



SECURITIES AND EXCHANGE  
COMMISSION OF PAKISTAN

# POSITION PAPER



## HOLISTIC FRAMEWORK FOR BUILDING A SUPPORTIVE START-UP ECOSYSTEM IN PAKISTAN

# Contents

<b>Chairman Message</b>	03
1. Pakistan Start-up Success Stories	04
2. Objective	06
3. Problem Statement	06
4. Identifying Start-up	06
5. Start-up Ecosystem and its Importance	06
6. Defining a Start-up	08
7. The Start-up Financing Lifecycle: An Overview	12
8. Financing of start-up in Pakistan	12
9. Facilitation of Start-ups by SECP	14
10. International Case Studies	16
11. Challenges in Pakistan's Start-up Ecosystem & Consultation avenues to bridge the gaps identified	21
12. Way Forward	27

## Chairman Message

I am delighted to introduce this position paper on the start-up ecosystem in Pakistan. As Pakistan continues to advance towards becoming a key player in the global economy, the development of a robust and supportive start-up ecosystem is essential for driving innovation, creating jobs, and fostering sustainable economic growth. The Securities and Exchange Commission of Pakistan (SECP) is fully committed to nurturing this ecosystem by providing a regulatory framework that balances facilitation with prudent oversight.



Our focus is on creating an environment where start-ups can thrive through access to capital, mentorship, and strategic partnerships. We understand that a holistic approach is needed—one that includes collaboration between government entities, financial institutions, private sector stakeholders, and the entrepreneurial community. This includes initiatives to simplify regulatory processes, encourage investment, and promote transparency and accountability within the ecosystem.

The SECP is dedicated to supporting the entrepreneurial spirit of Pakistan by continuously evolving our policies and regulations to meet the needs of start-ups. We believe that with the right support, Pakistan's start-up ecosystem can reach its full potential, driving economic transformation and positioning Pakistan as a hub of innovation in the region.

We look forward to working closely with all stakeholders to build a vibrant start-up ecosystem that can propel our nation towards greater prosperity.

## 1. Pakistan Start-up Success Stories

### 1. Daraz.pk (2012)

It is an online retailer selling branded clothing, footwear, apparel, jewellery, and accessories. It is one of Pakistan's largest e-commerce platforms, offering a wide range of products for men and women. Daraz was acquired by Alibaba Group in 2018, further solidifying its presence in the e-commerce sector. The estimated value of Daraz.pk is around USD 169 million. Daraz has 3 institutional investors including British International Investment, Tengemann Ventures and The Asia Pacific Internet Group.

### 2. Bykea (2016)

It is a ride-hailing and courier service app based in Karachi. It provides instant transport and courier services, saving clients time and money. Bykea has expanded rapidly, becoming a significant player in Pakistan's ride-sharing and logistics market. The company's investors include Prosus Ventures, MEVP, Sarmayacar, Tharros, and Ithaca Capital. With 1.7 million active monthly users and more than 60,000 driver partners. The estimated value of Bykea Pakistan is around USD 40-60 million.

### 3. SadaPay (2018)

It is a neobank offering digital banking solutions without physical branches. Based in Islamabad, SadaPay provides secure, quick, and reliable banking alternatives, including simplified payment procedures for global money transfers. SadaPay is being acquired by Turkish fintech unicorn Papara in a deal that could be valued at around \$50 million, which reflects a significant valuation and interest from international investors in the company's potential. SadaPay has 3 institutional investors including Recharge Capital, Raptor Group and Kingsway Capital.

### 4. Tajir (2018)

Tajir is a B2B e-commerce marketplace catering to local mom-and-pop stores in Pakistan. It simplifies the inventory procurement process, providing an array of FMCG products through an Urdu-only app-based platform. 2xN, AAVCF, AAVCF3, Dylan Field, and Emler Venture Partners are 5 of 24 investors who have invested in Tajir.

### 5. Zameen (2006)

Zameen.pk is Pakistan's largest and most trusted property portal. It connects buyers and sellers of real estate, featuring a vast database of properties for sale, purchase, and rent. The platform has revolutionized the real estate industry with its user-friendly interface and advanced search filters. Investors of Zameen.com include Frontier Digital Ventures, Vostok New Ventures and Dubizzle Group.

### **6. Abhi (2021)**

Abhi, an embedded finance platform launched in 2021, empowers SMEs, the underbanked, and the employed sector in Pakistan. As a licensed NBFC, Abhi is backed by global fintech venture funds, including YCombinator, VEF, Global Ventures, and SpeedInvest, raising approximately USD 22 million in equity with a valuation of USD 90 million. Abhi is offering solutions like Earned Wage Access (EWA), Payroll Processing, Payroll Financing, and SME Financing, its flagship EWA product allows employees to instantly withdraw earned salaries via its app, SMS, or salary card.

### **7. PostEx (2020)**

PostEx, launched in 2020, is a rapidly growing logistics and fintech platform in Pakistan that addresses cash flow challenges for e-commerce businesses. It integrates last-mile delivery with upfront cash services, offering cash-on-delivery (COD) with instant payments to enhance liquidity and support faster business growth. Backed by global venture capital firms like MSA Capital and Shorooq Partners, PostEx has raised over USD 15 million in equity funding.

## 2. Objective

To develop a comprehensive strategy to revitalize Pakistan's start-up ecosystem by addressing critical challenges, fostering a conducive regulatory environment, and enhancing access to funding, thereby accelerating innovation, job creation, and economic growth. This position paper intends to give a broad insight into the start-up ecosystem, compare it with the international success stories and recommend foundational measures to build a thriving start-up culture.

## 3. Problem Statement

Pakistan's start-up ecosystem is hindered by a significant funding gap, limited government support, and a complex regulatory environment. So far Pakistan has been unable to tap into the start-up funding available internationally and reap benefits in terms of robust start-up ecosystem, job creation and consequent fast paced economic development.

This problem is compounded by a nascent local venture capital ecosystem, insufficient digital infrastructure in certain regions, and challenges in talent retention. Consequently, the country is unable to fully leverage its entrepreneurial talent and capitalize on the potential of the digital economy.

## 4. Identifying Start-up

A start-up is a newly established technology driven business seeking to solve a problem or meet a market need through innovative products or services. Characterized by rapid growth and scalability, start-ups often disrupt traditional industries and drive economic development.

They are typically founded by tech savy entrepreneurial individuals or teams with a vision to transform their ideas into successful ventures. In terms of transformation in its broadest sense, the start-up sector presents an opportunity that is unrivalled and unprecedented in scale and breadth.

Whereas, an entrepreneur is an individual who starts and runs a business, taking on financial risks to pursue opportunities, which can range from small local businesses to larger enterprises. While all start-ups are created by entrepreneurs, not all entrepreneurial ventures are start-ups, as start-ups are distinguished by their focus on innovation and high growth potential.

## 5. Start-up Ecosystem and its Importance

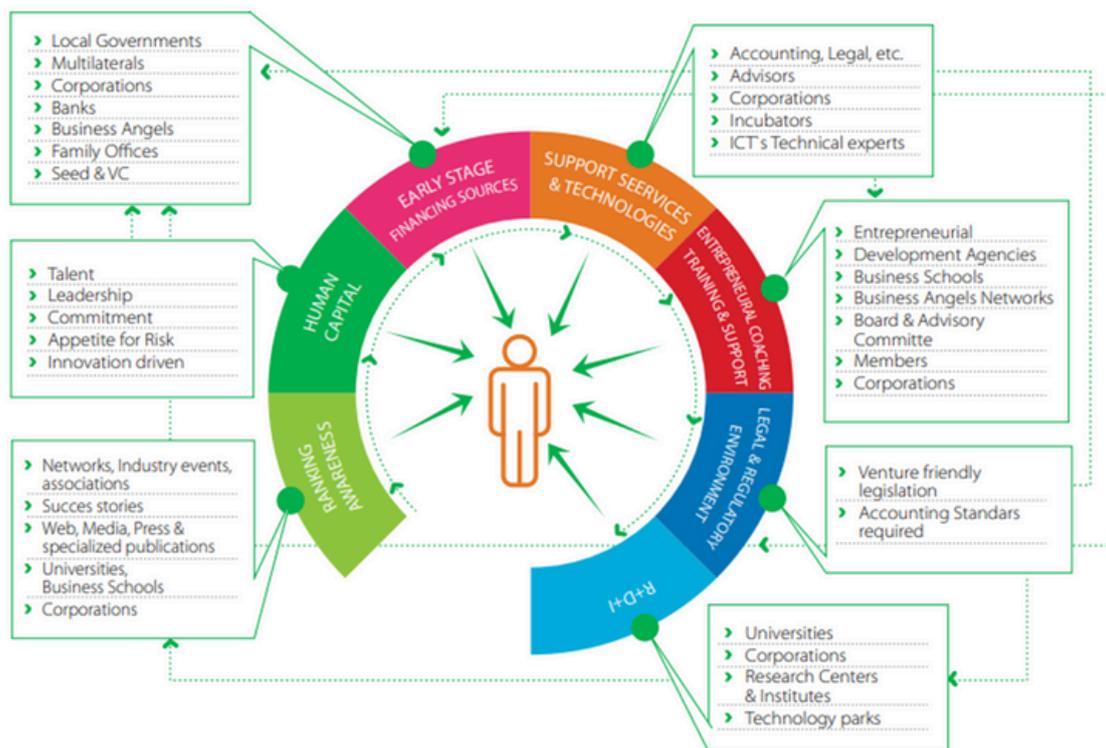
The start-up ecosystem comprises a network of interconnected elements, including entrepreneurs, investors, incubators, accelerators, research institutions, and supportive government policies. Access to funding, mentorship, and infrastructure enables start-ups to

experiment with and refine innovative ideas, leading to the creation of new products and services that can disrupt traditional markets and spur growth. This influx of new ventures boosts economic activity and stimulates demand in related industries such as logistics, marketing, and professional services. A thriving start-up ecosystem:

- **Inspires Innovation:** Development of new products, services, and business models.
- **Creates Jobs:** Opportunities directly through start-ups and indirectly in related industries.
- **Attracts Investment:** Draws domestic and foreign investment.
- **Fosters Entrepreneurship:** Cultivates a culture of entrepreneurship and risk-taking.
- **Enhances Global Competitiveness:** Positions a country as a hub for innovation and technology.
- **Improves Quality of Life:** Contributes to solving societal challenges through innovative solutions.

Figure 1 give a comprehensive picture the ecosystem.

Figure 1



The figure presents an overview of the start-up ecosystem, highlighting key elements that support entrepreneurial growth. It shows how human capital, including talent and leadership, is essential for driving innovation. Early-stage financing sources like banks, venture capital, and angel investors provide the financial backbone for start-ups. Support services such as legal, accounting, and technology infrastructure are vital for operations, while entrepreneurial coaching, training, and development agencies offer guidance. A supportive legal and regulatory environment with venture-friendly legislation is crucial, as are research institutions that contribute to R&D. Lastly, branding and awareness through networks, media, and educational institutions help raise the profile of start-ups in the ecosystem.

Pakistan's start-up ecosystem is a complex interplay of government agencies, private sector entities, and academic institutions. Several key players contribute to its development and support. These organizations offer a range of services, from funding and incubation to capacity building and policy advocacy.

- **Ministry of Information Technology and Telecommunication (MOITT):** Oversees the IT sector, provides policy direction, and supports initiatives like Ignite.
- **Ignite:** Offers grants, incubation programs, and digital skills training.
- **Special Technology Zones Authority (STZA):** Establishes special economic zones with incentives for technology companies.
- **Pakistan Software Export Board (PSEB):** Promotes the IT sector and supports start-ups through capacity building and market access.
- **Securities and Exchange Commission of Pakistan (SECP):** Provides the legal framework for start-ups and facilitates fundraising.
- **State Bank of Pakistan (SBP):** Provides monetary policies and regulations directly impact foreign direct investment & repatriation thereof.
- **Federal Board of Revenue (FBR):** Administers tax laws and offers incentives for start-ups.
- **National Database and Registration Authority (NADRA):** Provide secure and efficient digital identity verification services, enabling streamlined onboarding processes for businesses and customers.
- **Pakistan Telecommunication Authority (PTA):** Facilitates start-ups by ensuring access to reliable digital infrastructure and telecommunications services, essential for business operations and growth.

The private sector also plays a vital role in supporting start-ups in the form of:

- **Venture Capital and Private Equity Firms:** Provide funding and mentorship to high-growth start-ups.
- **Incubators and Accelerators:** Offer workspace, mentorship, and resources to early-stage start-ups.
- **Coworking Spaces:** Provide flexible workspaces and networking opportunities.
- **Angels:** Individual investors who provide seed funding.

Academic Institutions such as universities and research institutions contribute to the ecosystem by:

- Offering tech and entrepreneurship education and programs.
- Conducting research and development.
- Incubating student-led start-ups.

## 6. Defining a Start-up

A clear and consistent definition of a start-up is crucial for policy formation, investment funding, ecosystem development and legal certainty. Since, ecosystem is impacted by a wide range of policy, administrative and regulatory frameworks, each one of them has a separate start-up definition. The table below gives a snapshot of the start-up definitions under the various regulatory frameworks in Pakistan.

Table 1:

Similarities	Age	Turnover	Innovation & Technology Focus
SECP	Not more than ten years from the date of incorporation	Not greater than 500 million PKR in any of the financial year since incorporation	Working towards innovation, development, or improvement of products, processes, or services; scalable business model
SBP	Up to 5 years old	Small Enterprise (SE) up to 150 million PKR	Technology-driven products or services; registered and certified by the Pakistan Software Export Board (PSEB)
FBR	Commenced on or after July 1, 2012	Turnover of less than 100 million PKR in each of the last five tax years	Integrally associated with technology
SMEDA	Up to 5 years old	Small Enterprise (SE) up to 150 million PKR; Medium Enterprise (ME) above 150 million PKR to 800 million PKR	Not explicitly stated but implied through the classification of small and medium enterprises (SEs and MEs)
STZA	Newly incorporated	-	Associate with technology

The definitions vary primarily in terms of the age of the start-up, turnover limits, and focus areas such as technology and innovation. The SECP provides a broad definition encompassing innovation and scalability and other socioeconomic factors i.e. potential of employment generation or wealth creation, while the SBP and SMEDA emphasize the age and size of enterprises. The SBP focuses on technology-driven businesses with specific turnover limits and certification requirements from PSEB, and the STZA emphasizes technology association in new ventures.

While there's no universally accepted definition, the core characteristics of a start-up are consistent globally:

- **Early-stage company:** Typically, less than ten years old.
- **Innovative business model:** Offering a new product, service, or technology.
- **High growth potential:** Aiming for rapid expansion and scalability.
- **Socioeconomic factors:** employment generation or wealth creation.
- **Venture capital backing:** Often seeking investment from venture capital firms.

These characteristics given above are reflected in the start-up definition adopted in India, Singapore, Malaysia and United Kingdom:

**a) India**

An entity shall be considered as a Start-up, upto a period of ten years from the date of incorporation/registration, if

1. it is incorporated as a private limited company (as defined in the Companies Act, 2013) or registered as a partnership firm (registered under section 59 of the Partnership Act, 1932) or a limited liability partnership (under the Limited Liability Partnership Act, 2008) in India.
2. turnover of the entity for any of the financial years since incorporation/ registration has not exceeded one hundred crore rupees.
3. entity is working towards innovation, development or improvement of products or processes or services, or if it is a scalable business model with a high potential of employment generation or wealth creation.

Provided that an entity formed by splitting up or reconstruction of an existing business shall not be considered a 'Start-up'.

**Explanation-** An entity shall cease to be a Start-up on completion of ten years from the date of its incorporation/ registration or if its turnover for any previous years exceeds one hundred crore rupees.

**b) Singapore**

The Start-up SG program in Singapore defines a start-up based on several key criteria. To qualify as a start-up under this program, a business must meet the following conditions:

1. **Registration and Operation:** The business must be registered and operating in Singapore.
2. **Operational Duration:** It should have been in operation for less than five years.
3. **Activity Type:** The business must engage in technology or innovation-related activities.

**c) Malaysia**

SMEs Corp (formerly known as Small and Medium Industries Development Corporation) was under government direction to create, and facilitate the increase of, start-ups and SMEs in Malaysia. To qualify as start-up SME, a business must meet following conditions:

1. **Registration and Operation:** All SMEs must be entities registered with The Companies Commission of Malaysia (SSM) or other equivalent bodies excluding public companies listed on main board and subsidiaries of public listed companies on main board, MNC's, Government linked companies and SOEs.
2. **For manufacturing Sector:** SMEs are defined as firms with sales turnover not exceeding RM50 million OR number of full-time employees not exceeding 200.
3. **For Services Sector:** SMEs are defined as firms with sales turnover not exceeding RM20 million OR number of full-time employees not exceeding 75.

**d) United Kingdom**

In United Kingdom, there is no specific definition of start-up. Council for Science and Technology provides following definition for start-up.

A young company, typically operating for two years or less, which is independent and operates privately. These companies are usually founded by one or more entrepreneurs who want to develop a product or service for which they believe there is demand. They generally start with high costs and limited revenue, which is why they look for capital from a variety of sources such as venture capitalists.

Start-up subgroups include:

**bootstrapped** – a start-up using their own funds, debt, and revenue to grow and scale.

**venture-backed** – a start-up using formal equity-based funding and classical staged financing to grow and scale.

**Comparison of Start-up definition of various jurisdictions:**

Table 2 below provides a snapshot of the start-up definitions under the various regulatory frameworks in the world including Pakistan, India, Singapore and Australia.

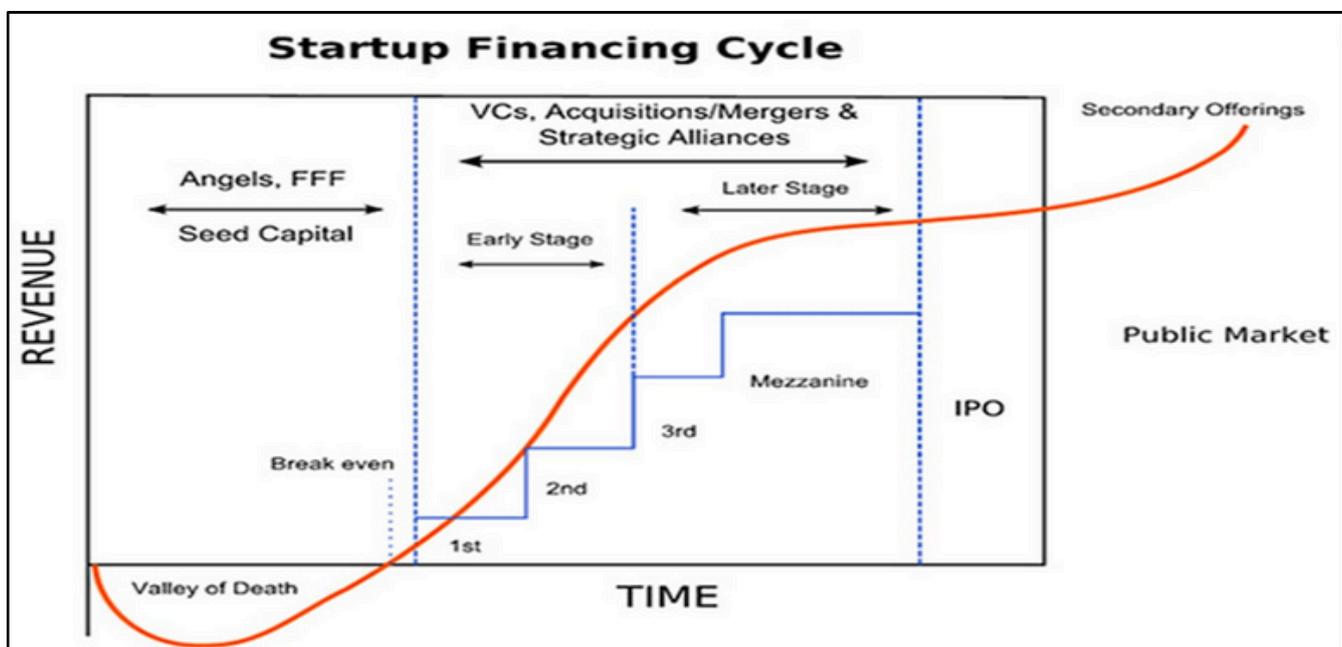
**Table 2:**

Similarities	Pakistan	India	Singapore	Malaysia	UK
<b>Age</b>	Not more than ten years from the date of incorporation	Not more than ten years from the date of incorporation	Limited to 5 years.	Indirectly ties the definition of start-ups to SMEs, without a specific time frame, but the focus is on new and growing companies	Operating for two years or less as start-ups.
<b>Turnover</b>	Not greater than 500 million PKR in any of the financial year since incorporation	Should not exceed 100 crore rupees	No such requirement	RM50 million for manufacturing and RM20 million for services	No such requirement
<b>Innovation and Technology Focus</b>	Working towards innovation, development, or improvement of products, processes, or services; scalable business model	Working towards innovation, development, or improvement of products, processes, or services; scalable business model	Must be engaged in technology or innovation-related activities	An innovative, resilient and globally-competitive SMEs	Start-ups are founded to develop a product or service with perceived demand, often requiring capital for growth

It's important to note that the start-up landscape is dynamic, and the definition can vary across different countries and regions. The overall goal is to capture the essence of early-stage, innovative businesses with high growth potential. However, in case of Pakistan the varied definition of start-up is the impedes the progress towards the desired outcome.

## 7. The Start-up Financing Lifecycle: An Overview

The start-up financing lifecycle is a dynamic journey from initial idea to market leadership. Navigating it successfully is crucial for start-ups to achieve long-term success and to establish themselves as significant players in their respective industries. Presence of a robust start-up financing cycle is one of the biggest factors for development of thriving start-up ecosystem. Diagram 1 below various stages of the financing life cycle and also maps the growth of the start-up over time in terms of revenue.



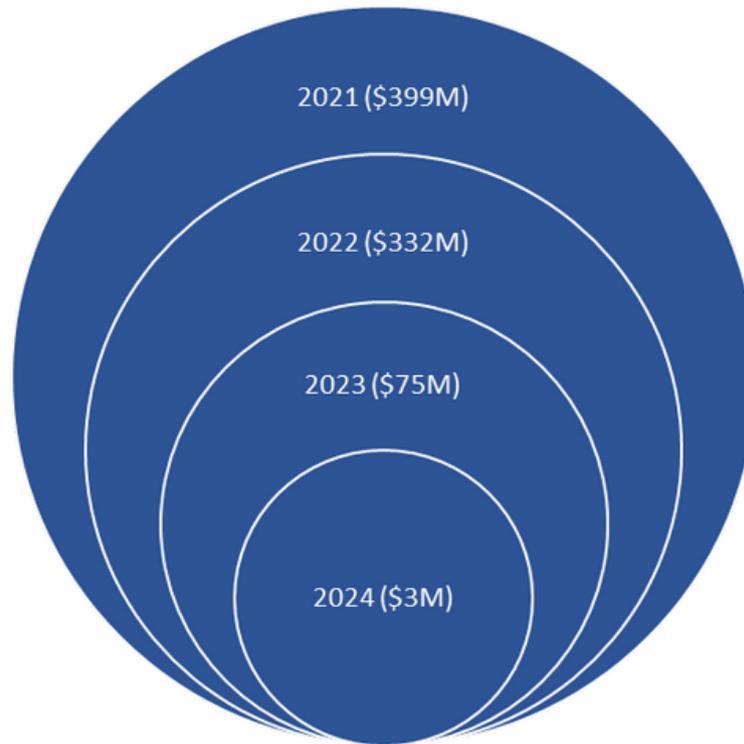
## 8. Financing of start-up in Pakistan

The SECP's diagnostic review report on the PE & VC sector, published in May 2022, highlighted start-up financing of USD 83.5 million in 2020 and USD 399 million in 2021. The funding momentum was maintained to a large extent in 2022 and investment of USD 332.4 Million was made in start-ups through 42 disclosed deals. These deals comprise of 12 pre-seed, 18 seed, 10 series A and 2 series B deals[1].

However, the start-up funding in Pakistan experienced a sharp decline in 2023. Pakistani start-ups raised USD 75 million from venture capital through 29 disclosed deals[2]. These deals comprised 4 pre-seed, 23 seed-level and 2 series A funding rounds. This represented a substantial 77% drop in funding from the year 2022, with a 31% decrease in the number of deals. The figure below illustrates the trend in start-up funding over the years:

[1] <https://techshaw.com/list-pakistani-startups-funding-2022/>

[2] <https://techshaw.com/list-pakistani-startups-funding-2023/>



Despite the overall decline, 2023 ended on a high note, with a remarkable resurgence in the fourth quarter. After a sluggish start, investments surged by 553% in Q4 compared to Q3, as reported by Data Darbar. Local start-ups secured USD 38.6 million in the last three months of the year, accounting for approximately half of the total annual funding. Key deals in Q4 included KraveMart, Edufi, Sehat Kahani, and Blink, which collectively raised over USD 18 million. However, even with this late boost, the overall funding for 2023 was still significantly lower than in previous years.

The year 2023 was also the best year for women-founded start-ups, attracting \$10.5 million in funding. This increased their percentage of total investment to 13.9%, significantly higher than the average of 1.34% from 2019 to 2022.

This funding influx contributed to a broader positive trend as Pakistani cities climbed the global start-up rankings. Karachi and Lahore notably jumped into the world's top 250 start-up hubs.

However, the momentum faltered in 2024. The first half of the year saw a dramatic downturn in funding, with start-ups raising a mere \$3 million. This sharp decline underscores the challenging investment climate facing the sector.

In addition to international funding start-ups can tap financing from local sources in both the public and private sector. The local VC/PE landscape is nascent, with few active funds. Lakson Venture Capital Fund stands out as a notable exception, having invested in start-ups like Bookme Ticket, Mandi Express, Knowledge Platform, and Bagallery. With regards to funding from banking sector, start-ups often struggle to secure bank loans due to the requirement for collateral, which they typically lack.

Avenues like invoice discounting are limited and offered by a few financial institutions. Peer-to-Peer (P2P) Lending is also emerging as an option, but still in its early stages.

In the public sector the government has introduced several funding programs, however, the actual disbursement under them is not mapped and data thereof is not available.

- **Pakistan Start-up Fund:** A grant-based initiative aimed at attracting global and local VC investment.
- **Prime Minister's Freelancers and Venture Capital Initiative:** Allocated Rs. 5 billion for the IT sector, including Rs. 2 billion for venture capital.
- **Prime Minister National Innovation Award (PMNIA):** Provides funding and support to young innovators.
- **Higher Education Commission (HEC) Innovator Seed Fund (ISF):** Offers grants to university-based start-ups.

However, start-ups often encounter challenges when it comes to securing financing. These include the difficulty of obtaining funding, especially for new ventures, reluctance of investors to take risks on start-ups, as they prefer to invest in established companies, and the complex regulatory environment for raising funds. Overcoming these challenges will require a coordinated effort to rejuvenate the venture capital ecosystem, improve access to bank financing, and create financial products tailored specifically for start-ups.

## 9. Facilitation of Start-ups by SECP

The SECP has undertaken significant regulatory reforms, technological advancements, and collaborative efforts to create an enabling environment for start-ups. These initiatives aim to promote innovation, ease of doing business, and improve the overall business climate in Pakistan.

### A. Regulatory Facilitations:

#### 1. Amendments to the Companies Act 2017

The federal government, through the Ministry of Finance, presented the Companies (Amendments) Bill, 2020, which was approved by the National Assembly. The SECP incorporated numerous amendments aimed at promoting start-ups, improving the business climate, and easing business operations.

#### 2. Start-up Definition:

Section 2(1)(67A) was introduced to define a start-up as a company less than 10 years old, with an annual turnover not exceeding PKR 500 million, focusing on innovation, development, or improvement of products, processes, or services, and having high potential for employment generation and wealth creation.

### **3. Introduction of Section 458A in Companies Act 2017**

Section 458A was introduced to enhance the regulatory framework for start-ups and improve the ease of doing business. This section allows the SECP to implement measures that formalize existing practices, promote financial technology, and facilitate market entry and exit for start-ups. It supports innovation through regulatory sandboxes, crowdfunding, digital assets, and smart contracts, and encourages the adoption of technology for compliance and risk assessment.

### **4. Issuance of Shares:**

- In terms of Sections 83 and 83A, Private companies can issue shares other than right
- Employee Stock Options: Allowing private companies to issue stock options to employees in addition to public companies.
- Shares Buyback: Permitting private companies to buy back shares.

### **5. Financial Reporting:**

Requirement for private companies with paid-up capital up to Rs. 1 million for filing unaudited financial statements removed by omitting section 234 of the Companies Act, 2017 vide Companies Amendment Act, 2021 dated 1st December, 2021.

### **6. Ease of Doing Business:**

- Abolished requirement for a common seal.
- Enabled EOGMs on shorter notices without SECP approval.

### **7. Additional Reforms**

- Flexibility in filing of annual returns for SMCs and companies having paid up capital up to 3 Million Rupees.
- Enabled cost and management accountants to be appointed as auditors for private companies with paid-up capital up to Rs. 3 million instead of appointing Chartered Accountants.

### **8. Promulgation of Companies Regulations, 2024**

SECP consolidated ten separate regulations into a single document, simplifying compliance for companies:

- Digital Integration: Incorporating new forms into the eZfile system for seamless digital compliance.

## **B. Technological Perspectives**

Launch of LEAP Program and eZfile; Leading Efficiency through Automation Prowess (LEAP) program represents SECP's digital transformation initiative:

### **1. eZfile Registry:**

- Transitioned from 'e-Services' to 'eZfile' on February 15, 2024.
- Features: Enhanced user interface, complete digitalization of incorporation and post-incorporation processes, auto-alerts for compliance, and a 360-degree view of companies.

- Phases: LLP registry launched in June 2023, company formation and selective post-incorporation processes launched in February 2024, with future phases covering mortgage/charges, foreign companies, adjudication, supervision, and enforcement processes.

**2. E-enablement Measures**

- Online Services: eZfile for incorporation, filing returns, and paying fees.
- Integration with Other Government Agencies: Integrating business registration with the Federal Board of Revenue (FBR) and the Employees’ Old-Age Benefits Institution (EOBI), PESSI/SESSI etc.
- Help Desk and Support: Establishing a helpline and service desk for users of eServices/eZfile.

**3. Launch of Regulatory Sandbox:**

The SECP has successfully launched four cohorts under its Regulatory Sandbox (RSB) scheme since 2020. The RSB from August 2023 onwards is converted to always open status. Table 3 below provides a snapshot of RSB cohorts over the years. For further details, scan QR code to view RSB journey report 2024.



**Table 3:**

Cohort	No. of Applications Received	Accepted Applications	Acceptance Ratio
Cohort - I	33	6	18%
Cohort - II	38	6	16%
Cohort - III	28	8	29%
Cohort - IV	26	9	33%

**4. Coordination with Incubation Centers and Universities:**

SECP collaborates with various incubation centers, universities, and other stakeholders to support start-ups.

**10. International Case Studies**

**United Kingdom**

**A. Streamlined regulatory requirements and tax incentives for start-ups**

- **Tax Incentives for Start-ups:** Provide significant tax relief to investors purchasing shares in start-ups, encouraging early-stage investment. The EIS offers up to 30% tax relief, while SEIS offers up to 50% tax relief. These schemes are instrumental in fostering investment in start-ups. ([GOV.UK Swoop UK](https://www.gov.uk/swoop-uk)).

- **Streamlined Company Registration:** The UK has simplified the company registration process, allowing businesses to be set up within 24 hours through online portals like Companies House. This reduces the administrative burden on new start-ups. ([GOV.UK](#)).
- **Government Portals:** Platforms such as [GOV.UK](#) provide comprehensive guidance and support for new businesses, reducing bureaucratic hurdles and offering resources for entrepreneurs. ([GOV.UK](#)).

### B. Avenues for Start-up Financing

- **Government Grants and Loans:** Various programs provide funding opportunities, including Innovate UK, which funds research and development projects. The British Business Bank supports start-ups through programs like Start Up Loans, offering affordable loans and mentoring to new businesses. ([GOV.UK](#)).

### C. Strategic Policies to Form a start-up Hub

- **Knowledge Transfer Partnerships (KTP):** Connect businesses with academic institutions to drive innovation and knowledge exchange ([KTP](#)).
- **Incubators and Accelerators:** Programs like [Tech Nation](#) and [Seedcamp](#) provide mentorship, workspace, and networking opportunities to start-ups, facilitating their growth and development.

## Malaysia

### A. Streamlined regulatory requirements and tax incentives for start-ups

- **Malaysia Tech Entrepreneur Programme (MTEP):** Attracts tech entrepreneurs by offering one-year visas for new entrepreneurs and five-year visas for established ones, facilitating easier entry and operation in Malaysia ([MDEC](#)).
- **Global Acceleration and Innovation Network (GAIN):** Supports high-growth companies by providing market access, funding, and mentorship through the Malaysia Digital Economy Corporation ([MDEC](#)). This initiative aims to elevate Malaysian start-ups to a global level.
- **Malaysia Digital Economy Corporation Sdn. Bhd. (MDEC):** MDEC with government support, has issued various policies for helping overseas startups establish their businesses in Malaysia. The policies include fast-tracking and special visas for start-ups, tax exemptions and allowances, and a facilitated process of registrations.

### B. Avenues for Start-up Financing

- **Cradle Fund:** Offers pre-seed and seed funding to early-stage start-ups, providing crucial financial support at the initial stages. ([Cradle](#)).
- **Malaysian Venture Capital Management Berhad (MAVCAP):** Provides venture capital funding to high-potential start-ups, fostering growth and innovation. ([MAVCAP](#)).

### C. Strategic Policies to Form a start-up Hub

- **Malaysia Research Accelerator for Technology and Innovation (MRANTI):** Bridges the gap between research and commercialization, fostering innovation.
- **Incubators and Accelerators:** Programs like the Malaysian Global Innovation & Creativity Centre (MaGIC) offer comprehensive support, including funding, mentorship, and market access ([MaGIC](#)).

## Singapore

### A. Streamlined regulatory requirements

- **Start-up SG Initiative:** Consolidates support schemes under a single umbrella, providing funding, mentorship, and market access. This initiative aims to streamline support for start-ups and enhance their growth prospects. ([Start-up SG](#)).
- **Accounting and Corporate Regulatory Authority (ACRA):** Offers simplified online services for company registration, significantly reducing the time and effort needed to start a business. ([ACRA](#)).

### B. Avenues for Start-up Financing

Start-up SG Equity Scheme: Co-invests with private sector investors in start-ups, enhancing their growth potential. ([Enterprise NUS](#)).

### C. Strategic Policies to Form a start-up Hub

- **National Research Foundation (NRF):** Funds collaborative research projects, promoting industry academia partnerships.
- **Incubators and Accelerators:** Ecosystem includes Block71 and JTC Launchpad, providing start-ups with resources, mentorship, and networking opportunities, crucial for their growth and development ([ICE71](#)).

## India

India's start-up scene has emerged as a global powerhouse, ranking third behind China and the US. Here are some key highlights:

- **Unicorn Boom:** Since 2015, 108 Indian start-ups have achieved unicorn status, reaching a valuation of over \$1 billion. Over \$98.82 billion has been invested in Indian unicorns since 1996, showcasing investor confidence in the market.
- **Top Global Cities:** Three Indian cities, Bengaluru, New Delhi, and Mumbai, hold prestigious positions within the top 20 start-up ecosystems worldwide.
- **Start-up India:** This flagship initiative provides crucial financial assistance and tackles challenges faced by early-stage start-ups. It offers support across various stages, from proof-of-concept to market entry.

- **Tax Incentives:** Registering with the Department for Promotion of Industry and Internal Trade (DPIIT) opens doors to potential tax breaks and exemptions, further encouraging formalization and participation in government schemes.
- **National Initiative for Developing and Harnessing Innovations (NIDHI):** Launched by the National Science and Technology Entrepreneurship Development Board (NSTEDB), this program has established over 170 Technology Business Incubators (TBIs) since 2016. Each TBI provides grants to fund promising innovators.
- **Incubation & Acceleration:** Institutions like Indian Institutes of Technology and major universities house incubation centers and accelerators, fostering entrepreneurship within educational ecosystems.
- **16 Ministerial Schemes:** Various government ministries actively support tech start-ups across diverse sectors. Initiatives launched by the Ministry of Commerce & Industry and the Department of Science & Technology exemplify this commitment, offering financial, technical, infrastructural, and regulatory support.
- **Centralized Information:** The Start-up India website acts as a one-stop shop, listing all promotional initiatives, along with eligibility and registration criteria.
- **Domain-Specific Support:** Programs like the Atal Innovation Mission (AIM) cater to specific domains like health tech, fintech, and EdTech.

### A. Streamlined Regulatory Requirements

Overall, India's start-up ecosystem thrives due to a combination of impressive private sector growth, proactive government support, and a focus on fostering innovation across all levels. DPIIT registration for start-ups provides streamlined compliance with 9 environmental and labor laws, facilitates swift dissolution under the Insolvency & Bankruptcy Code, and offers exemptions such as tax benefits, tender deposit waivers, and three years of income tax relief. Recognized start-ups under DPIIT can bypass minimum requirements, turnover or other experience for government tenders as well.

### B. Avenues for Start-up Financing in India [3]

Start-up India, the flagship initiative, provides and facilitates funding to start-ups through following means as tabulated below:

---

[3] <https://www.startupindia.gov.in/content/sih/en/funding.html>

Table 4:

Institution	Scheme	Amount INR	No. of start-ups benefited	Objective
Small Industrial Development Bank of India (SIDBI)	SIDBI Fund of Funds Scheme	17,452 CR	939	Fund of Funds through Alternate Investment Funds (AIFs) for Start-ups to increase capital availability as well as to catalyze private investments and thereby accelerate the growth of the Indian start-up ecosystem
DPIIT	Start-up India Seed Fund Scheme	945 CR	Estimated 3,600 entrepreneurs through 300 incubators in the next 4 years	Aims to provide financial assistance to start-ups for proof of concept, prototype development, product trials, market-entry, and commercialization
DPIIT	Credit Guarantee Scheme for Start-ups	132.13 CR	46	Aimed at providing credit guarantee up to a specified limit against loans extended by Member Institutions to finance eligible start-ups

**C. Strategic Policies to Form a start-up Hub:** Bangalore's transformation into India's Silicon Valley offers valuable insights into creating a thriving start-up ecosystem. Key factors contributing to its success include:

- **Liberalization of IT Sector:** The relaxation of import and export regulations in 1984 paved the way for the IT industry's growth.
- **Infrastructure Development:** The creation of Electronic City provided the necessary physical infrastructure to support IT companies.
- **Talent Focus:** Leveraging the existing pool of skilled programmers and engineers. A strong foundation of engineering and technology institutions contributed to the talent pool.
- **Global Connectivity:** Bangalore's position as a global tech hub facilitated interactions between local and international entrepreneurs and investors.
- **Entrepreneurial Culture:** The city fostered a culture of risk-taking and innovation.

**D. Tax Incentives specifically for Start-ups.**

**Tax Holiday for Start-ups:**

- Applies to start-ups registered between April 1, 2016, and March 31, 2022.
- Allows 100% tax exemption on profit for 3 years within a 7 years block.
- Turnover limit: Not exceeding 25 crores annually.

**Exemption on Long-term Capital Gains:**

- Eligible start-ups can claim exemption from long-term capital gains tax under section 54EE.
- Investment in specified fund within 6 months from transfer date.
- Restricted to 50 lakhs.
- Investment must be held in the fund for 3 years.

**Exemption on Investments Above FMV:**

- Tax exemption for investments above fair market value (FMV) for start-ups.
- Includes investments by angel investors, incubators, and non-VC funds/individuals.
- Beneficial for increasing operational funds.

**Tax Exemption Under Section 54GB:**

- Provides exemption from long-term capital gains tax for individuals/HUFs.
- Investment in SMEs or purchasing 50%+ shares of eligible start-ups.
- Shares must not be sold for 5 years from acquisition.
- Invested amount must be used for purchasing assets and not sold/transferred for 5 years.

**Set-off of Carry Forward Losses:**

- Allows companies to carry forward losses under section 79 of the Income Tax Act.

**Conditions:**

- Shareholders with voting power on 31st March and loss incurred across 7 years from incorporation.

## 11. Challenges in Pakistan's Start-up Ecosystem & Consultation avenues to bridge the gaps identified

There is no single solution to building a successful start-up ecosystem in a country. Our research shows that each country's approach is shaped by its specific needs, resources, and existing structure. An infrastructure based on the following pillars, aligned with Pakistan's strengths and opportunities, is likely to produce effective results:

- **Efficient data management:** Streamlining the collection and analysis of start-up information.
- **Targeted support:** Identifying specific needs and providing tailored assistance.
- **Performance evaluation:** Assessing the success of government initiatives and investment strategies.
- **Evidence based policy formulation:** Informing evidence-based policy decisions.

The burgeoning start-up ecosystem in Pakistan has experienced growth in recent years. However, there are still considerable challenges that need to be addressed to ensure sustained progress and a robust entrepreneurial environment. These gaps can be identified in four key areas: policy fragmentation, finance, fiscal and regulatory challenges, and lack of support.

This section of the paper contains the identified challenges along with the consultation areas to address these challenges:

## **I. Challenges**

### **A. Policy Fragmentation**

#### **i. Varying Start-up Definitions**

The use of varying definitions for start-ups by various institutions in Pakistan, including SECP, SBP, FBR, STZA, and SMEDA, creates a fragmented regulatory environment that poses challenges for the start-up ecosystem. Inconsistent definitions lead to confusion regarding eligibility for incentives, funding, and support programs. Start-ups may face difficulties in navigating different regulatory frameworks, leading to inefficiencies and missed opportunities for growth. This lack of alignment also makes it harder to develop cohesive policies, as each institution applies its own criteria, which complicates the overall development and support of the start-up sector in the country.

#### **ii. Multiple Government Ministries Initiatives**

Multiple government agencies and ministries oversee start-up-related initiatives, leading to overlapping efforts, resource duplication, and a lack of coordination.

### **B. Financing**

#### **i. Gaps in Early-Stage Funding**

Despite a rise in entrepreneurial activity, there remains a crucial gap in early-stage funding for Pakistan's start-ups. According to a 2019 i2i report on Pakistan's start-up ecosystem, 49% of all deals from 2015 to 2019 were concentrated in seed-stage investments. This suggests a limited presence of follow-up investment opportunities necessary for start-ups to scale. The large share of early-stage deals reflects a bottleneck in funding that occurs as start-ups seek growth capital beyond the seed stage, highlighting a shortage of quality angel investors and institutional funders willing to invest in later stages. This funding gap hinders start-ups from scaling their operations and reaching full market potential.

#### **ii. Decrease in grants/donor Funding**

Donor agencies, foundations, and grants have played a vital role in Pakistan's start-up ecosystem, providing high-risk, no-return capital that supports early-stage ventures without demanding ownership stakes. From 2018 to 2019, 29% of deals (13 out of 46) were funded through grants, underscoring their significance in the ecosystem. Programs like USAID's SMEA, Karandaaaz's Women Entrepreneurship Challenge, and Ignite's NIC initiative have supported start-ups, particularly in areas such as digital finance inclusion and women-led businesses. However, grant provision has declined, with HEC's Innovator Seed Fund only offering PKR 10 million each to 28 start-ups in 2023, a significant reduction from the USD 29 million available in 2018-2019 under Technology Development Fund (TDF).

## C. Fiscal & Regulatory Hurdles

### i. Fiscal Challenges

- **Investor**

The PE & VC sector with an appetite for high risk investments is a major contributor to start-up funding worldwide. PE & VC investors are at a disadvantage under the current taxation regime since they are taxed twice once at the fund level and then at the individual investor level.

- **Start-ups**

Cognizant of the challenges w.r.t profitability and fund availability, the following fiscal incentives are available to start-ups in our neighboring jurisdiction:

- a. Tax Holiday for eligible start-ups
- b. Tax Exemption on Long-Term Capital Gains invested in the Fund of Funds recognized by the government.
- c. Allowed Carry Forward of Losses
- d. Goods and Services Tax (GST) benefits like input tax credit on purchases.

### ii. Repatriation Challenges

Although there are no regulatory bottlenecks in the issuance of securities on a non-repatriable basis and the repatriation of proceeds upon divestment of such [4] securities has generally been granted exemption as per the regulatory framework, the procedure and operational system do not appear efficient and can take a long time.

Furthermore, our stakeholder engagements for this report have highlighted operational hurdles that act as additional bottlenecks in issuance and repatriation matters.

As a result, these inefficiencies can deter foreign investors from investing in start-up companies, venture capital funds, and private equity funds.

## D. Support

### i. Geographic Concentration

The majority of tech hubs and labs are concentrated in major cities like Islamabad, Lahore, and Karachi. This centralization limits access to resources for entrepreneurs in tier 2 and tier 3 cities, hindering the growth of the innovation economy across the country. Expanding support infrastructure to these areas is essential for inclusive growth.

### ii. Resource Scarcity and Customization

Support organizations struggle with resource scarcity due to an over-reliance on grants, which affects their long-term sustainability. Additionally, there is a need for these organizations to customize their services based on the specific needs of start-ups and the local context. This requires a more tailored approach to support different types of start-ups effectively.

### iii. Gender Inequality

Female-led companies face significant challenges, as evidenced by the fact that during the period between 2015 to 2019 only 24 out of 101[5] deals were investments into companies led by women. Further, during the year 2022[6] Out of more than USD 277 million raised in the

[4] Under para 1, Chapter XX of the Forex Manual, securities include both domestic and foreign securities, and also includes units of PE funds.

[5] <https://we-fi.org/wp-content/uploads/2021/05/i2i-Pakistan-Startup-Ecosystem-Report-2019-1.pdf>

[6] <https://ignite.org.pk/wp-content/uploads/2018/06/ignite-Startup-Report.pdf>

first half of 2022, only USD 1.8 million has been raised by a woman entrepreneur. Addressing gender inequality in the start-up ecosystem is crucial to fostering a more inclusive environment.

#### **iv. Lack of Mentorship, Guidance and awareness**

There is a limited access to experienced mentors and advisors to guide start-ups through growth stages. Further, Entrepreneurs are often unaware of available resources, funding options, government policies, and international markets.

## **II. Consultation Avenues**

### **A. Policy Fragmentation**

#### **i. Single set of definition for start-ups**

A unified definition of a start-up across institutions like SECP, SBP, FBR, STZA, and SMEDA could significantly streamline the regulatory environment in Pakistan, fostering a more supportive start-up ecosystem. A single set of criteria would eliminate confusion around eligibility for incentives, tax benefits, and funding, making it easier for entrepreneurs to access resources and navigate the system. This standardization would also enable better coordination among government bodies, investors, and support agencies, resulting in more cohesive policy development and targeted support. By adopting a consistent definition, the ecosystem would become more transparent, efficient, and accessible, ultimately promoting sustainable growth and innovation in the start-up sector.

#### **ii. Nomination of Designated Lead Agency**

To address this fragmentation, a lead agency could be designated to coordinate efforts, consolidate resources, and establish clear guidelines for start-ups. This unified, data-driven strategy would streamline policies and reduce inefficiencies. Further, a start-up registry may be created which would issue unique identification numbers, capture essential start-up details, and integrate databases with relevant regulatory bodies to further reduce fragmentation.

### **B. Financing**

#### **i. Establishing a Government-Backed Fund of Funds**

This would provide liquidity to start-up funds, especially for university incubation centres, accelerators, and innovation funds in key areas like FinTech, EdTech, and AgriTech.

#### **ii. Enable Equity and Debt Crowdfunding Platforms through Regulatory Framework**

Regulatory framework may be developed which would enable equity and debt crowdfunding platform. This platform would offer alternative funding sources, reducing reliance on grants and encouraging more sustainable financial practices.

#### **iii. Capital Market Financing for Start-ups**

Designating the GEM board for listing/IPO by start-ups would offer more opportunities for raising capital.

#### iv. SBP support

SBP may mandate financial institutions to introduce invoice financing and credit guarantee schemes, further supporting start-ups in securing necessary funds.

#### v. Access to grants and donor funding

**a. Public-Private Partnerships (PPP):** Collaboration of government with private investors and international organizations would establish new grant programs focused on high-impact sectors like fintech, agritech, and health tech. This would distribute risk while leveraging both public resources and private expertise.

**b. Increased Engagement with International Donors:** There is a need to engage more with international development organizations like the World Bank, DFID, USAID and regional development banks to explore new grant opportunities aimed at supporting innovation and entrepreneurship in areas aligned with their social goals.

### C. Fiscal & Regulatory Hurdles

#### i. For PE&VC Sector

Implementing tax reforms to remove disadvantages for PE & VC sector at:

- **Fund Level:** reinstatements of tax pass through and relaxation from withholding tax.
- **Investor Level:** Reduction of tax rate on dividend and capital gains.
- **Capital Gains Tax Exemption:** Reducing or eliminating capital gains tax on investments in start-ups can attract more venture capital and angel investors.
- **Tax incentives for investors:** Tax breaks or credits for individuals or institutions investing in start-ups.

#### ii. For Start-ups

- **Tax Exemptions and Credits:** Offering tax exemptions or credits for start-ups, especially in their initial years, could significantly reduce their financial burden. For instance, providing a 100% tax credit against income tax liability for start-ups.
- **R&D Incentives:** Tax credits for research and development (R&D) expenses, accelerated depreciation for R&D equipment, and tax exemptions for income generated from patented technology.

#### iii. Repatriation

Addressing repatriation issues would make the ecosystem more attractive to foreign investors, also encouraging investment in female-led start-ups.

**a) Workshops and Webinars:** SBP in collaboration with SECP and FBR may have regular engagements, workshops, and online webinars that educate entrepreneurs, PE/VC firms, and investors on:

- Regulatory guidance.
- Repatriation of profits, dividends, and capital gains.
- Legal frameworks for foreign investors and funds.
- Tax implications and compliance on repatriation.

**b) Repatriation Guide for Start-ups and Investors:** SBP may develop a detailed handbook or toolkit that outlines:

- process for repatriating funds.
- key regulations and legal requirements.
- timeline and documents needed.

**c) FAQ Section:** Address common concerns and misconceptions about repatriation.

## **D. Support**

### **i. Establishment of Entrepreneurial Support Organizations:**

- a) Accelerators and Incubation Centres all across the country whether physical Incubators or Virtual and mentoring platforms. There is a need to identify, develop and provide necessary infrastructure for accelerators and incubation centres in Tier 2 and Tier 3 cities.
- b) Engagement with incubation centers and start-ups to steer through the regulatory processes.
- c) Research and development Centres in Universities especially Tech and with Tech giants based in Tier 2 and tier 3 cities and their linkage with the incubators and accelerators.
- d) Linkage of the Tech parks approved for STZA's with the incubators, Accelerators and Research and development centres.

### **ii. Start-up Runway & Bridge:**

Providing a dedicated space for start-ups to sell products/services and connecting incubators with international counterparts would support market access and global knowledge sharing, addressing resource scarcity and customization.

### **iii. Development of Quality Human Resource with gender balance approach:**

#### **a) Industry-Relevant Curriculum:**

Collaborating with industry experts to design curriculum ensures graduates have the latest skills and knowledge needed by start-ups.

#### **b) Practical Training Programs:**

Offering internships, co-op programs, and project-based learning within start-ups gives students real-world experience and insight into start-up dynamics.

#### **c) Entrepreneurial Education:**

Including courses on entrepreneurship, innovation, and business management in tech programs encourages students to explore start-up ventures and develop an entrepreneurial mindset.

#### **d) Mentorship Programs:**

Creating mentorship programs with experienced entrepreneurs and industry professionals helps students develop skills, network, and gain valuable insights into the start-up world.

#### **e) Linking Mentors/Experts with incubators and conducting awareness sessions:**

There is a need to link incubators and accelerator with experienced mentors and industry experts. Further, national level campaigns may be launched to educate potential entrepreneurs, establish centralized online platforms for information sharing, and hold regular workshops/webinars to spread knowledge about resources and opportunities.

### 12. Way Forward

It is suggested that a dynamic and adaptable policy framework, along with a well-structured incentive plan, is essential for fostering innovation and attracting investment. This could include simplifying regulatory requirements, offering fiscal incentives, providing access to markets, finance, grants, subsidies, and supporting infrastructure and digitalization. Inclusive policymaking, developed through open dialogue with stakeholders and entrepreneurs, would help ensure the framework meets the evolving needs of the start-up sector, and graduate to become scale-ups through sustainable growth.

Additionally, continuous monitoring and evaluation of these policies and incentives would be important for maximizing their effectiveness. By adopting these approaches, Pakistan could build a thriving start-up ecosystem that promotes economic growth and encourages a culture of innovation.



SECP

**Securities and Exchange  
Commission of Pakistan**

[WWW.SECP.GOV.PK](http://WWW.SECP.GOV.PK)