International Labour Organization

Concept Note

Business Cases Dissemination Session for informal SMEs & Workers

Leveraging market concentration to promote formalization & just transition for SMEs and Supply Chain in the textile and auto sectors.

Background:

Pakistan's economy is characterized by a high rate of informal employment, with 84% of the workforce (including agriculture) operating outside the formal economy. Informality is particularly widespread among Small and Medium Enterprises (SMEs) & Supply Chain, including in export-oriented sectors like textiles and ready-made garments, where informal employment reaches 87%. Additionally, informal employment is prevalent in the manufacturing of auto parts and other sectors, with many SMEs operating as unregistered enterprises. This presents an opportunity to facilitate the formalization of enterprises, which, in turn, can lead to the formalization of workers.

A recent study conducted by the International Labour Organization (ILO) in partnership with Pakistan's Small and Medium Enterprise Development Authority (SMEDA) identified key barriers to SME formalization. These include a lack of clear perceived benefits to formalization and the high costs of compliance, which often outweigh the advantages for SMEs. Furthermore, the uneven enforcement of supervisory systems, which focus primarily on sectors like manufacturing while allowing others, such as trade and agriculture, to operate informally, exacerbates the challenge.

With Pakistan's GSP+ status and the impending EU Due Diligence and EU Green Deal legislation, there is increasing pressure on the country's federal and provincial governments, as well as social partners, to improve labour conditions, formalization and compliance by enterprises throughout the value chains of export-oriented sectors. Additionally, climate change and the associated mitigation efforts in Pakistan's main export markets are set to reshape the products and production processes of SMEs and workers engaged in these value chains. However, these enterprises and workers often operate in an unconducive business environment and lack the skills and capacity to adapt to such transitions.

The transition from the informal to the formal economy, alongside the just transition to environmentally sustainable economies, is a key priority under Pakistan's Decent Work Country Programme (DWCP) and the United Nations Sustainable Development Cooperation Framework (UNSDCF) for 2023-2027. The formalization of enterprises is also a critical focus of the national SME Policy 2021, which emphasizes promoting women's entrepreneurship. These national and international frameworks underscore the importance of integrated approaches to formalization, making this a central objective of this project.

This 24-month enterprise formalization project, implemented by the ILO in partnership with SMEDA and other key stakeholders, aims to develop a national roadmap for enterprise and worker formalization. By leveraging the influence of large enterprises, the project will advance digital tools to formalize their supply chains, particularly SMEs and workers, and reduce the transaction costs of formalization. The project will also offer training to SMEs and HBWs to help them transition toward more sustainable production processes and adjust to evolving market demands brought about by the greening of the textile and auto parts sectors.

SMEDA, under the Ministry of Industries & Production, is committed to advancing SME formalization by simplifying registration processes, expanding the SME Registration Portal, and facilitating access to formalization clinics, trade fairs, and business-to-business platforms. Drawing on documented business cases of enterprises that have successfully transitioned from informal to formal operations, SMEDA will continue to showcase the tangible benefits of formalization such as improved access to finance, integration into supply chains, and enhanced market credibility. At the same time, SMEDA will lead efforts to provide skills development opportunities that enable SMEs and workers to adapt to evolving sectoral demands and strengthen resilience to the impacts of climate change.

Complementing these initiatives, the FPCCI, EFP, Chambers of Commerce, and sectoral trade associations in the textile and automotive industries are indented to collaborate with large enterprises and their suppliers in Lahore and Karachi. By leveraging evidence from business cases that highlight the advantages of formalized suppliers, these partners will help design practical tools and incentives to encourage broader adoption of formalization practices.

The project therefore takes a holistic approach, linking SME and worker formalization with sustainability and just transition goals, while empowering social partners to drive systemic change. Policy development will be advanced at the national level, supported by targeted interventions in the textile and automotive supply chains of Lahore and Karachi.

Objectives of the dissemination session:

The project has recently completed a comprehensive baseline study to identify priority incentives and develop business cases that support the formalization of enterprises and supply chains in Pakistan. This study provides a critical foundation for understanding the motivations and barriers faced by informal enterprises, particularly SMEs and workers, in their transition toward formalization. Drawing on Key Informant Interviews (KIIs) with 40 enterprises in the textile and auto parts sectors, the study consolidates valuable insights into the challenges, constraints, and regulatory hurdles that enterprises encounter.

A key feature of the dissemination session will be the presentation of business cases and success stories that showcase the practical benefits of formalization. Out of the 40 enterprises engaged, 10 were prioritized for detailed documentation of their transition from informal to formal operations. These cases illustrate the incentives, support mechanisms, and market opportunities that facilitated their transition, while highlighting tangible outcomes such as improved access to finance, stronger integration into supply chains, and enhanced recognition in both domestic and export markets.

By sharing these business cases, the session seeks to demonstrate the real value of formalization for enterprises and workers alike, while informing targeted interventions and practical policy measures aligned with enterprise needs and national priorities. The session will also seek to engage enterprises in nominating their informal suppliers for capacity-building support, enabling them to transition toward formalization.

Program Schedule:

The session is scheduled to be conducted on **17 September 2025** at Eiffel Hall, **Ramada Plaza Hotel**, Airport Karachi

Time duration	Agenda item
14:30	Registration of participants
15:00	Opening remarks by ILO Country Office for Pakistan
15:10	Project presentation – SME & worker formalization & just transition by Mr. M. Naeem Ansari, National Project Coordinator ILO
15:20	Background of the project and objectives of baseline study to prioritize incentives and develop business cases for SMEs & workers to formalize by SMEDA
15:30	Presentation – findings from baseline study to define challenges and prioritize incentives for SMEs (outcome of key informant interviews) by Mr. M Awais – Project consultant
16:00	Business Cases & Success stories from textile & auto sector enterprises by Mr. M Awais – Project consultant
17:30	Remarks from the enterprises participated from textile sector
17:45	Remarks from the enterprises participated from auto sector
18:00	Feedback of session and interest of informal enterprises to formalize
18:15	Hi-Tea / refreshments