

Startup Ecosystem in Pakistan

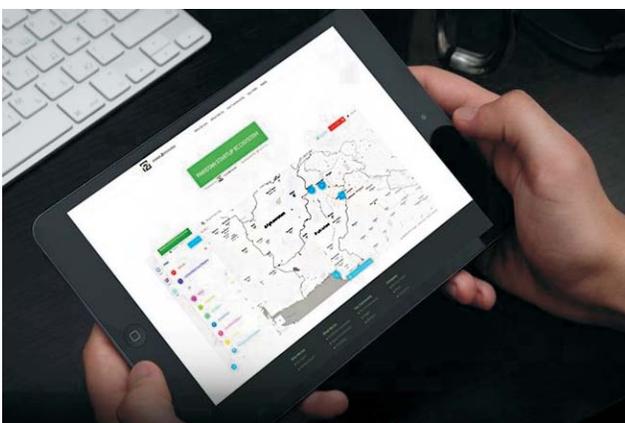
By ICMA Research and Publications Department

Preamble

The startup ecosystem in Pakistan has been picking up pace lately, with a growing number of startups securing funding and support. From 2016 to 2018, Pakistani startups garnered an average of \$10 million annually in venture capital funding. Back in 2012, the country only had a couple of significant business incubators and accelerators, and investors and funding opportunities were scarce. However, the scenario improved considerably by 2019, with over 24 incubators and accelerators, about 20 formal investors, and 80 co-working spaces available. Amidst the COVID-19 pandemic in 2020, Pakistan's technology sector and startups saw unparalleled growth, and 2021 broke records with technology startups receiving \$350 million in funding. In 2022, the total funding raised by Pakistani startups reached \$361.64 million. The Ministry of Information Technology and Telecommunication (MoITT) reported attracting \$355 million in investments for its startup ecosystem projects in 2022. Moreover, 1,638 fresh IT companies registered with the Pakistan Software Export Board, alongside 761 call centers and 1,463 freelancers in 2022.

Startup Funding Sources

- **Venture Capital:** Investment firms that offer funding and support to startups in exchange for equity.



- **Angel Investors:** High-net-worth individuals who provide capital and mentorship to startups in exchange for equity or convertible debt.
- **Seed Funding:** Early-stage investments intended to support the growth and development of a startup.
- **Grants:** Non-dilutive funding by governments or foundations often awarded through competitions or application processes.
- **Crowdfunding:** Raising funds from a large number of people, typically by showcasing a project or product on a crowdfunding platform.
- **Incubators & Accelerators:** Programs that provide startups with mentorship, resources, and funding support, often in exchange for equity.

Startup Funding in 2022

Pakistan's startup funding has been lackluster in Q1 of 2023. A report from VC and insights firm Invest2Innovate (i2i) showed that although startup funding increased by about 52% in Q1 2023, reaching \$23.1 million from \$15.2 million in Q4 2022, this amount is 86% lower than the amount raised in Q1 2022, which was \$172.8 million.

National Incubation Centre (NIC)

Under a public-private partnership between the Ministry of IT & Telecom, Ignite National Technology Fund, Jazz, and Teamup, the first National Incubation Center (NIC) was launched in Islamabad in February 2017. Ignite has since opened seven additional NICs in Lahore, Karachi, Peshawar, Quetta, Hyderabad, Faisalabad, and Rawalpindi. Over the last 4-5 years, these NICs have incubated more than 1,200 startups that have collectively secured investments exceeding Rs. 21 billion. Since its inception, NIC Islamabad has nurtured 295 startups across 12 cohorts, generating over Rs. 5.6 billion in sales revenues and attracting over Rs. 7 billion in investment for Pakistani startups. These startups have made a significant contribution to Pakistan's economic growth by creating over 20,000 jobs.



SWOT Analysis of Startup Ecosystem



STRENGTHS

- Massive young population
- Tech-savvy middle class
- increasing cellular connectivity
- High-speed internet coverage
- Expanding e-Commerce market size
- Conducive environment and Government support

WEAKNESSES



- Lack of Technical Talent pool
- Lack of diverse domestic funding options
- Lack of digitalization / financial inclusion
- Lack of a robust angel investing network
- Lack of experienced mentors
- Angel and Later Stage Investing Gap
- Stringent policies on start-up financing



OPPORTUNITIES

- Promising scope for investment in Fintech sector
- Export potential for IT services
- Emerging avenues for international growth
- Returning diaspora bringing business and tech acumen
- Scope for expanding Incubation Centres to smaller cities

THREATS



- Drop in startup funding
- Slowdown of global economy
- Domestic political instability
- Economic downturn
- Exchange rate volatility
- Cumbersome registration process for startups
- Local taxation issues

