



The Institute of  
Chartered Accountants  
of Pakistan

CA  
PAKISTAN



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# Startup Ecosystem in Pakistan – Challenges & Opportunities

PROFESSIONAL ACCOUNTANTS IN BUSINESS (PAIB) COMMITTEE



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***Panelists***



Jehan Ara, President P@sha & Founder Nest I/O



Khurram Schehzad, Member Board Privatization Commission,  
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Sumair A. Sayani, FCA, Founder PathosAI



Syed Azfar Hussain, Program Manager National Incubation Center (NIC)  
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As per United Nation’s study, Pakistan needs at least 1.3 million jobs to be added every year. The startup ecosystem will play a pivotal role in creating job opportunities. Currently, the government as well as the private sector is taking initiatives to develop incubators and eventually an environment where the youth of this nation is encouraged to build unique startups.

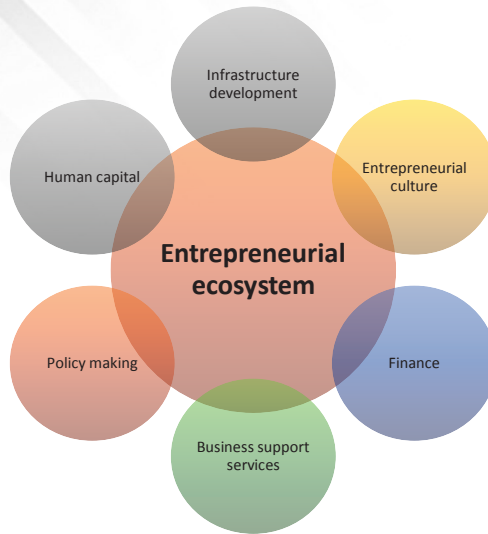


Figure 1 - Six domains of an entrepreneurial ecosystem

The importance of entrepreneurship and startup mindset cannot be over emphasized. There is a strong correlation of entrepreneurship with economic growth of a country. In recent times, the government has taken positive steps towards the development of this industry and a positive work stream is coming out from it, however at the same time it must be admitted that as a country, the startup and entrepreneurial ecosystem is yet to be explored extensively and cultivated. So far we cannot see high potential breakthroughs which can put Pakistan on the map as an entrepreneurial country or a startup based city. There has not been done much in providing or enabling a conducive startup system.

Realization of the need for an entrepreneurial and startup ecosystem has to be present. Unless this is not realized Pakistan will not see a growth spurt in this. Pakistan is moving in a direction where this need has been realized and the country is now working towards establishing the entrepreneurial system. Similarly, academia has to also play an important role in developing this realization and the regulators need to play their part in developing an appetite towards risk based funding.

ICAP is an institute with a strong member base and a legacy of prominence in the field of accounting, finance, audit, tax, compliance and associated fields. Considering these two assets, the Institute introduced iThrive. It is designed to be more than just an incubation center, it is a complete entrepreneurial support platform, starting with strong pilot programs and then expanding further across the country.

There has been a gradual lean of young minds working out of their garages and shared office spaces building and developing innovative ideas. While some of these minds stayed back, a lot took their ideas to explore international markets. While some met with success, a large number of these startups never took off, but that is exactly how the startup culture is in Pakistan and around the world. Every startup has a high possibility of few failed attempts before the idea eventually has a breakthrough. Entrepreneurs should have this mindset about failure because it is a strong component of the startup journey. Unfortunately, in Pakistan failure is not looked upon very kindly and hence it is an even bigger challenge for a startup founder to take the entrepreneurial journey.

A number of projects and initiatives launched by private sector and the government to promote startup culture:

1. P@sha Startup Insiders: A platform by for young startup founders or potential founders to interact with investors and learn about the entrepreneurial journeys of successful entrepreneurs and understand what it is like to start a company, the barriers for startups and the true meaning of entrepreneurship. This served as a good learning experience as well as a motivation for the potential founders to start their own companies and develop the right mindset among them.
2. P@sha Launchpad Program: A platform for aspiring startups to present their ideas. Successful entrepreneurs in industry would evaluate and ask questions so the ideas can be looked at critically and eventually improved. The top three ideas were awarded small prize money to invest in their startup idea.
3. Plan9: In 2012, the Punjab Information Technology Board (PITB) launched Plan9 – a technology incubator which laid down the base of a true incubation center infrastructure other than National University of Science and Technology (NUST) which started a program on incubation within the university. Many of the key professionals of the startup ecosystem were advisors to Plan9. This was followed by incubation program by the LUMS Center for Entrepreneurship.
4. Nest I/O: In 2015, Nest I/O started in Karachi with the realization that an incubation space was required to provide guidance to the young and bright minds with entrepreneurial spark. Most of the academic institutions do not develop the understanding of entrepreneurship or startups so Nest I/O was formed as a place where aspiring entrepreneurs can get the right advice. Secondly, since most startups do not have any business network and their exposure to investors or potential businesses was extremely limited, Nest I/O allowed them to connect with the right network, fill in the gaps in their knowledge and provide them with the right support system to help their startups flourish. Moreover, Nest I/O provided guidance regarding how to turn ideas into business models and connecting young aspiring entrepreneurs with experts or mentors who could help them develop their ideas. It quickly formed a space where young people could gather, exchange ideas, and form a community to help each other.
5. National Incubation Center (NIC): In 2016, NIC started in Karachi, Lahore, Islamabad, Peshawar and Quetta. It was a good step taken by the government as it showed the important and value placed to the development of an entrepreneurial infrastructure in the country.

Currently, there are a number of Office of Research and Innovation Centers (ORICs) in most universities. Unfortunately, many of them are not able to provide the right stimuli needed and that is where incubation centers such as Nest I/O and NIC should contribute by sharing curriculum and working with them to make things better for the entire startup ecosystem.

**-Jehan Ara, President P@sha and Founder Nest I/O**

Pakistan’s startup space has shown signs of growing incrementally, with many positive indicators for the future. Here’s a chart showing yearly venture funding in Pakistan-based start-ups,

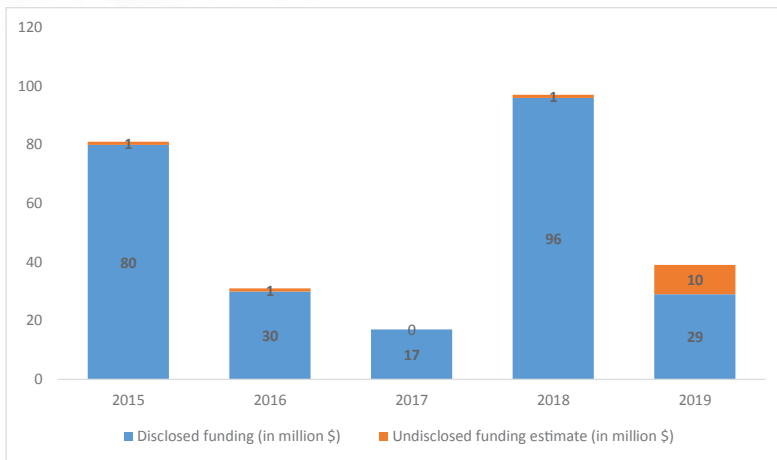


Figure 2 Source: Pakistan Venture Snapshot by MAGNITT

## Challenges and opportunities

Challenges	Opportunities
<ul style="list-style-type: none"> <li>•Time limitation of professors and mentors. They are assigned additional charge to run incubators which becomes challenging for them.</li> <li>•Lack of entrepreneurial mindset as students are overwhelmed with research papers, exams, classes and other academic requirements does not allow them enough time to work on startups.</li> </ul>	<ul style="list-style-type: none"> <li>•Abundance of young human resource in universities. For instance, if a young startup probably in their 4<sup>th</sup> year, gears up for their Five Year Project or (FYP), they have a pool of good potential candidates or partners who they can bring onboard with their project readily. This is quite common in student-led start-ups.</li> <li>•Big campuses in most of the public sector universities in Pakistan such as NED, Karachi University, NUST etc. that have all the necessary amenities to facilitate startups.</li> </ul>

Figure 3 Challenges and opportunities of a university based incubation setup

At NIC the startups that come onboard are slightly mature, they have been in business and want to scale up so the focus is towards startups which are at the growth stage and require the right investors. NIC, along with other incubators, is providing mentorship to young startups at the university level so their ideas become mature enough to enroll in NIC where they can further work on it taking it towards the growth stage and investment.

Regarding the availability of big investments, today companies such as Bykea, Airlift and others are getting decent investment and raising good money so the prospect of funding looks quite strong in terms of scaling up and moving forward. There is a lot of potential, the space is growing and other players are coming in, there has been tremendous growth in the last 2 to 3 years that will continue to progress in future.

**-Azfar Hussain, Program Manager NIC**

## Global Perspective

From a global perspective, the list of the top 30 startup ecosystems shared by Startup Genome includes many countries or cities that belong to the Asia Pacific region such as Bangalore, Delhi, Seoul, Beijing, Singapore, Shanghai, Sao Paulo and more. These are the fastest growing regions in terms of startups and Unicorn support.

Startups use a complete evaluation criterion which is used for measuring the progress of goals. It includes elements such as regulatory framework, connectedness, funding, talent, market research, collaborations and knowledge.

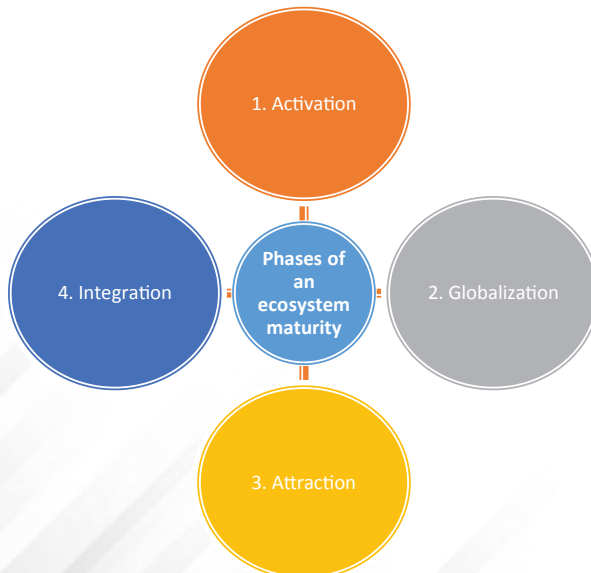


Figure 4 Four phases of maturity of a startup ecosystem within a country or city



As the maturity improves in the ecosystem there is a change in the way the elements within the ecosystem change, for example universities in the global ecosystem are now focusing on development of an entrepreneurial mindset and students are showing more inclination towards the same.

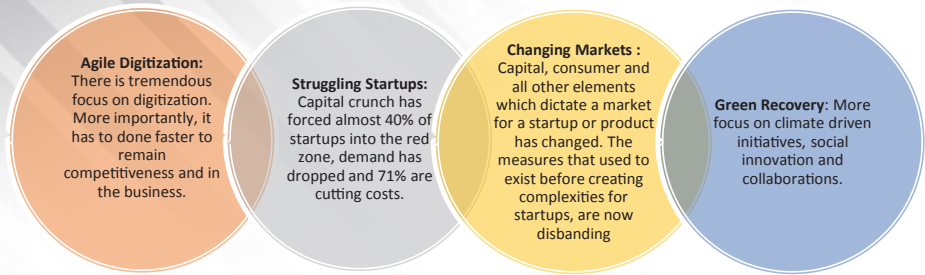


Figure 5 Trends shaping the global industry or economy due to Covid-1



Figure 6 Factors to consider when treating challenge as an opportunity

- Sumair A. Sayani

Here's a chart showing a comparison of the total number of deals to MENA countries in 2020,

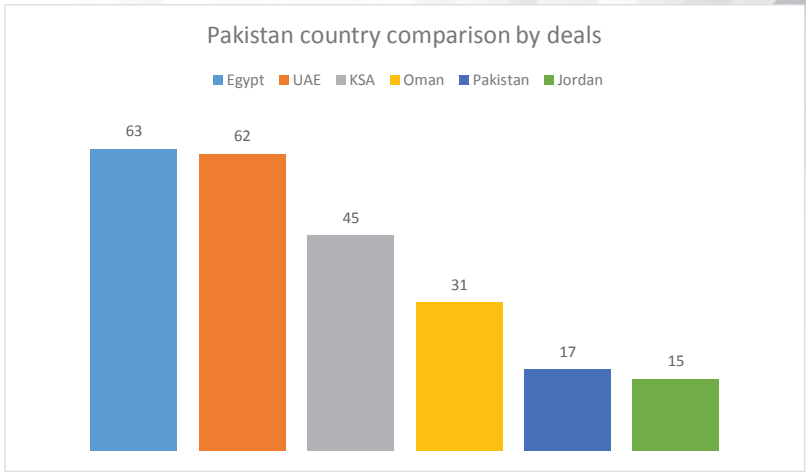


Figure 7 Source: Pakistan Venture Snapshot by MAGNiTT

## Comparative Analysis of global incubation centers

Looking at different models around the world, most of the incubators have a curriculum. The biggest accelerator in the world has a startup school which has free access to mentors. At NIC Karachi, there is a complete cycle of 14 weeks; 20 hours of course work including on-field assignments of customer discovery, interviews and getting insights etc. to evaluate the idea of the startup.

The world is going towards corporate accelerators or incubation centers. In Pakistan, however, we are at infancy stage after 5 to 6 years. The world has R&D departments and offices that collaborate with incubation centers. Corporate startup partnerships are evolving where corporate challenges are solved by startups and at the same time their innovation mindset is coming from the startups. In Pakistan, we can encourage corporates to work with startups and provide business solutions.

Most of the incubators around the world are focused on making customer centric products. In Pakistan, there is a challenge of finding the right kind of product while in the rest of the world, this problem is solved by corporate partnerships.

Another part of comparative analysis is the support of the Venture Capital (VC) culture. There are not many VC coming in considering the number of Pakistan startups or the potential of ecosystem overall.



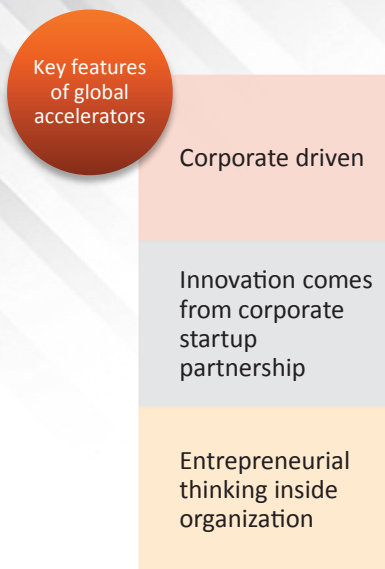


Figure 8 Key features of global accelerators

**-Azfar Hussain, Program Manager NIC**

## Potential of the startup ecosystem in Pakistan

Pakistan offers huge potential area for startups to develop and flourish, with a population of 220 million, 80 million people fall in the middle class strata of the country. The percentage of middle class population i.e. 40% is the largest in Asia, bigger than China, Bangladesh, India. Pakistan has the youngest population in the entire world with a median age of 22 years. Considering all this, there is an opportunity to greatly develop across the world. However, the country lacks basic necessities for that growth which is majorly seen as a challenge, but could be turned into an opportunity. Be it education, health, transport, security or infrastructure, Pakistan is a construction deficit country. There is abundance of resources along with everything a productive system could ask for, but where is the problem? We can identify that from the angle of a startup. A startup primarily identifies a problem and creates a solution for it which disrupts the entire system, changing the course of how that problem can be solved. Similarly, the problem is not to do with the amount of resources but to manage those resources efficiently. Currently, the problem for a startup is not having 1 million dollars in funds but how efficiently that startup is using that resource to generate value and more money out of it.

To conclude, Pakistan has immense potential, the right resources and other elements that make up the right equation for a successful economic model but the problem lies with managing it. Moreover, there is a need to build on the intellectual capacity for a system to thrive.

**-Khurram Schehzad**

## Attracting investments for startups

There is tremendous potential in Pakistan for startups and businesses as the country has all the right ingredients for an ecosystem to flourish. However, there is a need to see how to utilize this potential, resources and ingredients to our advantage and how to use them effectively. When it comes to investments, the most important thing is the strength and feasibility of the business model as the investors' primary concern is the return on investment. Majority of startups fail to realize the importance of a business model and focus more on technology. Technology itself is not the business, it is just an enabler, so having an efficient business model will enable investment support automatically.

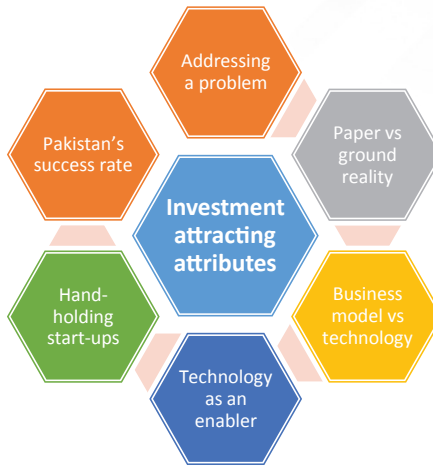


Figure 9 Investment attracting attributes

**-Khurram Schehzad**

## Investors' expectations from startups

The reality is that investors expect return on investment within a few months, however startups should be given sufficient time to have their business models in place and get to the market. For instance, before Covid-19 a startup 'Saya Health' which is an online mental health counselling service had only one client and today it has grown a thousand times. This was possible only because the founders as well as the investor believed in their idea and gave it time. Another example is 'Sabaq', an educational startup which has its content running on Pakistan Television Network with high viewership. Similarly, 'Learning Pitch' digitized the entire intermediate curriculum for Punjab Board and Sindh Board and is now providing a digital learning platform during Covid-19.

It is too early to share a percentage of return on investment for start-ups. In the last two years, NIC has incubated around 100 startups out of which only 10 to 12 received funding.

**-Azfar Hussain, Program Manager NIC**

## Are start-ups going in the right direction?

It is important to be optimistic about the ground realities, talent, scope and potential of startups. Keeping this in mind, startup ecosystem has grown over the last 5 to 6 years and large scale investments are being made now. For instance, Lakson Investment has initiated a separate Venture Capital wing and invested 2 million dollars in Knowledge Platform which is an education technology startup, and \$750,000 in Mandi Express which is an online grocery store.

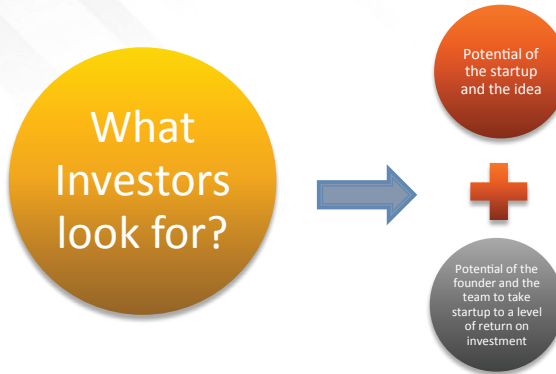


Figure 10 Investor's expectations

Sarmayacar is another successful example. Moreover, Asian Development Bank has invested as well. Every year, more and more startups are forming and being successful.

For instance, five years ago, the majority of entrepreneurs bringing their ideas to Nest I/O were fresh graduates but later on mature startups with 2 to 3 years of experience started coming in to take their ideas forward.

**Jehan Ara, President P@sha and Founder Nest I/O**

## Transformation from finance professional to an entrepreneur

Venture Capital availability, maturity and mindset certainly requires a transformation in Pakistan. Finance professionals need to open to listening and exploring alternates to making investments. Pakistan ranks one of the lowest in the world with respect to VC per capita investment. This is not because of unavailability of capital but diversity and repurposing the capital into the startup world.

Being an entrepreneur, there is a realization of the effort put in to secure investments. The value systems and business principles that are instilled in finance professionals have been tremendously helpful in the entrepreneurial journey. Moreover, the knowledge of finance and business acumen as well as professional experience was of great help.

**- Sumair A. Sayani**

# ICAP iThrive

Thematic incubation 'Finance & Accounting': Pakistan has under-tapped potential when it comes to financial inclusion and coverage



Virtual incubation as per the new normal: To keep ecosystem uninterrupted



Specialized handholding through ICAP's pool of veterans across the globe



Strong industry collaborations and global affiliations



Possible funding support to the most deserving start-ups

## Vision and motivation behind iThrive

Firstly, a realization that collectively we have to contribute more towards the entrepreneurship ecosystem in Pakistan. Secondly, the optimism that there is a lot of potential in Pakistani youth that needs to be channelized. With the institutional network and strength, ICAP can play a huge role as the Institute has a unique position and capacity to support startups in a way that many incubation centers have not been able to. The Institute has a huge alumni network across the world, experienced professionals and industry experts, strong connections with regulators and policy makers and more importantly ICAP is a trusted advisor and intermediary in business policy making.

iThrive is currently focused on finance, risk management, taxation and accounting. Good ideas can transform and solve many problems such as improving documentation of economy, enhance tax base, financial inclusion, improve financial connectivity and literacy etc. This initiative will not only help youngsters in their ideas but will support the economy if good ideas are turned into sustainable business models.

*- Khalilullah Shaikh*

## The mindset change

The fact that the government is inviting industry leaders to be a part of its taskforces to contribute in discussions, make suggestions regarding changes in policy making or the way that the government functions shows that the mindset is changing. The question is whether those suggestions will be executed.

As for separate departments of the government, there has been good signs. For instance, SECP has recently made changes to the Companies Act which allows private companies and startups more flexibility to raise investments. They have also allowed preference shares, buy backs etc. which was not possible before. Moreover, regarding the the regulatory sandbox or FinTech startups, instead of getting a license for 2 million dollars they are able to test their ideas without getting a license, work on innovation and see if it will work before they raise investment in order to get a license. The government realizes that start-ups will play a major role in growing economy. For instance, during Covid-19, many startups became enablers for the corporate businesses and were able to grow at a much faster pace while encouraging and supporting others to switch online.

***Jehan Ara, President P@sha and Founder Nest I/O***

Change in mindset means to frame investment in a different category than the ones that give quick and consistent return on investment. Create an enabling environment for incubators as well as investors is the key.

***- Sumair A. Sayani***

# Question & Answers

## **What is your view about failures of start-ups?**

Multiple failures allow learning and improvement. There are many reasons for a startup to fail such as the idea just didn't work or being too early or too innovative for the target market. I have seen that startups that tend to fail multiple times are the ones that eventually are the most innovative and successful. The key is not to get demotivated with failure.

*Jehan Ara, President P@sha and Founder Nest I/O*

Access to funds remains an issue in Pakistan. For example, creating a private fund is not easy; crowdfunding is not an option. Please comment.

There are many factors that come into play when creating funds such as political stability and consistent policy etc. Investor considers the overall risk matrix of a country. Startup cannot operate in isolation as they are a part of an ecosystem. The same startups operating in Pakistan when taken to Silicon Valley, for instance, will have different dynamics. In Pakistan, private equity models are also not as successful as in other countries because at this time, the ecosystem is not developed yet. Creating funds might not be as difficult as managing, continuing and alignment along with the entire ecosystem.

## **What incentives like subsidized loans, tax holidays are available in Pakistan for startups?**

Kamyab Jawan Program is one of the initiatives that the government has taken. Similarly, 'Ignite', which is also a funding body of NIC, give seed grants to startups disbursing around 70 to 80 crore rupees per year and funds around 50 to 60 seed-level businesses per year. The grant size is 7 million to 30 million. At the financial side, Karandaaz also provides funding to startups.

Amazon Web Services (AWS) is formally coming to Pakistan. They help startups with technology bit and for technology products, they give credits of 5000 to 10,000 dollars. Startups are getting support in terms of technology as well. Although there are few opportunities, there is ample support for startups.

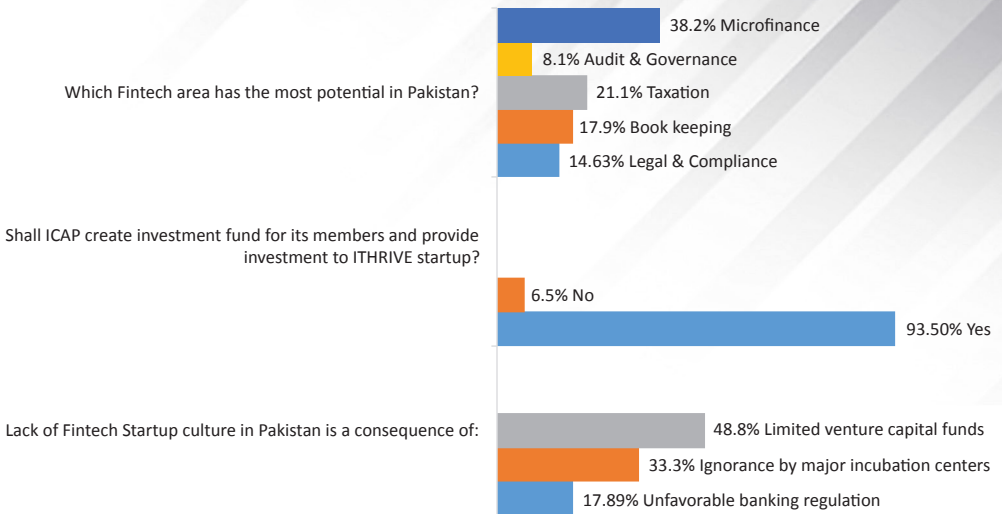
*-Azfar Hussain, Program Manager NIC*

## **Is Unicorn a myth for Pakistan? If yes, why?**

In 2013, there were only 4 ecosystems around the world that had a unicorn and the number reached to more than 80 by 2019. This shows that it is not a myth instead a possibility for Pakistan for many reasons. First, Pakistan is an amazing test market as it presents an incredible youth case in itself so making a startup successful here can definitely make it successful globally.



# Poll Results



*This paper is an extract from the ICAP Webinar on ‘Startup Ecosystem in Pakistan – Challenges & Opportunities’. The paper is reviewed by members of the Professional Accountants in Business Committee, ICAP; Mr. Samiullah Siddiqui, FCA Finance Director, Oxford University Press and Mr. Muhammad Humair, FCA, Group CFO – Private Companies, Dawood Hercules Group.*

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