tax law, which demand detailed inventory reconciliation with subcontractor procurement, are difficult to fulfil for SMEs with limited digital infrastructure. Nonetheless compliance with such standards is essential if Pakistan's exports are to remain viable under global traceability mandates.

Overall, there is cautious optimism within the industry. Stakeholders recognize that aligning with global sustainability and labour norms is inevitable. They see a pathway to compliance—but only if state institutions evolve from enforcers into enablers. Employers advocate for the creation of one-window, digitized systems that reduce physical interactions, synchronize labour and tax data and allow seamless compliance. Such systems must be accompanied by tiered contribution models, particularly for SMEs, where the government fills in gaps to protect workers without bankrupting employers.

### **Box 3: Synopsis of the issues raised by the employers**

Employers across Pakistan, speaking through platforms such as the Employers' Federation of Pakistan (EFP), express a unified position on the imperative to formalize labour—but also highlight the deep-rooted structural and procedural challenges that undermine practical compliance. EFP, with its membership base extending across all major chambers and industry associations acknowledges that formal contracts and minimum wage commitments are legally binding and widely observed in principle. Yet, employers emphasize that the core issues of informality stem not from a refusal to comply but from the lack of viable, affordable and trustworthy systems that support formalization—especially in relation to social protection mechanisms like EOBI and provincial social security institutions.

Many employers question the rationale of paying into systems where service delivery is absent or inaccessible. For example, In Sindh employers cite the lack of functional social security hospitals and the procedural delays in card issuance as reasons why they—and their workers—see little value in formal

registration. When workers do not receive the benefits promised on paper and when employers face repeated harassment from enforcement officers upon attempting to comply, the incentive structure collapses. For those trying to bring home-based or outsourced labour into the formal net, the process is often riddled with bureaucratic obstacles and fear of extortion. Even where third-party contractors are used—and are themselves registered—the responsibility for compliance often gets muddled and oversight remains weak.

A recurring theme is the disconnection between existing laws and the capacity to enforce or operationalize them effectively. Employers point to outdated labour inspection practices, the absence of digital data integration across regulatory bodies and the lack of synchronized laws across provinces as key barriers. Despite legal requirements for salary payments to be made via bank transfers, implementation remains uneven between provinces and there is no centralized monitoring mechanism. Similarly, while the law mandates that piece-rate wages cannot fall below minimum wage, there is no practical mechanism for verification or redress—further complicating compliance for employers operating in sectors like garments or light manufacturing.

The issue becomes more acute in sectors where high levels of informality are entrenched—such as agriculture, mining, and construction—where contractors and subcontractors dominate labour arrangements and enforcement is weak. Special concessions granted to foreign investors such as in Sindh’s outsourced waste management sector are also creating distortions. Employers cite cases where these contractors fail to pay minimum wages or enrol workers in EOBI, raising concerns about unfair competition and regulatory selectivity.

EFP and its members propose a pragmatic path forward—one that blends digital innovation, institutional reform and a realistic division of responsibilities between the state and private sector. A central demand is to introduce a simplified, online, one-window registration and compliance system that integrates all statutory obligations—such as EOBI, social security, insurance and end-of-service benefits—into a single digital platform. Employers recommend a tiered contribution system, particularly for SMEs, with the government filling any funding gaps to ensure worker entitlements are not compromised. This would relieve SMEs of disproportionate burdens while ensuring universal protection coverage.

The need for harmonized, consolidated labour laws is also urgent. Employers are calling for a comprehensive overhaul that streamlines HR practices—covering hiring, training, payroll, grievance handling and separation—under a single regulatory framework. Reform must also be accompanied by capacity-building investments: targeted training, digitized learning aids and mentorship for SME owners and managers, especially in financial literacy, compliance and quality control. Moreover, linking formalization to clear economic incentives—such as subsidized credit, access to certification programs, discounted taxation and public procurement eligibility—can create a more enabling ecosystem.

Digitalization and e-commerce are also seen as untapped levers of formalization. By expanding access to digital payments, online marketplaces and logistics platforms, SMEs can scale faster and more transparently but this requires parallel investment in infrastructure, from electricity and broadband to transport and financial services. As employers argue, formalization must not be framed only as a compliance obligation—it must be seen as a pathway to economic inclusion, competitiveness and long-term resilience.

In sum, employers are not resisting formality; they are resisting dysfunction. The private sector’s call is for a state that plays its part—by ensuring service delivery, streamlining regulation and removing the cost and risk from the process of doing the right thing. With the right policy architecture, backed by credible enforcement and digital ease, formalization in Pakistan can evolve from a burden into a business norm.

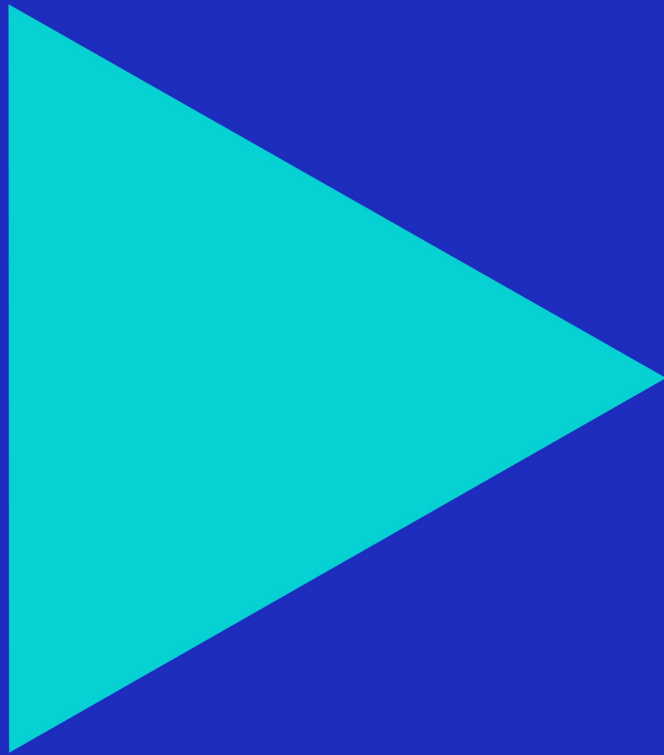
**Box 4: Synopsis of the views expressed by workers/worker unions**

From the standpoint of workers and their representative unions, the conversation around informality and compliance to labour regulation in Pakistan is marked by a sense of frustration with both employers and the state. While employers argue that they are constrained by dysfunctional institutions, workers often view this narrative as a way to shift responsibility and mask persistent non-compliance with basic labour rights. For unions, the reality is that workers continue to face wage theft, arbitrary dismissals, unsafe working conditions and the denial of entitlements that are enshrined in law but rarely realized in practice. The existence of labour regulations, whether on minimum wages, contracts or contributions to social protection systems, means little when employers circumvent them through outsourcing, piece-rate work or the use of labour contractors.

Unions also highlight that the issue is not simply about inefficient systems but about the balance of power. In many cases, employers willingly operate in grey zones, knowing that enforcement is weak and fragmented and that inspectors can be influenced or bypassed. Workers point to examples in industries like garments, construction, auto-sector and mining where legal minimum wages are managed, and occupational safety measures are disregarded, leading to accidents and long-term health damage. Labour contractors, often unregulated and unaccountable become the face of exploitation: they provide employers with plausible deniability while leaving workers without recourse to grievance mechanisms or benefits. When employers call for simplification and digitization, unions question whether these reforms are genuinely about worker welfare or simply about reducing compliance costs for firms.

From the union perspective, the state's failure to deliver services such as functional social security hospitals or timely EOBI pay-outs is another major issue. The worker representatives based in Sindh strongly voiced concerns that the no survives were available and the quality of the social security hospitals are worrisome. However, the lack of public services cannot excuse employers from their legal obligations. Rather, unions argue that employers and the government are complicit in creating a cycle of informality where workers are permanently excluded from protections. They note that even in sectors benefiting from foreign investment or public contracts, compliance with labour standards is minimal, suggesting that incentives exist for regulatory selectivity. For workers, the problem is not only inefficiency but also the lack of political will to prioritize decent work over cost-saving measures and competitive pressures.

Ultimately, unions insist that the path to decent work requires strong enforcement, transparent accountability and genuine worker participation. The unions emphasize that reforms cannot be designed solely by employers and government agencies; workers and their representatives must be integral to shaping the frameworks that govern their livelihoods. Until then, unions maintain, formalization risks becoming a discourse about easing business constraints rather than ensuring dignity, equity, and decent work for Pakistan's labour force.



## 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. In line with the global evidence, in the Pakistani context, informality extends beyond unregistered micro and small enterprises to include a substantial proportion of informal employment relationships within formally registered firms. Supply chain dynamics frequently rely on casual, contract-based and piece-rate labour that falls outside the scope of statutory protections such as minimum wage, social security and occupational safety standards. This underscores that informality is not exclusively a function of enterprise size or registration status but is more accurately understood in terms of the employment relationships and supply-chain contracts. Such duality complicates regulatory oversight and highlights the structural depth of informality across both formal and informal sectors of the economy. Crucially, these patterns also undermine the effective realization of ILO Conventions 87 and 98, as workers in informal arrangements often lack both the legal visibility and organizational channels needed to exercise freedom of association and collective bargaining rights. Therefore, there is a need to develop a broader definition of formality based on the above principles.

As per the ILO definition, there is a distinction between the formal and informal sectors and between formal and informal employment. A person who works in a formal setting but only if they have access to all legal benefits, is considered a formal employee.

The focus on informal employment is, therefore, to identify persons who work in precarious employment situations, irrespective of the sector into which the entity for which they work falls. Informal employment has been defined as "the total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises or households or as the total number of persons engaged in informal jobs during a given reference period". Informal employment includes employers, own-account workers and contributing family workers who are employed in informal sector establishments, as well as employees and paid apprentices/interns who do not have paid annual leave or sick leave benefits and whose employers do not contribute to their social security<sup>10</sup>.

The definition used by the Pakistan Labour Force Survey is in line with the ILO approach (See below).

#### **Box 5: Key definitions from the Pakistan labour force survey**

##### **Informal sector**

The informal sector is defined as where the industrial units are not registered as per the Factory Act, and employment size is less than ten employees, and there is no regular employee. Entry and exit in this sector are easy for a person. It serves as an alternative for vulnerable groups, including women, and those with little or no education who have lost hope of finding work in the formal sector. The informal sector is important as it provides employment to the most vulnerable groups and may serve as a steppingstone into formal sector employment.

##### **Formal sector**

Formal sector (non-agriculture) comprises those employed in government or state-owned enterprises or international organizations/foreign embassies and those working for incorporated companies or establishments that are registered with relevant authorities. Informal sector (non-agriculture), on the other hand, comprises those employed in enterprises that are neither incorporated nor registered with authorities. Those employed in private households are regarded as in the informal sector.

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<sup>10</sup> Labour Force Survey 2020-21

Those whose economic activities are in the agricultural industries are reported on separately.

### **Informal jobs**

The total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises or households or as the total number of persons engaged in informal jobs during a given reference period". Informal employment includes employers, own-account workers and contributing family workers who are employed in informal sector establishments, as well as employees and paid apprentices / interns who do not have paid annual leave or sick leave benefits and whose employers do not contribute to their social security.<sup>11</sup>

The State Bank of Pakistan (SBP) and the Competition Commission of Pakistan (CCP) also take a registration of business approach. A formal business is defined as one that is registered with the government, maintains proper accounting records and has a clear legal structure. This indicates that each entity is taking a definition that suits their requirement; however, registration of the enterprise and tax status is essential in all. It is also noted that for the existing LFS, the agriculture sector is treated as neither formal nor informal; however, new definitions were approved in 2023 and the next LFS will include. Moreover, there is no one 'owner' of the definition. This is important to ensure consensus on the meaning. ILO defines *informality as all economic activities by workers and economic units that are, in law or in practice, not covered or insufficiently covered by formal arrangements*. Similarly, formality is defined as all activities and practices documented and registered as processes and disclosed.

More generally, informality and formality in business are primarily defined through the lens of legal recognition and regulatory compliance. A formal enterprise is usually defined as fully registered with relevant government authorities, adheres to taxation laws, complies with labour regulations and is integrated into state-sanctioned institutions such as property registries, financial systems and contractual frameworks. In contrast, an informal enterprise operates partially or entirely outside of these legal structures, either by 'rational choice' or due to systemic barriers that make formalisation impractical or undesirable.

Legally, informality is often characterized by the absence of registration, which means that businesses do not possess a formal business license, tax identification number or legal status as a corporate entity, or just some of these. This results in an inability to access formal credit markets, government support programs and legal protections such as contract enforcement. Informality can also be partial, where a business may be registered but fails to fully comply with tax obligations, labour laws or product safety standards. In such cases, enterprises may underreport revenue, employ workers without contracts or avoid social security contributions to effectively operating informally.

Formality of enterprises, on the other hand, is defined by full regulatory compliance, which in theory, often grants businesses access to various economic advantages. These include a higher probability of securing bank loans, participating in public procurement and expanding through legal market channels. Governments internationally often define formality through specific legal requirements such as mandatory tax registration, audited financial statements and adherence to labour and social protections, including minimum wage laws and workplace safety standards, affiliation of employees to the national social security institution and the payment of contributions accordingly. In many jurisdictions, formality of enterprises also extends to corporate governance, requiring businesses to maintain transparent financial records and comply with shareholder or board regulations.

Therefore, defining informality and the path to formalization of both enterprises and workers, is far from simple.

The ILO defines Informality in recommendation 204 as given below:

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<sup>11</sup> [https://www.pbs.gov.pk/sites/default/files/labour\\_force/publications/lfs2020\\_21/LFS\\_2020-21\\_Report.pdf](https://www.pbs.gov.pk/sites/default/files/labour_force/publications/lfs2020_21/LFS_2020-21_Report.pdf) (Page 31 & 32).

### Statistical definition

Informal economy refers to all productive activities carried out by persons or economic units that are – in law or in practice – not covered by formal arrangements, whether or not they are carried out for pay or profit.

### Informal work

Includes informal paid and unpaid activities.

### Informal employment

Activity of persons that produce goods or provide services for pay or profit that is – in law or in practice – not covered by formal arrangements (e.g. commercial laws, income taxation, labour legislation and social security laws and regulations).

### Categories of informal employment

- Employees whose employment relationship is not formally recognized or lacks access to labour and social protection.  
Criteria: No employer's contribution to statutory social insurance.
- Dependent contractors who lack formal legal status or coverage.  
Criteria: No registration and no contribution to statutory social insurance.
- Independent workers (employers and own-account workers) operating informal economic units.  
Criteria: No formal registration and no complete set of accounts for tax purposes.
- Contributing family workers without formal recognition or social protection.  
Criteria: No contributions to a job-related social insurance scheme.

### Other classifications

- Workers in formal employment with partly informal activities (e.g. undeclared hours, wages, profit).
- Informal work: informal employment and informal activities within unpaid forms of work.
- Workers in informal employment in the formal sector (formal enterprises) or in households.
- Informal sector (informal economic units).
- Employment in the informal sector.

The informal sector, then, is not just about being undocumented but it is about being unprotected and unaccounted for in key areas like taxation, labour rights and social security. Formalization of economic units means integrating these units into the formal economy, ensuring they are registered, recognized, and subject to the same rules and benefits as formal firms.

To measure the informality of economic units, one must ask: Are these businesses covered by laws? Are they officially registered? And do they comply with relevant regulations? Only with these benchmarks can Pakistan design effective policies to bring SMEs into the formal fold.

#### Box 6: Informality concept & definitions under ICLS resolution I

Understanding the informal economy requires a clear distinction between the *informal sector*, *informal employment* and the overarching concept of *informal productive activities*. These categories are interrelated but distinct and together they define the scope of informality for statistical and policy purposes.

#### Informal economy

The informal economy refers to the broad set of all informal productive activities, encompassing both the *informal sector* and *informal employment*. It includes all production of goods and services—legal in nature but not effectively regulated or protected—whether conducted by unregistered economic units or by workers whose employment relationships fall outside formal arrangements.

The concept explicitly excludes illicit or criminal activities but covers otherwise legal production when it takes place in unregulated or unrecognized forms.

### **Informal sector**

The informal sector is a subset of the informal economy. It comprises household-based unincorporated market enterprises that primarily produce goods and services for sale but are not formally recognized as distinct market producers.

Such enterprises are characterized by:

- Absence of registration or incorporation,
- Lack of a separate legal identity from their owners,
- Failure to maintain a full set of accounts for tax or regulatory purposes, and
- Not employing workers under formal jobs.

These units typically operate on a small scale, rely on household labour and often blur the boundary between household and enterprise resources.

### **Informal employment**

Informal employment is the second core component of the informal economy. It refers to jobs that, in law or in practice, are not subject to or not effectively covered by formal arrangements. This applies regardless of whether the job is located in the informal sector, the formal sector, or household production. Informal employment includes:

- Own-account workers and employers in informal sector units,
- Contributing family workers,
- Dependent contractors,
- Casual or day labourers,
- Employees without formal contracts or access to social protection, and
- Domestic workers in households not covered by labour regulation.

Thus, workers in the formal sector may still hold informal jobs if their employment lacks legal recognition or effective protections.

### **Informal productive activities**

Informal productive activities are all forms of production carried out by persons or economic units that are not covered by formal arrangements—whether regulatory, fiscal, commercial or labour-related. This includes activities where rights and obligations regarding taxation, labour standards, social security or contractual relations are absent or not enforced. For statistical purposes, informal productive activities include production for the market, for own-use, and certain non-remunerated activities, provided they are not illicit in nature.

### **The formal sector and formal employment**

In contrast, the formal sector comprises economic units that are legally recognized as market producers. These units are incorporated, registered or otherwise formally acknowledged by authorities, maintain complete accounts and employ workers under jobs that are formally recognized and protected. Workers in formal employment include independent workers, dependent contractors, employees and contributing family members whose jobs are subject to and effectively covered by labour laws, taxation and social security provisions.

### **Key distinction**

The critical distinction introduced by Resolution I is that the informal economy is broader than the informal sector. It covers not only unregistered enterprises but also informal employment occurring within formal enterprises and households.

Therefore, measuring informality requires examining both the legal and practical status of enterprises and the jobs performed within them.

Source: ILO (2023) Resolution concerning statistics on the informal economy & ILO (2025 snach 39-bpm 7-ch 18-informal-economy-v07-cg.pdf)

## 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

The process of business registration is often hindered by a complex, time-consuming and fragmented regulatory environment. Entrepreneurs routinely express frustration over the burdensome procedures required to register and comply with various government entities. For small and medium enterprises (SMEs), particularly those operating with limited administrative capacity, the formalization process is perceived as tedious, opaque and costly. Instead of a streamlined system, multiple agencies, such as the Securities and Exchange Commission of Pakistan (SECP), Federal Board of Revenue (FBR), provincial revenue authorities, labour departments, and social security institutions, each require separate documentation, procedures and inspections resulting in duplication and confusion.

Overlapping jurisdictions between different tiers of the government have created conflicting processes for business registration. This lack of harmonization often leads to inconsistent requirements and unclear institutional mandates. Entrepreneurs are left to navigate a web of agencies without access to clear, consolidated guidance. Many lack the time and knowledge to pursue formalization independently and in desperation, turn to unauthorized agents or middlemen who promise faster registration. These intermediaries often exploit business owners through unofficial fees or incomplete documentation further eroding trust in the system.

Efforts to simplify registration through “one-stop shop” models have so far yielded limited results—this is partly due to no real business process improvements and limited enhancements of the quality of services

and benefits. Stakeholders report that existing portals or facilitation desks suffer from poor inter-agency coordination, incomplete service integration and insufficient staffing or technical capacity. These operational gaps defeat the very purpose of the one-window system and contribute to the continued perception that formalization is a burdensome and risky proposition for SMEs. The lack of information on such systems and access to technology issues is existent to majority of the SMEs. The following are key recommendations for the road map.

## Registration pathways

Informal businesses have limited access to formal pathways to register. The current options include registration with the SECP as a Single Member Company (SMC), Private Limited Company (PLC), and a Limited Liability Partnership (LLP) (see box below). The other pathway is via the district-level firm registration under provincial directorates, with the only option to register a partnership. While the SECP has simplified the process, with most of it being online and integrated with the FBR, further availability and support are still required.

### Box 7: Types of business entities in Pakistan

1. **Sole proprietorship:** A company with a single owner, whereby the owner and the company are one entity. Such companies only need to register with the Federal Board of Revenue and involve unlimited personal liability.
2. **Association of persons/partnership:** An entity required to be registered with the Registrar of Firms, with up to 20 partners, and in which each partner's shareholding in the firm is equivalent to their initial investment. These involve unlimited personal liability.
3. **Limited liability company (or private (Pvt) limited):** A company required to be registered with the Securities and Exchange Commission of Pakistan, with limited personal liability. Such companies are required to periodically file taxes, and sometimes accounts, with the Securities and Exchange Commission and/or the Federal Board of Revenue. In addition, companies are required to act as tax withholding agents.
4. **Limited liability partnership:** A relatively new business structure, introduced by the Securities and Exchange Commission of Pakistan in 2017. As in the case of a private limited company, a limited liability partnership is a distinct legal entity separate from the partners. These entities are a hybrid of partnerships and private limited companies, with more compliance requirements than ordinary partnerships, but fewer obligations than private companies. Limited liability partnerships are only required to act as withholding agents for taxes if their turnover is over 100 million Pakistani rupees.
5. **Sole proprietor:** this is a small business only categorized by FBR as a business and is on the name of the individual.

The following is recommended:

1. The SECP has established its first business centre for swift company registration. This has substantially facilitated the company registration process. The same services may be made available through regional offices, at firm registrar offices and possibly chambers and trade associations.
2. The Partnership Act 1932 and the rules under this act, as adopted by the provinces, may be amended to allow registration of a single-member firm option. This will offer a quick and easy way for individual business owners and sole proprietors to gain access to formal pathways

**Box 8: What is a partnership referred as in Pakistan’s legal framework?**

In Pakistan, a *partnership* is a business arrangement defined under the **Partnership Act, 1932**, whereby two or more individuals agree to share the profits of a business carried on by all or any of them acting for all. A partnership firm does not constitute a separate legal entity distinct from its partners; instead, it is an association of persons jointly conducting business.

Pakistan.

Key characteristics of partnerships under this framework include:

- **Unlimited liability**

Each partner is personally liable for the debts and obligations of the firm.

- **No separate legal personality**

The firm cannot own property or enter into contracts in its own name.

- **Voluntary registration**

Registration with the local district registrar is optional, although registered firms benefit from greater legal enforceability, including the ability to sue or be sued.

- **Flexible structure**

Partnership agreements are governed by a deed outlining profit sharing, responsibilities, and dispute resolution mechanisms.

3. SMEDA has initiated the SME registration portal to develop a database and has also initiated a credit scoring and risk assessment project. The informal SMEs that approach SMEDA under these initiatives are to be supported with quick Business registration if they are not. Both initiatives of SMEDA must be developed in ways that they can be integrated as one portal.

## Single national registry of enterprises

Business registration in Pakistan has gradually expanded to include more formal structures such as corporations and limited liability partnerships. However, the system remains disjointed, operating under a dual framework: district-level registrars handle partnership registrations (commonly referred to as “firms”) while the Securities and Exchange Commission of Pakistan (SECP) oversees the registration of companies and Limited Liability Partnerships (LLPs) at the federal level. This bifurcated approach leads to confusion among entrepreneurs, increases the administrative burden and cost of compliance, and ultimately discourages small and medium enterprises (SMEs) from entering the formal economy. The lack of integration between the two systems also results in unreliable and incomplete data on active businesses, further complicating policymaking and business support efforts.

While SECP governs the registration of incorporated entities such as private limited companies and LLPs, the district-level registrars manage unincorporated partnerships, each operating under separate legal and procedural frameworks.

This institutional divide places a disproportionate burden on SMEs, who often lack the capacity to navigate these parallel processes. Additionally, a natural shift from one segment to the other is not possible and requires fresh registration.

The key characteristics for the two registries are presented below:

► Table 2: Key characteristics for the registries

	District registries	Company registry at SECP
Business structure registered	Partnerships (also called firms)	- Limited Liability Partnership (LLP) - Private Limited Company - Public Limited Company - Single-Member Company (SMC)
Legal framework	The Partnership Act, 1932	- The Companies Act, 2017 - The Limited Liability Partnership Act, 2017
Number of registered businesses	150,000 partnerships <sup>12</sup> (estimated number with available information). The exact number is unknown due to the absence of centralized and reliable records.	3,500 LLPs and 240,000 companies <sup>13</sup>
Who needs to register	Partnerships with a notarized partnership deed but on a voluntary basis. Registration is not mandatory.	Businesses that seek limited liability. Mandatory for all types of businesses with 20 employees or more (as per section 9 of the Companies Act, 2017).
Where can businesses register	Physically at district-level offices. While the country has 169 districts, not all of them have a firm's registrar—these offices are found only in major cities.	There are 10 SECPs offices across the country in Pakistan major cities, and there is online registration available.
Fees	1,000 to 10,000	10,500

Problems identified derived from the current business registration system: The registration of partnerships at the district level presents numerous problems that hinder regulatory oversight, data reliability and formalization of businesses:

- Outdated legal framework: Partnerships are governed by the archaic Partnership Act of 1932, which lacks provisions for digital registration, modern compliance requirements and regulatory

<sup>12</sup> Based on data provided by district-level registries in Karachi, Khyber Pakhtunkhwa, Balochistan, Lahore, and the Islamabad Capital Territory (ICT), the total number of registered partnerships amounts to approximately 200,000. In comparison, the Federal Board of Revenue (FBR) reports that there are around 200,000 partnerships with a registered National Tax Number (NTN).

<sup>13</sup> Meeting with the SECP on 20 May 2025.

oversight mechanisms essential for today's dynamic business environment and economic development.

- **Manual, fragmented systems:** Most district registrars operate entirely through paper-based processes without digital infrastructure or comprehensive databases. Even when an online application may be in place, internal processes remain manual. As a result, there is no reliable count of how many partnerships exist, which ones are active, or which sectors they operate in.
- **There is no accurate number of partnerships registered in Pakistan.** All registries provided their best estimation of the number of partnerships. Karachi has records from 2018 onwards.
- **Incomplete and outdated records:** There is no digital database of partnership information within any of the district registrars. Even for paper-based records, critical information such as contact details is often missing. For example, the Islamabad registrar only began collecting contact information in 2023.
- **Weak compliance and oversight:** Outdated or inconsistent registry data hampers coordination between provincial and federal authorities, leading to weak enforcement of regulations and complicating policy implementation. This fragmented environment disincentivizes formalization and preserves informality.
- **Voluntary registration:** The Partnership Act does not require mandatory registration, allowing unregistered partnerships to operate legally. This limits the government's ability to track and regulate business activity and contributes to a major data gap that undermines policy design and regulatory enforcement.
- **Revenue seeking process:** District registrars have expressed that the registration has revenue seeking purposes. However, annual revenue in Islamabad for partnership registration is PKR 1,320,000 (USD 4,650), Lahore for PKR 10,000,000 (USD 35,000) and for Karachi PKR 31,680,000 (USD 110,000), which is not significant revenue, as this would not even account for the annual operation of the registries.
- **Duplication in name registration:** Having different and uncoordinated business names registries creates confusion and undermines legal certainty, mainly FBR, district level registries and SECP. Stakeholders consulted identified the name registration as a major barrier to transition from partnerships to LLPs, further complicated by the FBR's practice of allowing individuals to add business names to NTN registrations without verifying their availability or uniqueness.
- **District-level business registration constrains economic growth:** The current system of registering partnerships at the district level limits business potential by trapping firms in a low-value, outdated legal framework. This structure discourages formalization, restricts access to finance and markets, and prevents businesses from scaling, thereby undermining broader economic growth and competitiveness.

Most business units register either as sole proprietors or under the 1932 Partnership Act. However, the national SECP register offers certain advantages over these two forms of registration. These are provided in the table below:

► **Table 3: Benefits of moving companies to the SECP registry**

	District registries	SECP registry
1. Limited liability (protection of personal assets)	None	Yes
2. Legal enforceability of contracts, business names, and IP	Some. Registered partnership can sue or be sued in its own name, enabling it to assert legal rights	Much more protection for IP and access to courts across Pakistan, not only in the local area.

	<p>and contracts, and protect its interests through courts.</p> <p>Name protection is difficult since the district registries do not check for uniqueness or availability.</p>	<p>However, uncoordinated business names registries in the FBR, district-level registries, and SECP create confusion and undermine legal certainty. There is no consolidated national business name registry; instead, records are fragmented and overlap across district-level registries, the federal registry managed by the SECP, and the NTN database managed by the Federal Board of Revenue (FBR). The SECP verifies duplication for business names of LLCs and LLPs but no such checks exist for partnerships at the district level or for business names in NTN registration with the FBR.</p> <p>The complexity of name registration is today a major barrier to the transition from partnerships to LLPs.</p>
3. Credibility in the market	<p>Some. Registration improves a business's reputation with suppliers, customers and financial institutions.</p> <p>But the outdated Partnership Act of 1932 lacks provisions for modern business structures' characteristics, such as limited liability, growth and scalability of businesses, as well as business oversight.</p>	<p>Much more. Registration in the online SECP registry demonstrates:</p> <ul style="list-style-type: none"> <li>• Better compliance with a higher level of regulatory norms for ownership, management, and operations;</li> <li>• More transparency, which can translate into competitive advantages such as higher trust in the market and better access to finance, particularly in the KYC regime.</li> </ul>
4. Facilitates access to financial services	<p>A registered partnership eases the process of opening a business bank account and improves the enterprise's legitimacy for financial institutions</p>	<p>Much more, particularly for loans, tax credits, foreign investment, and bonds.</p> <p>Flexibility for different business types, allowing easier market entry and innovation for newer forms of financing, such as joint ventures and crowd funding.</p>
5. Access to national and international markets	<p>Little to none.</p>	<p>Clear and scalable pathway for business growth. Full access to growth across Pakistan and its borders, due to greater transparency and regulatory compliance.</p>

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

<p>6. Transparency/ accessibility in markets to allow market participants to carry out due diligence and make better financial decisions</p>	<p>None. Registrations are maintained on paper dossiers; none are on digital databases.</p> <p>Paper dossiers are not accessible, even at the site of the registry.</p> <p>Certificates of incorporation are issued on paper by visiting the physical site of each registry.</p>	<p>Online, immediate access to company information (BOI has proposed expanded access to more information).</p> <p>Digital certificates issued by SECP.</p>
<p>7. Accuracy and updating</p>	<p>Most partnership registries are still paper-based, making records difficult to access and limiting transparency. Islamabad, Karachi, and Lahore began in 2023 to adopt digital databases for new registrations, but these reforms apply only to future filings and leave all prior records unchanged and offline. Moreover, contact details were not historically required, so registries cannot reach out to registered partnerships to verify whether they are still active. No mechanism is in place to enforce continuous updating.</p>	<p>All firms shifting over to the SECP database will be immediately visible online.</p> <p>The SECP database is updated annually, allowing market actors and regulatory authorities to track firms' current status.</p>
<p>8. Administrative efficiency (such as producing better statistics and sharing with other government agencies)</p>	<p>Most district registrars operate entirely through paper-based processes without digital infrastructure or databases. Even when an online application is in place, internal processes are manual. As a result, there is no reliable count of how many partnerships exist, which ones are active, or which sectors they operate in.</p> <p>Even for paper-based records, critical information such as contact details is often missing. For example, the Islamabad registrar only began collecting contact information for partnerships in 2023.</p> <p>Data are locked into paper form in local offices, and access is very difficult for agencies checking on firm status.</p>	<p>Completely online.</p> <p>Digitized registries reduce the burden of paperwork filings, streamline government interactions, and provide more reliable data for policy making and economic planning.</p>
<p>9. Access to tax benefits</p>	<p>No specific tax benefits, as a partnership does not constitute a separate legal entity distinct from its partners.</p>	<p>Registered entities can access lower corporate tax rates, specialized tax incentives, and deductions, which can lead to significant cost savings.</p>

Source: Board of Investment, Decision memo for cabinet committee on regulatory reforms

The following recommendations are being made:

- Establish backend data integration for mutual recognition of business units registered under SECP, FBR, and Provincial/District Registries.
- Over the medium term, eliminate all district-level partnership registries by repealing the 1932 Partnership Act and consolidating business registration under the national platform managed by the SECP under the Companies Act and LLP Act.
- Set up a simplified and free re-registration process to simplify as far as humanly possible the transition of partnerships to the national registry.
- Simplify the regulatory requirements for LLPs to reduce the burden of annual filings and documentation.
- Allow existing partnerships to re-register as partnerships, Single Member Companies, LLPs or LLCs.
- Launch a national media campaign to raise awareness and highlight the benefits of registering with the SECP, including legal recognition, access to finance and improved business credibility.

To ensure an effective transition to a unified business registration system in Pakistan, the following step-by-step strategy is recommended:

- Step 1: Repeal the Partnership Act, 1932. Existing partnerships will be granted a 6-month grace period to register with SECP as an LLP or LLC before the district registries are extinguished.
- Step 2: Introduce a simple registration process tailored for transition to LLPs or Partnerships or SMC. A simple registration process for firms transiting from district to national registries enables a straightforward transition to SECP. The process should integrate NADRA and FBR data for validation, minimizing paperwork and manual steps. For business units registered with provincial registries the transition to SECP registry may be simplified by:
  - Fee waiver
  - Auto template to be electronically uploaded without attestation and notarization and recognized based on the existing CNIC or NTN
  - No need to provide consent of partners in hard form, an email from SECP will confirm the change
  - Automatic verification on name availability and completion of registration.
- Step 3: Launch a National Awareness Campaign: Roll out a targeted media campaign to educate businesses about the reform. This step will build upon the actions taken by the SECP to promote business registration. The campaign should explain the shift from district to national registries, encourage businesses to re-register with the SECP and emphasize the benefits of registration—such as legal protection, access to finance, eligibility for government support programs and increased business credibility—to encourage uptake and compliance.
- Step 4: Reform the Limited Liability Partnership Act, 2017, to simplify compliance burdens for LLPs by introducing thresholds that exempt them from filing financial statements reporting obligations to SECP. The thresholds are the following:<sup>14</sup>
  - Annual turnover < PKR 560 million
  - Net assets < PKR 280 million
  - Employees < 50

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<sup>14</sup>This is consistent with BoI proposed reforms to the Companies Act 2017.

- Step 5: Introduce incentives for formalization. International experience shows that formalization efforts succeed when paired with clear incentives. To encourage uptake, we propose the following:
  - Fee registration waiver
  - Reduced social security contributions for micro and small enterprises based on financial viability and backed with improved quality of services
  - Qualify for SMEDA SME tax incentives
  - Access to government services such as incubators, legal advice and export promotion
  - Preferential access to credit through the National Bank and other financial institutions

**Box 9: SECP actions to promote business registration.**

- End-to-end digital incorporation via eZfile: SECP's eZfile portal delivers a fully digitized process—name reservation, incorporation and payment—enabling companies to register online from anywhere with secure identity checks through NADRA integration.
- Same-day corporate account opening: In collaboration with the State Bank, SECP is piloting real-time corporate account opening tied to registration. This initiative reduces delays and boosts financial inclusion particularly for SMEs
- AI-enabled name reservation: SECP employs AI to streamline name selection, prevent duplication and speed approvals, ensuring consistency and reducing processing delays.
- Awareness & outreach programs: Through partnerships with organizations like RCCI, SECP conducts awareness sessions to encourage registration as companies or LLPs and educate entrepreneurs on benefits

## ► **Pakistan business portal**

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Pakistan's current regulatory environment is deeply fragmented, spread across federal, provincial and local levels, with multiple departments requiring separate registrations, licenses, permits and no-objection certificates (RLCOs). This complexity especially burdens small and medium enterprises (SMEs), which often lack the administrative capacity or time to navigate this maze. The Board of Investment-led-Pakistan Regulatory Modernization Initiative (PRMI) offers a compelling solution: by identifying redundant processes and duplicative regulations and by streamlining approvals, PRMI aims to significantly lower the cost and time required to enter and operate in the formal economy.

A single portal—conceptualised as the Pakistan business portal—serves as PRMI's cornerstone for regulatory reform. By consolidating registrations and compliance procedures across multiple agencies into one digital platform, the portal reduces administrative steps, minimizes red tape and greatly enhances transparency. It consolidates disparate registries, automates fee payments and institutionalizes data sharing among regulators, addressing both inefficiency and trust gaps that routinely push SMEs toward informality. A unified portal can reframe formalization not as a bureaucratic burden but as a streamlined, accessible step toward inclusive economic participation.

The stakeholder consulted raised the demand for an effective one-stop solution that is integrated across all requirements and requires minimal physical contact. The portal will also be linked with the registry simplification and include nudging material for supporting all aspects of formalization and how to generate positive externalities. A SME tool-kit is being developed by SMEDA in collaboration with ILO that

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

can act as a key resource for supporting this movement towards formalization. The following are the key recommendations:

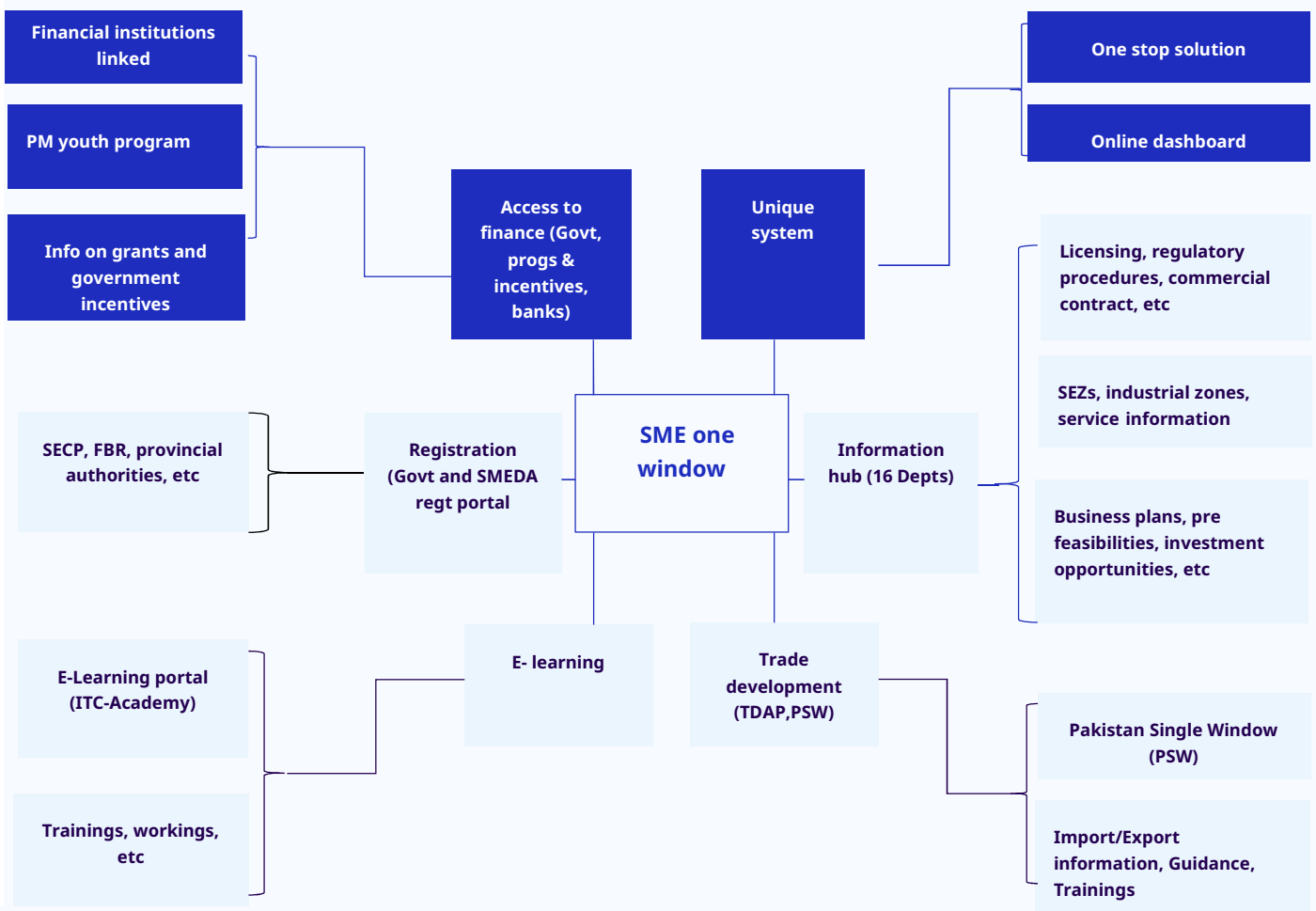
1. The Asaan Karobar Act 2025 is to be enacted by the parliament, and implementation is to be initiated.

Asaan Karobar Act: The government has finalised the draft of the Asaan Karobar Legislation that will enable three things:

1. National Regulatory Delivery Office (NRDO): NRDO will act as the regulator’s supervisor and help implement the Regulatory Guillotine. It will also be the monitor to ensure RIA and PBRF are consistently applied in designing new regulations.
2. Regulatory guillotine: The legislation provides the legal space to implement the Regulatory Guillotine. Evidence from over 15 countries suggests a substantial impact (2-3 per cent of GDP) in reducing the cost of doing business. Similar impacts in the case of Pakistan will save businesses approximately PKR 3 trillion per year.
3. Pakistan single registration portal: The law enables the establishment of a digital platform where all licenses, NOC, fees, charges, and approvals can be granted under one registration application. This will cover provincial nodes and e-pay of all taxes, charges, and fees. Similar systems in other countries, such as Singapore, have reduced costs by 30 per cent or more.

2. The formulation of the Pakistan business portal will take over 2/3 years. To cover the period in between SMEDA’s SME One window portal may be activated and later integrated into the Pakistan business portal.

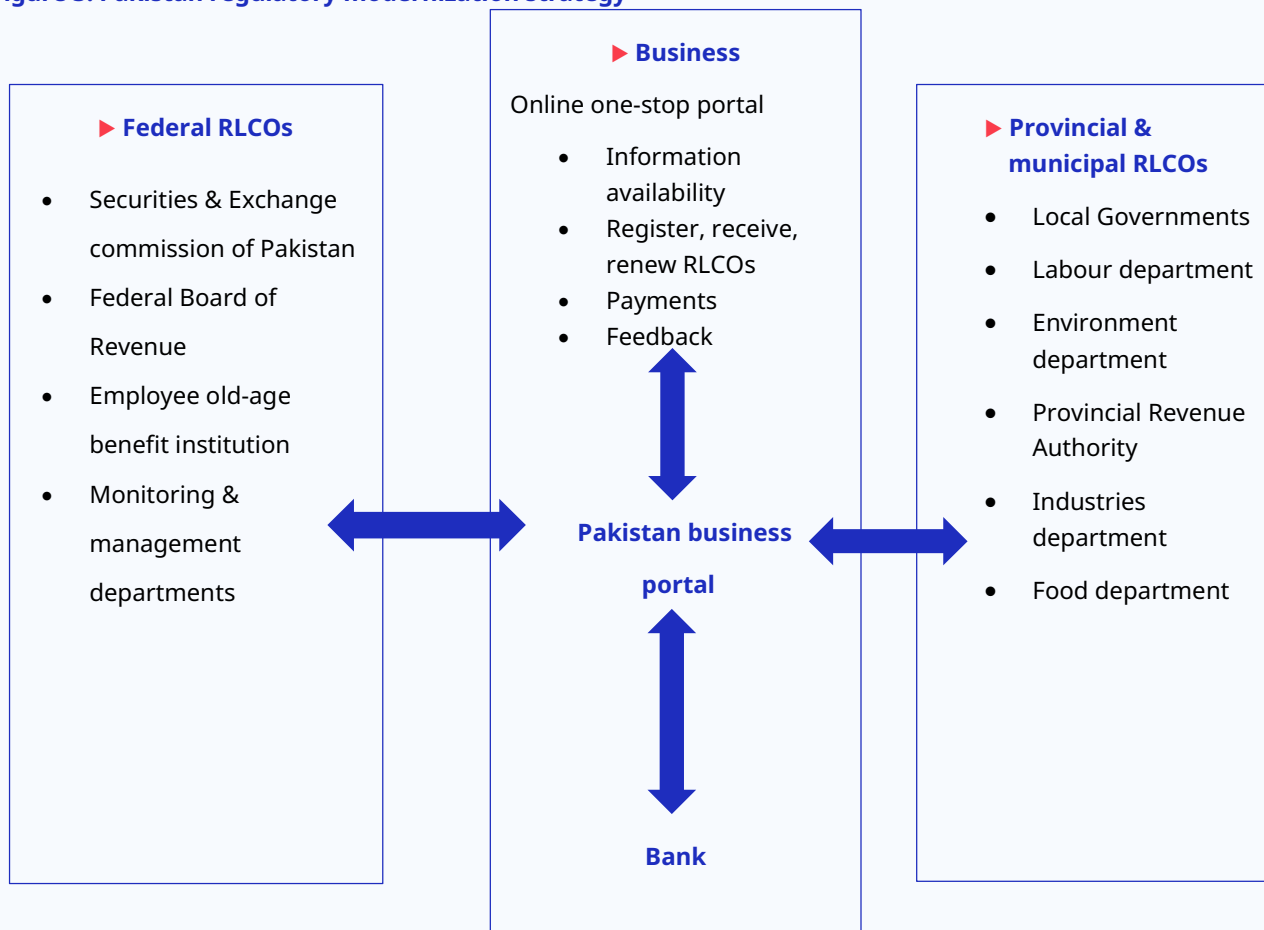
► **Figure 2: SME one window plan**



Source: Small and Medium Enterprise Development Authority (SMEDA)

3. The full Pakistan business portal to be activated in 3 years as indicated by the World Bank DEEP project deadline that is providing over US\$15 million to BOI for the establishment. This will require complete digital mapping of all RLCOs, a backend digital registry and integration of all national and provincial portals.

► Figure 3: Pakistan regulatory modernization strategy



Source: Pakistan Regulatory Modernization Strategy

## ► Promoting the culture of formality

Tax administration and policy design remain major restrictive factor for informal enterprises as well as for formal enterprises that employ workers informally considering entry into the formal economy. While business registration typically begins with acquiring a National Tax Number (NTN), compliance with tax requirements is widely perceived as overly complex, time-consuming and misaligned with the realities of small-scale operations. Many informal enterprises operate with highly variable cash flows, making it difficult to forecast earnings and consistently meet rigid tax obligations. For such businesses, the tax regime appears punitive rather than proportional, fuelling a persistent fear of penalties, backdated liabilities and compliance harassment that outweighs the perceived benefits of formalization.

This apprehension is compounded by the broader trust deficit in tax authorities and regulatory bodies. Entrepreneurs often associate formalization with increased vulnerability to excessive audits, intrusive inspections and arbitrary assessments. Stories of unofficial payments, essential for pushing paperwork through or expediting container clearances underscore the opacity and rent-seeking behaviours that dominate tax enforcement.

Many businesses fear that once they enter the tax net, they will be subject to ever-increasing costs through unpredictable licensing fees, high sales tax rates and inconsistent customs procedures. The presence of overlapping and poorly coordinated mandates among tax and regulatory agencies adds to this uncertainty, forcing businesses to navigate a fragmented compliance environment with little institutional support. Unless tax administration becomes more transparent, predictable and service-oriented, the current regime will continue to push SMEs away from formalization rather than attract them into it.

Finally, the rate of tax has also been stated as a key deterrent. The informal sector strongly feels that even if they overcome the challenge of the initial hurdle, the rate of taxation is too high and will make it impossible for small businesses to grow or even sustain. The following are key recommendations to be considered.

1. There is a simplified scheme available for SME taxation, conditional upon registration with SMEDA. The scheme uses the FBR definition of SME as an entity with revenue less than PKR 250 million a year. SMEs are split into two categories: Category 1 (up to Rs. 100 million turnover) and Category 2 (Rs. 100–250 million turnover). SMEs can choose between a Normal Tax Regime—with income tax rates of 7.5 per cent and 15 per cent for Categories 1 and 2, respectively—or a Final Tax Regime (FTR), offering significantly lower rates at 0.25 per cent and 0.5 per cent of gross turnover. The FTR is attractive for lower-profit-margin businesses due to its simplicity, though opting in is irrevocable for three tax years. Additional incentives include exemption from audit under sections 177 and 214C for FTR filers, simplified return filing, exclusion from minimum turnover tax under section 113 and reduced minimum tax on goods supplied by SMEs. There is a need to carry out an evaluation of this scheme and create more awareness. More importantly, the SME definition must be aligned with the National SME definition, and any new entrant must be exempt from the audit of the pre-registration period.
2. There is an urgent need to simplify the IRIS tax filing interface to make it more user-friendly and intuitive for taxpayers. In July 2025, FBR launched a simplified tax return form for salaried individuals and non-business filers—a move that has been widely welcomed. This reform must now be extended to cover businesses and higher-income taxpayers. Introducing streamlined, pre-filled tax returns will not only ease the compliance burden but also serve as a behavioural nudge, reinforcing the perception that the FBR already holds most transaction data. To support this, the on-going national data integration exercise should be fast-tracked, ensuring that all relevant citizen information is accessible to authorities through secure digital platforms, paving the way for fairer, more transparent tax administration.
3. The current rate of Corporate Income Tax in Pakistan is 29 per cent. This is the third-highest rate globally, with only a few countries having a higher rate of 30 per cent and 34 per cent.<sup>15</sup> The regional average is lower, between 25-26 per cent. This puts Pakistani enterprises at a cost disadvantage when competing with peers for export markets and is considered a strong deterrent to growth. There is substantial evidence suggesting that Pakistan's current tax rates are on the worse side of the Laffer curve. This implies that slightly reducing the tax rates will enhance economic effort and increase overall revenues. Mehmood et al. (2022)<sup>16</sup> and World Bank (2023)<sup>17</sup>, using FBR data, show that Pakistan is likely to be in the prohibitive zone of the Laffer Curve for CIT, where further tax increases (or maintenance of high rates) reduce tax revenue due to evasion, informality, and economic contraction. Other studies by Waseem (2018) and Latif et al. (2019) also echo similar concerns.

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<sup>15</sup> <https://taxsummaries.pwc.com/quick-charts/corporate-income-tax-cit-rates#anchor-P>

<sup>16</sup> Using both linear and non-linear models to fit the official time series data (1991-2020) on corporate tax rate and direct taxes as percentage of GDP, the study estimated revenue maximizing rate to be around 26%.

<sup>17</sup> World Bank conducted an event study using quarterly data on direct tax revenue from Q1 2006 to Q3 2022, and within that time span personal and corporate income tax rates for the top brackets were increased to 35 per cent in Q1 2020. They found statistically significant decreases in direct tax revenue collected in the quarter of the tax rate increase.

4. A reduction in CIT will directly enhance profitability, and given Pakistan is on the worse side of the Laffer curve, a reduction will imply improve compliance. The improved compliance will be a key instrument that will support all types of formalization activities.

## ► Improved compliance with labour regulations

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As discussed above, the non-compliance with labour laws among SMEs in Pakistan is deeply embedded in the broader challenges of formalization. While informal labour practices (informal employment) concern all informal sector enterprises, a significant number of small and medium formal enterprises also hire workers on an informal basis, relying on undocumented labour, piece-rate arrangements and seasonal workers to manage fluctuating demand and tight margins. Employers often cite the high cost of compliance with labour regulations—including contributions to EOBI, provincial social security institutions (like SESSI), WWF and adherence to minimum wage laws—as unaffordable, particularly in industries such as textiles and auto parts where volatility and low profit margins prevail. Many SMEs fear that once registered with labour authorities, they will be exposed to an array of regulatory burdens, ranging from surprise inspections to unaffordable penalties, without any meaningful benefit to either the business or the workers.

This fear is compounded by widespread distrust in public institutions. Employers repeatedly express frustration that even when they do comply by registering workers or paying into social protection systems, workers seldom receive benefits in return. Delays in issuing EOBI and SS cards, poor service delivery at public hospitals, and a lack of functional grievance redress mechanisms erode confidence in state-run welfare schemes. As a result, both employers and workers prefer to remain outside the formal system. Moreover, the outsourcing of labour to third-party contractors, who are often not held accountable, serves as a workaround for avoiding direct compliance with labour laws. Even where contracts exist, enforcement remains weak and minimum wage compliance becomes more notional than real, especially for unskilled or home-based workers.

The institutional environment reinforces this informality. Pakistan's fragmented regulatory framework, split between federal and provincial authorities, lacks harmonization, leading to inconsistent rules, overlapping mandates and enforcement gaps. For example, there are different minimum wages for EOBI, social security and wage contracts, all creating ambiguity in the system. Similarly, there is a difference of opinion in terms of which minimum wage will apply.

Other issues highlighted include the stoppage of self-registration in EOBI. At present, the EOBI is applicable if more than 10 people are employed; this restriction may be removed. There are definitional inconsistencies on employed worker that need to be addressed. Also, labour inspectors, often lacking technical expertise and marred by rent-seeking practices, are seen more as enforcers than facilitators. Documentation and digital integration challenges, especially for low-income or female workers lacking CNICs or formal education, further complicate formal labour enrolment. In cases where CNIC is available, EOBI still requires five other documents above CNIC to establish age. In this context, formalization is not viewed as a step forward but as a liability.

Another persistent obstacle to improving labour compliance in Pakistan is the fragmented and outdated legal framework governing labour rights. For decades, the country's labour laws have failed to evolve with the structure of the economy, leaving vast segments of the workforce—particularly those in agriculture, retail, warehousing and the mining sector—outside the protective umbrella of formal labour regulations.

This exclusion has not only institutionalized informality in these sectors but has also created legal ambiguity for employers who may wish to comply but find no clear path to do so.

Recent efforts by Punjab and Sindh to develop unified labour codes represent an important shift toward inclusion. These provincial codes have begun to extend protections to agriculture workers and in some cases, to those in the services sector. This is a promising development, especially in light of the changing nature of work and the growing prominence of sectors historically considered informal.

However, notable gaps persist—most critically in the mining and minerals sector, where hazardous working conditions and unregulated labour practices continue largely unchecked due to the absence of legal recognition.

The following recommendations are being made:

1. The overarching approach should be in line with ILO Resolution 204, labour law and social protection frameworks should be reformed to ensure that no worker and no sector is left outside the scope of labour rights and protections. All categories of workers, including those in agriculture, domestic work, construction, home-based and platform work and other non-standard or vulnerable forms of employment, must be brought under the coverage of labour legislation. This requires eliminating regulatory exclusions, harmonising laws across sectors and provinces and guaranteeing that every worker, regardless of status or enterprise type, enjoys equal access to fundamental rights at work, social security and dispute-resolution mechanisms.
2. The provincial governments of Sindh and Punjab should urgently approve their respective unified labour codes and move swiftly toward phased implementation. This process must begin with widespread awareness campaigns to educate employers, workers and intermediaries about the new provisions. While much attention will naturally fall on traditionally regulated sectors like manufacturing and textiles, it is equally critical to prioritize outreach in the agriculture sector—a domain historically excluded from formal labour regulation. Given its deeply entrenched informality and lack of institutional familiarity with labour compliance, agriculture will require targeted engagement, simplified compliance tools and support mechanisms to facilitate transition into the formal framework. Without this, the intended impact of the new codes will remain limited and a significant segment of Pakistan’s workforce will continue to operate without legal protections and benefits.
3. Harmonisation of procedures, rates and definitions across all provinces, the federation and the agencies is essential. This will require clear and consistent definitions regarding minimum wages, the classification of workers and employment and the application of rates. These need to be made part of the labour codes and regulations.
4. All payments related to labour may be unified and processed through digital payment systems to improve traceability and convenience. As a first step, provinces and the federation should fully automate their payments (Punjab’s SS payments and other payments are now digital). Once these goals are achieved, an effort for national integration via the Pakistan Business Portal should be made.
5. There is a need to undertake detailed actuarial calculations to estimate the economic burden of existing multiple contributions (direct and indirect costs). This should help determine if the reduction in the unified rates of all labour-related contributions for small firms can be beneficial to enhance compliance.
6. To curb the widespread use of outsourcing as a means of avoiding labour law compliance, the Government should adopt clear regulations ensuring that outsourced workers enjoy the same labour rights and protections as directly employed workers. Contractors must be required not only to register formally but also to formalize their workforce through written contracts, social security enrolment and adherence to minimum wage laws. Drawing on international practice, limits should be placed on the use of outsourcing such as restricting it to non-core functions (e.g., cleaning, security, support services) or capping the proportion of outsourced workers within an enterprise at a small share of the total workforce. Such measures would allow enterprises flexibility to manage fluctuations in demand while protecting the majority of workers from falling into informality. To enhance implementation, all labour contractors must operate as formal businesses, and it should be made mandatory for firms to contract labour exclusively from registered contractors and ensure that all workers are formally registered with legal contracts. This ensures compliance with labour laws and safeguards workers’ rights. In cases where enterprises hire from informal contractors, there should be significant penalties imposed to deter this practice. Such penalties could include fines or restrictions on future operations, thereby reinforcing the importance of engaging with legitimate contractors. By implementing these measures, we can foster a more regulated labour market that benefits both workers and businesses.

7. A national digital portal for registering and tracking labour contracts should be introduced as a mandatory requirement for all enterprises employing workers. To avoid adding new layers of compliance for SMEs, the portal must function as a single-window platform that integrates existing obligations, such as labour contract registration, social security (EOBI, PESSI/SESSI), minimum wage compliance, and payroll reporting, into one streamlined process. This integration would reduce the current fragmentation across multiple agencies and eliminate duplicative submissions.

The system should be designed with progressive compliance tiers, where micro and small enterprises face simplified reporting requirements while still ensuring that all workers are formally recorded and linked to social protection schemes. Employers would submit contracts digitally (including renewals and terminations) and workers could verify their registration and entitlements in real time using their CNIC. By combining mandatory use, simplified procedures and automatic links to social security, the portal would not only improve compliance but also build trust among employers and workers that formalization delivers tangible benefits. All labour-related agencies should develop this digital portal dedicated to tracking labour contracts. This system should enable enterprises to easily upload digital contracts, facilitating AI-based traceability and compliance monitoring that support improved enforcement capabilities, for example, highlighting riskier reporting and flagging them as priority cases. By implementing such a portal, agencies can streamline the contract management process. The portal can offer standard contracts that cover all rights and responsibilities of both parties with respect to the diversity of contractual employment that exists in Pakistan. The portal can also make the contracts available to employers and workers.. Additionally, the use of AI can enhance compliance tracking by automatically identifying discrepancies or violations, enabling timely interventions. This initiative not only promotes transparency but also supports a more efficient and accountable labour market.

## ► **Enhanced financial access**

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Despite having an adult population of over 180 million people, Pakistan faces stark financial exclusion, with only 2.4 per cent of its population accessing credit through formal financial institutions. Over half of the adult population, an estimated 53 per cent, remains entirely outside the formal financial system. This widespread exclusion is not solely a result of supply-side constraints; rather, it is deeply rooted in limited financial awareness and low levels of financial literacy across large segments of society. For many, formal financial services remain unfamiliar or intimidating. Basic concepts such as budgeting, saving or investing are not part of everyday decision-making, and financial tools are often perceived as complex, inaccessible, or irrelevant. This is especially true for women-led enterprises and home-based enterprises, and workers.<sup>20</sup>

The lack of exposure to even foundational money management practices contributes to a cycle of informal behaviours and missed opportunities. Without targeted efforts to build financial capability and demystify formal financial services, significant portions of the population will continue to remain disengaged, reinforcing patterns of informality and vulnerability.

In conversations with non-formal entrepreneurs and sector stakeholders, a shared sense of hesitation and exclusion was expressed in the formal financial ecosystem. Participants consistently flagged that opening an account was a first-order problem and came before other issues, such as high interest rates, rigid collateral demands and complex eligibility requirements. This mistrust is further reinforced by a broader perception that the financial sector is not designed with the needs of informal or small-scale businesses in mind. Critically, the current landscape lacks financing schemes that align with the distinct realities of underserved segments such as women entrepreneurs, youth-led enterprises and businesses operating in niche or low-margin sectors. For instance, Many youths do not perceive the utility of maintaining a formal bank account, while women entrepreneurs often encounter additional socio-economic and documentation hurdles that restrict their financial participation.

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<sup>20</sup> State Bank of Pakistan (<https://www.sbp.org.pk/finc/FL.asp>)

Below are key recommendations:

1. To support the broader agenda of formalization, the State Bank of Pakistan (SBP) has recently introduced a consolidated customer onboarding and digital payment acceptance framework aimed at enhancing financial inclusion and integrating informal enterprises into the formal economy. By simplifying account opening processes, digitizing documentation requirements, and mandating faster turnaround times, the framework facilitates easier access to formal banking for individuals and micro-entrepreneurs. It also directs banks and regulated entities to equip merchants, especially micro and small businesses, with digital payment solutions such as Raast QR codes, POS systems and e-commerce checkout tools, enabling low-cost participation in the digital economy. This initiative should be implemented and well monitored as it will enhance the overall formality in the system.
2. SMEDA and NIBAF should partner to expand the scale and coverage of financial literacy programs across Pakistan.
3. The digital registry of movable assets is fully functional; this service should be expanded to include the informal sector as well and the evidence of the asset registry may be used as a source of ensuring their formality and financial access.
4. SMEDA to work with mobile money operators and develop a mechanism where financial transactions of informal account holders can be better used through data analytics and AI to determine their financial health and provide evidence for formal financial access.
5. The Scope of SMEDA grants be expanded to support measures of formalization and possibly linked to escalating levels of formalization.

While staying in compliance with Pakistan's international commitments such as the Fund Plan requirements the following additional actions may be considered:

6. SMEDA to work with the State Bank to enable that financial products be explicitly structured to act as incentives for formalization rather than to sustain informality. Well structured financial services should be introduced, where entry-level credit remains available to informal MSMEs but more substantial products, such as larger working capital loans, export finance and subsidized insurance, are only accessible once enterprises demonstrate compliance with basic formalization requirements, such as tax registration, social security enrollment or digital payroll systems. In this way, financial access becomes directly tied to progress along the formalization pathway.
7. A related recommendation is to embed formalization indicators into SMEDA credit registry. The intervention by SMEDA should adopt a scoring model that incorporates tax numbers, contribution records and verified employment practices. Enterprises with stronger compliance profiles may be added to lower risk categories and may receive lower borrowing costs and higher loan ceilings. By aligning risk assessment with compliance, SMEs are provided with tangible financial rewards for transitioning into the formal economy.
8. To reduce costs for small firms while simultaneously extending protections to workers, financial access should also be bundled with social protection. Business bank accounts can be designed to automatically link with social security contributions and digital wage payments. Similarly, worker-focused digital wallets tied to registered contracts should be promoted to ensure secure wage payments, facilitate savings and expand financial inclusion. These mechanisms will make compliance less burdensome for SMEs while ensuring that workers are not excluded from formal protections.
9. It is further recommended that capital markets be mobilized in support of formalization. Instruments such as "formalization bonds" or SME mini-bonds should be made available exclusively to enterprises that meet defined compliance thresholds. This will reward transparent firms with affordable, longer-tenor finance, while creating competitive pressure for others to follow suit if they wish to access the same opportunities.
10. Finally, public procurement systems should be reoriented to act as a lever for both financial inclusion and formalization. SMEs seeking to participate in government or donor-funded contracts should be required to demonstrate the use of formal financial services, including digital payroll

systems and audited financial statements. This will anchor formalization into broader market access opportunities, transforming compliance into a competitive advantage.

## ► **Improved access to business development services**

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The provision of Business Development Services (BDS) in Pakistan has long remained disjointed and largely informal, resulting in inconsistent quality, limited accessibility and low trust among potential users, especially within the informal enterprise segment. This weak demand is both a cause and consequence of the broader informality that characterizes Pakistan's business landscape, where firms neither seek nor are offered structured support to improve productivity, compliance or growth. The prevalence of incubators has increased, but that is limited to only a small segment. To address this, a strategic reform is needed to institutionalize and professionalize the BDS ecosystem. This includes the creation of a centralized, digital portal of pre-qualified and ranked service providers, with standardized service packages and transparent pricing structures to build user confidence. Additionally, the opportunity exists to leverage emerging technologies by developing AI-assisted platforms that can diagnose enterprise needs and recommend tailored business support services, thereby expanding reach, improving efficiency, and incentivizing uptake across both formal and informal firms. The following is recommended:

1. SMEDA to add a component on ranking the BDS providers under their one window portal, and also link it with the Womenpreneurship portal.
2. SMEDA should introduce additional services through its digital portal, including AI-enabled business development services (BDS), to support informal and small enterprises with access to digital tools.
3. SMEDA to work with providers to ensure that business development services are designed and delivered in a way that strengthens the incentives for formalization. While entry-level support should remain accessible to all enterprises, including those still operating informally, the most advanced and high-value services should be conditional on enterprises taking concrete steps toward compliance with formal requirements (one example is continued support through NICs). In this way, BDS becomes not only a capacity-building mechanism but also a structured pathway to formality.
4. A first step is to provide basic advisory and training services such as financial literacy, bookkeeping, digital tools and quality assurance to informal MSMEs. These services should be designed to lower barriers to compliance by improving recordkeeping, management capacity and awareness of regulations. For many micro and small firms, these entry-level services will help build the foundation needed to transition into the formal economy. As suggested, these can be done via SMEDA-NIBAP and through the incubation centers and also linking with district registry offices and creating online resources.
5. The higher-level Business Development Services (BDS), such as support for certification, export readiness, supply chain integration, and participation in trade fairs, should be offered exclusively to formalized enterprises in all dimensions considered in the roadmap. This ensures that enterprises see clear and tangible advantages to completing registration, adopting digital payroll and complying with tax and labour regulations. By linking access to growth-oriented services with proof of compliance, formalization becomes synonymous with competitiveness.
6. Business Development Services (BDS) providers should also be incentivized to act as "compliance facilitators" rather than simply service vendors. This can be achieved by embedding regulatory advisory into their service packages, guiding firms through the step-by-step processes of registration, social security enrollment or certification. When BDS providers actively reduce the complexity of compliance for SMEs, they turn formalization into an achievable milestone rather than a burden. There could be some fiscal incentives given to BDS providers that are linked to enhanced tax and labour contributions by their member firms.
7. SMEDA may launch a Business Development Services (BDS) programs based on a multi-level subsidy model. Publicly subsidized services should be made available at low or no cost to informal

MSMEs that demonstrate readiness to formalize, while more advanced services should require partial cost-sharing, available only to those already in the formal net. This ensures public resources are targeted toward enabling transitions while rewarding those who sustain compliance.

## ► Making dialogue more inclusive and impactful

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A major obstacle identified by informal firms is the lack of consistent, structured dialogue between policymakers and informal enterprises or formally registered ones (but those that have informality in labour contracts and other productive activities). There is limited data and insight into the specific challenges and motivations facing these businesses, which makes it difficult to design targeted support policies or incentives for formalization. This information gap is compounded by the fact that micro and small enterprises, whether formal or informal, rarely have opportunities to engage with the government or participate in policy consultations that affect their livelihoods directly.

It is broadly recommended that measures to promote formalization not only target informal enterprises but also deliberately strengthen the incentives for enterprises and workers already operating within the formal economy. Too often, formal firms face higher compliance costs without enjoying corresponding advantages, while informal competitors undercut them in value chains. To correct this imbalance, policies should embed clear benefits for formal enterprises such as privileged access to finance, business development services, public procurement opportunities and supply chain contracts, making the costs of compliance visibly worthwhile.

Similarly, workers employed in formal enterprises should see tangible improvements in their working conditions, protections and career prospects compared to those in informal jobs. This means ensuring that social protection benefits are delivered reliably, that grievance mechanisms are functional and that skills development opportunities are linked to formal employment. When formal employment becomes a pathway to security and advancement, the message of “better off inside the formal system” becomes credible to workers and employers alike.

Many of the enterprises, workers and worker bodies, particularly those operating informally, feel excluded from the conversations that shape labour, tax and regulatory reforms. Stakeholders consistently pointed out that informal business owners lack forums or advocacy platforms where their voices can be heard. As a result, they remain disconnected from initiatives that could help them grow or formalize.

It is recommended that the role of traditional workers’ and employers’ organizations be explicitly integrated into the formalization agenda. Trade unions, sectoral associations and chambers of commerce are uniquely positioned to reach informal workers and enterprises through their established networks and credibility. By expanding their outreach mandates, these organizations can act as entry points for connecting informal actors to processes of social dialogue, thereby giving them a voice in shaping the rules and standards that govern their work.

At the same time, these organizations can provide practical support to informal workers and units in their gradual transition toward formality. This includes offering compliance guidance, facilitating registration with statutory bodies, extending access to training and certification programs and negotiating sector-level agreements that cover both formal and informal workers. Strengthening the capacity of unions and employers’ associations to perform this bridging role ensures that formalization is not simply a top-down regulatory exercise but a participatory process built on dialogue, trust and shared responsibility.

By leveraging the institutional strength of representative organizations, formalization can be made more inclusive, sustainable and responsive to the realities of informal workers and enterprises.

Additionally, a structural issue persists in how collective informal activity is treated under current regulations. Groups of self-employed individuals working in the same trade, such as artisans, home-based workers or market vendors, often function as de facto enterprises but are not legally recognized unless registered as partnerships. The legal and institutional ambiguity around their status further isolates them from state support and makes it difficult for them to organize, advocate for their interests or comply with formal requirements even when willing to do so. The following recommendations are being made:

1. A dialogue mechanism is to be established by SMEDA where all potential formal businesses, currently informal businesses but also formal businesses employing workers on an informal basis, are included as part of the formal discussion. The path to their formalization will only follow once they are included in the discussion to formalize. SMEDA may use the Pakistan Digital Dialogue as an aid to expand outreach for those who are digitally connected.
2. SMEDA, along with other entities must initiate a nudging and advocacy activity to depict success stories of formalizations. Case studies may be developed and pathways and returns to formalization shared through various forms of media and direct dissemination events and road shows.

## ► Support to home-based workers

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The home-based workers (HBWs) constitute a significant share of the labour force, particularly in textiles, garments and handicrafts, yet they remain largely invisible in policy and regulatory frameworks. Their work is typically outsourced through layers of contractors, leaving them without direct recognition as employees, excluded from minimum wage protections and outside the scope of labour inspection or social security systems. In recent years, some progress has been made through the passage of the Sindh Home-Based Workers Act (2018) and the Punjab Home-Based Workers Act (2023), which legally recognizes HBWs as workers entitled to rights and protections. However, implementation remains weak, with limited registration, lack of integration into social protection schemes and continued exclusion from collective bargaining processes. To bring HBWs fully under the ambit of ILO Resolution 204, Pakistan must move beyond legal recognition to enforceable implementation, ensuring registration of HBWs at scale, linking them to social security and health services and embedding their representation in workers' organizations and social dialogue processes.

1. Ensure that registration of home-based workers (HBWs) under the Punjab Home-Based Workers Act becomes universal across the country and is actively enforced. All employers, contractors and intermediaries should be legally required to register every HBW with a contract of employment in writing. Punjab's Act already mandates written contracts, registration and maintenance of records. [Punjab Laws](#) However, implementation gaps remain: many workers are still not registered or not aware of their rights. The Law Department and relevant agencies should issue clear regulations, simplify registration procedures (including online) and establish checkpoints for compliance in value chains (textiles, sewing, packaging etc.).
2. The Punjab Act already provides for a home-based workers welfare fund and specifies entitlements (such as sickness, maternity, medical care, employment injury and disablement pension) for "secured" HBWs. These provisions should align with Resolution 204, eligibility to receive these benefits must be contingent on formalization milestones such as valid contract, registration and contributions.
3. Partner with trade unions, HBW associations, chambers of commerce and community organizations to conduct awareness campaigns about the rights under the HBW Acts (Punjab & Sindh), the process of registration and obtaining contracts. Capacity-building programs (e.g. legal literacy, how to document work, safety) should be extended to HBWs so they can demand compliance and understand mechanisms for redress.
4. The law defines "contractor" and "intermediary" and holds them responsible under Punjab HBW Act for wages and contractual obligations but in practice, many HBWs work through layers of intermediaries who evade responsibility. Regulations should enforce traceability (who ultimately hires the work), impose penalties for non-compliance and require transparency in supply-chain contracts. Core production functions and work output delivered via contractors should be monitored; if contractors are formal, so must be the terms of worker contracts.
5. To avoid imposing high procedural costs (a common barrier under Resolution 204), the registration, contract submission and entitlement claim processes should be digitized. A user-friendly portal for HBWs to register, track their status, and claim benefits should be linked to

social security systems (like PESSI/EOBI) and local relevant offices. Mobile-based registration options should be available for remote HBWs.

6. Ensure other provinces adopt similar legislation or customs so that HBWs outside Punjab/Sindh are equally protected. Harmonization of definitions, rights and entitlements will help workers moving between provinces and ensure no exclusion due to provincial fragmentation.

## ► **SME toolkit to support formalization**

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SMEDA will be working with the ILO to develop a comprehensive toolkit designed to support small and medium enterprises (SMEs) that are leaning towards a shift from informality to formality. It is to be structured around three key dimensions of formality: the recognition of the enterprise itself, the formalization of employment relationships and the compliance of day-to-day business activities. Within each dimension, the toolkit should provide practical steps, simplified explanations and illustrative examples to help SMEs understand what needs to be done, why it matters and how it can be achieved. It must integrate case studies and exercises so that SMEs can practice the process rather than just read about it. The toolkit may cover the following aspects

### **Enterprise formality – registering and recognizing your business**

For many SMEs in Pakistan, the first barrier to formalization lies in registering and legally recognizing the enterprise. This step is crucial because a legally recognized business can access loans, government incentives and larger supply chains while building trust with customers, buyers and suppliers. Enterprises that fail to register with bodies such as the SECP, provincial registrars or the FBR remain invisible to most opportunities. Obtaining a National Tax Number (NTN) and where applicable, a Sales Tax Registration Number (STRN) establishes the firm's presence in the official tax and commercial system. Alongside this, opening a business bank account allows for transparent financial transactions and is often a prerequisite for accessing formal credit. To ease this transition, SMEs can make use of simple document checklists, practice using online portals for NTN registration and review case examples such as garment clusters in Faisalabad that successfully formalized to access export buyers. The toolkit must develop simple tools to cover this aspect.

### **Employment formality – protecting and recognizing workers**

Formalization is not only about businesses; it is equally about workers. Employment formality ensures that employees have written contracts, fair wages and access to social protection schemes such as EOBI and provincial social security institutions. For SMEs, this step builds stronger loyalty, reduces disputes and improves productivity. Many enterprises continue to rely on verbal agreements or kinship-based arrangements, but moving to written contracts, available in simple Urdu and English templates, creates legal clarity for both parties. Maintaining a payroll, even in a basic spreadsheet, ensures compliance with minimum wage requirements and enables transparent wage payments through bank accounts. SMEs can gradually practice these processes by filling out sample contracts, testing payroll sheets and connecting with case studies that show how packaging enterprises reduced worker turnover after adopting formal contracts. The toolkit must provide a set of simple steps to help these entities formalize their labour relationships.

### **Activity formality – complying in business operations**

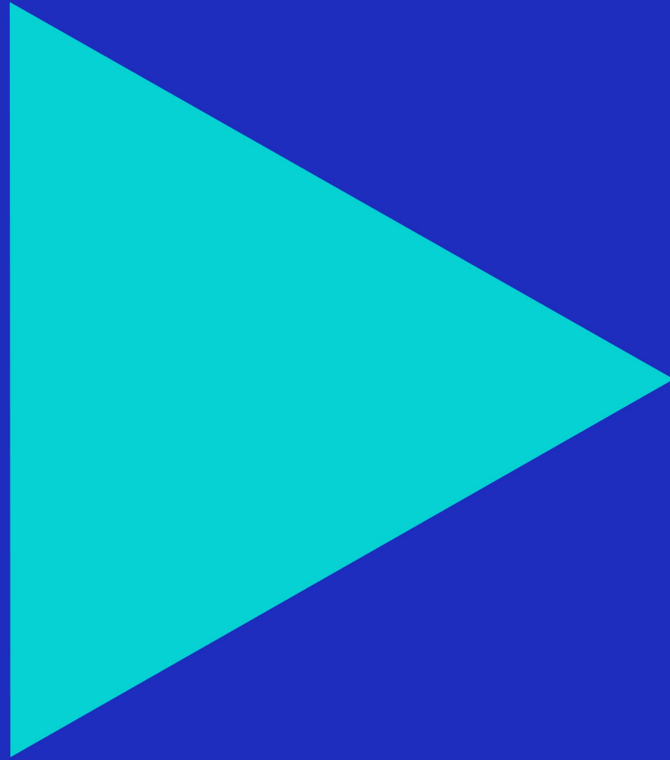
Even when an enterprise is registered and workers have contracts, daily operations must also meet legal and regulatory requirements. Activity formality involves keeping basic financial records, filing annual tax returns and ensuring that licenses and permits specific to the sector are in place. SMEs in food, textiles or construction, for example, require certain approvals to operate legally and access procurement opportunities. Compliance also extends to labour law requirements, such as working hours, safety standards and leave entitlements. For many small enterprises, the challenge lies in record-keeping and reporting. However, with simplified bookkeeping templates, SMEs can record daily transactions with minimal effort and practice preparing sample tax returns. The toolkit should clearly lay out these templates.

### **Cross-cutting support**

Formalization is further strengthened when SMEs can access financial services, markets and social dialogue platforms. Financial inclusion plays a central role: while informal SMEs may access microfinance, formalized enterprises gain entry to more competitive loan products, export financing and insurance. Similarly, formalization improves market access as buyers, exporters, and government contracts increasingly require proof of registration, tax compliance and adherence to labour laws. At the same time, trade unions and employer associations can support SMEs in navigating these processes by providing guidance, training and platforms for dialogue. These organizations play a critical role in connecting workers and enterprises to protections and benefits during the transition toward formality. The toolkit must link all these agents that can support the transition.

### **Linked-institutions and structure**

Finally, SMEs are not alone in this process. Institutions such as SECP, FBR, and SMEDA provide helplines, guidance and online services to assist businesses in formalizing. Sectoral associations, chambers of commerce and employer federations are additional sources of mentorship and peer learning. Digital platforms, including WhatsApp groups and e-learning resources, also provide SMEs with opportunities to ask questions, share experiences and troubleshoot common problems. By combining official support with peer networks, SMEs can navigate the formalization journey step by step, building sustainability and competitiveness along the way. The toolkit must lay out institutional roles clearly.



## 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>

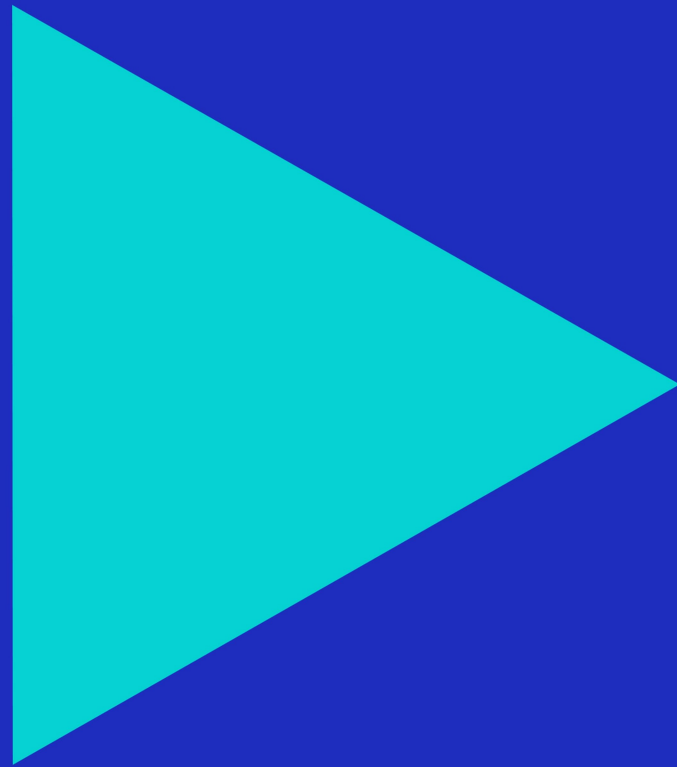
4.4	4.3.2	Digital portal of all registered contractors and their rankings must be established.	<ul style="list-style-type: none"> <li>• Transparency on contractors and their compliance rating will help employers get better deal.</li> </ul>	Portal live	18 months	Provinces via Third parties
	Labour contracts					
	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.

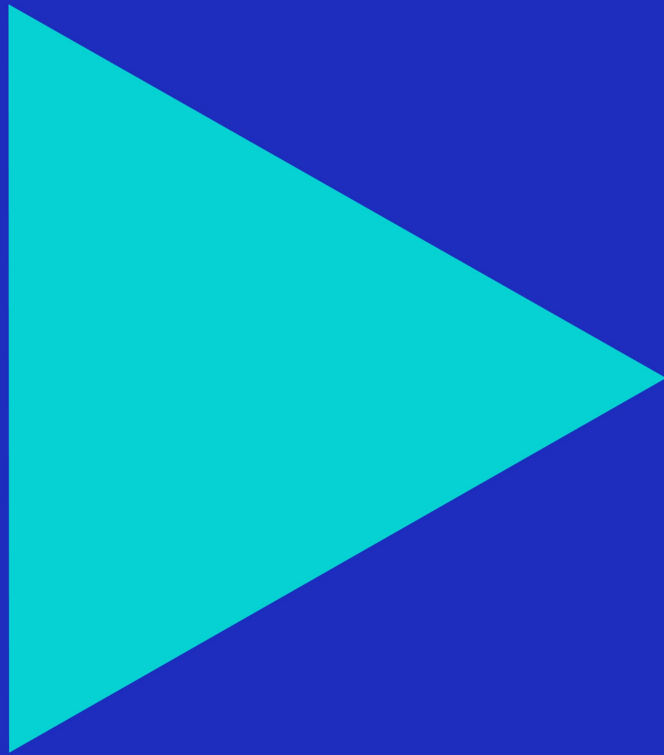
The fourth pillar—Improved compliance with labour regulations—is especially critical in this sector due to the layered use of labour contractors, informal apprentices, daily wagers, and outsourced work from home-based metalworkers and painters. The new Punjab and Sindh Labour Codes (Actions 4.1.1 and 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.

