

Entrepreneurship Ecosystem Report 2014 **Pakistan**

INTRODUCTION

In the past several years, Pakistan's volatile political and security environment has negatively affected the investor and entrepreneurship climate. Entrepreneurs in the country often face major regulatory hurdles in sustaining and building their businesses, and the opaque environment acts as a deterrent for investors.

Despite these many issues, there is a sea change happening in the country. The entrepreneurship ecosystem – the environment that supports the growth of young businesses – is growing rapidly with a significant increase in the number of incubators, coworking spaces, and competitions in the last two years. Perhaps more importantly, this change is being led and championed by local entrepreneur leaders, who are mentoring young companies, advocating for policy change, and leading new support initiatives in the country. This trend of indigenous innovation is both noteworthy and exciting for the future of Pakistan's ecosystem.

Other factors are also encouraging. 70% of Pakistan's 180 million people is under 30 years old. Internet penetration has increased from 10% in 2012 to 16% in 2012, according to a survey report by Ansr.io¹ and there are 120 million mobile phone subscribers. This means that Pakistan is a country with a very young demographic, and there is a great opportunity to strengthen their own capacity to solve local issues, particularly through the use of technology. Higher internet penetration, mobile phone usage, and the promise of 3G also mean that market access is only increasing, allowing entrepreneurs to better deliver their innovations to their intended customers.

The purpose of this study is to first assess and map the current entrepreneurship landscape in Pakistan, followed by an analysis of the gaps and challenges that exist for entrepreneurs in the country.

METHODOLOGY

Invest2Innovate assessed Pakistan's current entrepreneurship landscape using a combination of the ANDE Entrepreneurial Diagnostic Toolkit and the Koltai & Co Six + Six model as guidance. Our team also designed and conducted a survey in February 2014, using guidelines from the Aspen Network of Development Entrepreneurs (ANDE) Entrepreneurial Ecosystem Diagnostic Toolkit. The questionnaire was disseminated through a number of business associations, including the Organization of Pakistani Entrepreneurs (OPEN), The Indus Entrepreneurs (TiE), AllWorld Network, the Pakistan Software Houses Association for IT & ITES (P@SHA), and the U.S. – Pakistan Women's Council. Invest2Innovate received 119 responses that were mostly male (96 compared to 9 female respondents), who were mainly from the services sector (74%), specifically classifying their businesses as software/web development (36%) and information communication technology (ICT) (22.4%). All the respondents were based in urban areas and were mainly in Pakistan's major cities – Lahore, Karachi and Islamabad.

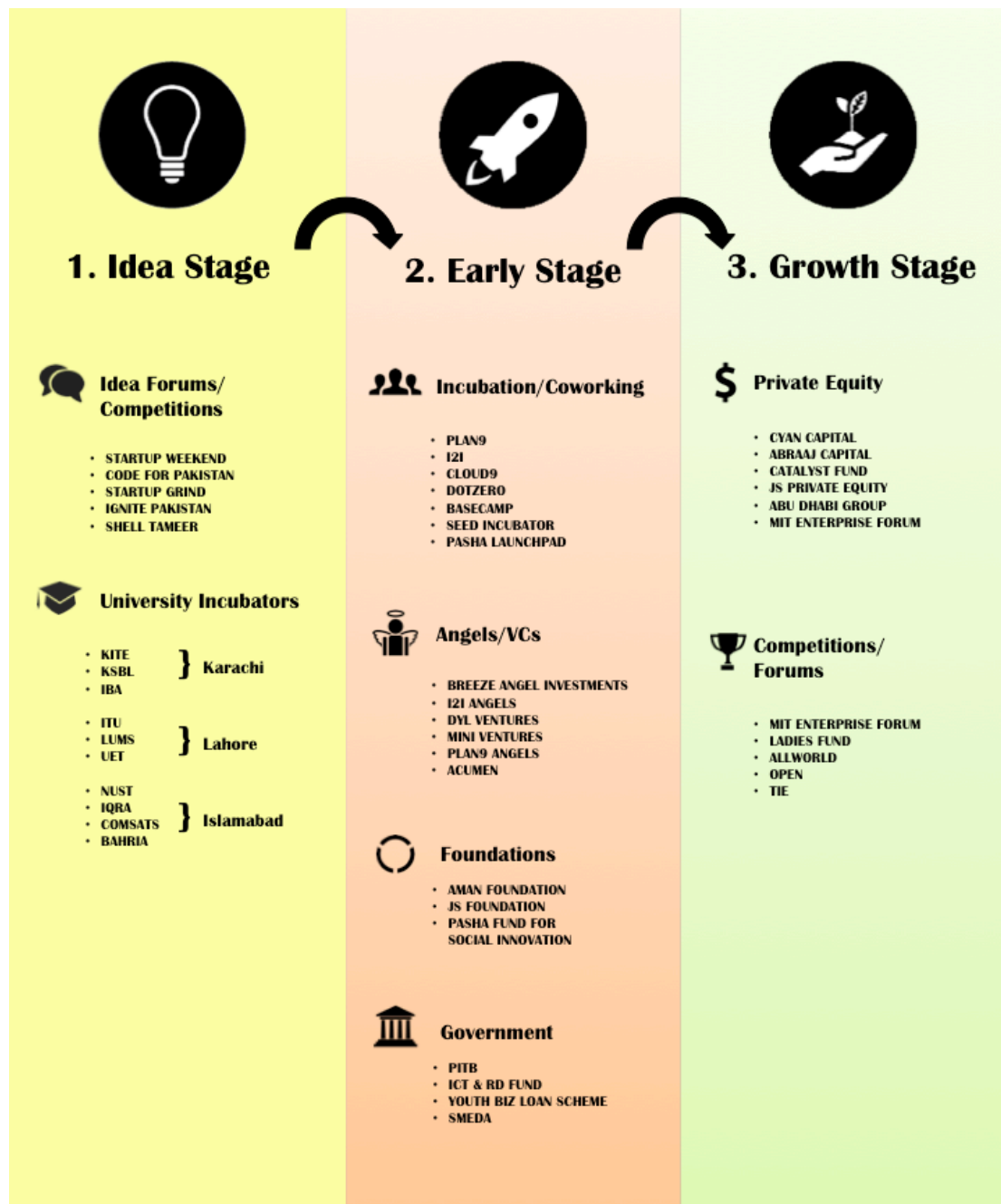
The i2i team also interviewed over 15 leading entrepreneurs and stakeholders on the gaps and challenges facing businesses in Pakistan. Finally, i2i reviewed a number of past reports and studies as secondary sources for this analysis. This study encompasses the gaps and challenges that face entrepreneurs who are part of the formal sector, and given the nature of the survey respondents, focuses relatively more on challenges facing the technology sector.

ECOSYSTEM MAP

In the last two years, Pakistan’s entrepreneurship ecosystem has grown, with an increased number of new organizations, funds, and initiatives supporting entrepreneurs.

While a number of gaps & challenges prevail for entrepreneurs in Pakistan, the increased frequency of activity is encouraging. Moreover, though security issues, corruption, and political instability have increased the perceived risk for foreign investors, it has also in turn caused Pakistan to look inward and fuel indigenous innovation. Pakistani entrepreneurs, industry leaders, and local organizations have largely led the growth of the entrepreneurial ecosystem in Pakistan in recent years. In *Startup Communities*, Brad Feld, the co-founder of Techstars,ⁱⁱ noted that leaders of a growing startup community must be entrepreneurs who have a long-term commitment to growing the ecosystem and “must be inclusive of anyone who wants to engage with the community.”

The ecosystem can be divided into two direct domains for analysis – finance and support, from which initiatives from government, foundations, corporations, investors, universities, and entrepreneur support organizations (incubators, accelerators, coworking spaces, competitions, industry associations, and forums) are listed in relation to the life cycle of an [opportunity] entrepreneur – (1) idea stage (2) early stage and (3) growth stage.



****Finance****

Government

Pakistan's current political party in power, the Pakistan Muslim League – Nawaz, or PML-N, is seen as relatively more pro-business in Pakistan and has made significant strides in innovation and entrepreneurship in Punjab province in the past few years, where the PML-N has historically had a stronghold. Punjab Chief Minister Shahbaz Sharif, brother of the current Prime Minister Nawaz Sharif, established the Punjab Information Technology Board (PITB) in 2011 to make Punjab the hub of information technology in the country and develop IT as a major sphere of economic activity. PITB, located in Lahore, has launched a number of innovative initiatives since its inception under the leadership of Umar Saif, Chairman of PITB, including a number of e-

governance and e-learning projects, Pakistan's largest technology incubator Plan9, and the IT Training Academy, which offers programs and certification courses to give students appropriate skills for the workplace.

So far, the success in Punjab has not been replicated in other provinces, though the new provincial government in Khyber Pakhtunkhwa, led by Imran Khan's party Pakistan Tehreek-e-Insaf (PTI), is said to be open to initiatives that would promote entrepreneurship and job creation and recently launched the "Khud Kafalat Loan Scheme" in February 2014ⁱⁱⁱ to improve access to finance for youth starting their own businesses.

At the national level, the Prime Minister's Youth Business Loan Scheme, managed by the Small and Medium Enterprise Development Authority (SMEDA), part of the Ministry of Industries and Production, is the most notable initiative since the election of the new government.

- [Prime Minister's Youth Business Loan](#) is an initiative by the National Bank of Pakistan and championed by Maryam Nawaz, PM Sharif's daughter, to provide small business loans for youth (21 to 45 years of age) looking to launch enterprises in the country. 50% of all loans will go to women borrowers, with the aim to provide 100,000 loans with an average size of about \$20,000.
- [Small and Medium Enterprises Authority \(SMEDA\)](#) is an autonomous body under the Federal Government of Pakistan that was established to encourage and facilitate the development and growth of SMEs in Pakistan. SMEDA coordinates and builds a number of partnerships to facilitate investment through various channels. A recent partnership is with private equity firm Abraaj Group to help the fund identify investees and provide capacity building for SMEs for the USAID Pakistan Private Investment Initiative (PPII).
- [National ICT R&D Fund](#) is an initiative by the Ministry of Information Technology to provide grant funding to information & communication technology (ICT) projects as well as research collaborations between industry and academia in Pakistan.

Foundations & Fellowships

In Pakistan, a number of non-profit organizations, international agencies, and microfinance institutions provide grants and entrepreneurial trainings to low-income communities. While this is important, the purpose of this study is to assess the entrepreneurial ecosystem for SMEs led by entrepreneurs in the formal marketplace. Philanthropic funding and grants can play a significant role in supporting idea-stage entrepreneurs, and allow them to test and prove their concept for their intended market. However, there are few local foundations in Pakistan, and many fund their own programming versus independent initiatives.

- [MJS Foundation](#) (Mahvash & Jahangir Siddiqui Foundation) provides grants to support healthcare, education and social enterprise with a special focus on women, minorities, children and disabled individuals in Pakistan. The JS Foundation, with offices in Karachi, has provided considerable funding to Acumen as well as to Kashf Microfinance Bank.
- [Aman Foundation](#) is a non-profit foundation with funding seeded by Abraaj Capital. Aman focuses its grant-making activities mainly in Karachi and supports health and education. While Aman Foundation generally supports their own

programming, the organization did provide funding to seed Injaz Pakistan, a junior achievement initiative that originated in the Middle East, as well as the Institute of Business Administration's Centre for Entrepreneurial Development (CED) in Karachi.

- [P@SHA Fund for Social Innovation](#) is an initiative seeded by Google Pakistan and implemented by the Pakistan Software Houses Association for IT & ITES (P@SHA) to provide small grants to innovative ideas that use technology either as a development platform or as a platform for delivery.
- [Ashoka](#) is a global social entrepreneur organization that recognizes leading social entrepreneurs through their Ashoka fellows program. Ashoka fellows receive funding and work in over 70 countries around the world. Ashoka has supported 47 fellows in Pakistan thus far, though have not elected new fellows in the last few years in the country.

Corporations

Corporations can play a significant role in supporting entrepreneurs in Pakistan, either through funding or through support on value chain and service delivery of their products or services. Telecommunication partners, in particular, can be instrumental in expanding an entrepreneur's reach to their target customer base given that there are 120 million mobile phone subscribers in the country. Currently, very few corporations have taken initiative in supporting startups in the country. While Coca Cola Pakistan does support Kashf Foundation, a microfinance bank, it has not yet taken steps to similarly support innovation and entrepreneurship, as the company has done elsewhere in the world.

- [Shell Tameer](#) is an initiative by Shell Pakistan to develop entrepreneurial skills and provide startup financing for Pakistan's youth (ages 18-32). The Shell Tameer Awards recognize business successes. Shell also partners a number of organizations for Shell Tameer's implementation, including SMEDA and the Institute of Business Administration.

Angel Investors

Angel investment has been largely informal in the past in Pakistan, with successful entrepreneurs investing with their friends and in entrepreneurs they already knew. However, given the seed capital gap, it is important to formalize these practices and encourage angel syndicate and co-investment to better source funding to early-stage entrepreneurs.

- [i2i Angels](#) is Invest2Innovate's angel investment group, made up of successful Pakistani entrepreneurs who are committed to investing in companies that graduate from the i2i Accelerator program. i2i Angels currently has 10 members, and has so far invested \$275,000 in i2i's first round of entrepreneurs from 2013.
- [Plan9 Investors Club](#) is Plan9's angel investment group committed to supporting technology startups from the Plan9 technology incubator in Lahore.

Venture Capital

There are only a small number of venture capital funds in Pakistan, with previous funds, like TMT Ventures no longer operational in the country. Acumen is the longest-running venture capital firm operating in Pakistan, investing since 2002 in impact-oriented companies in the country like Ansaar Management Company, a low-cost housing company, and Kashf Foundation, a microfinance bank.

- **[Impakt Capital](#)** is South Asian centric venture capital firm committed to investing in five sectors: Food/Agro, Fast-Moving Consumer Goods (FMCG), Retail, Education, and Online and Digital Businesses. Impakt's offices are located in Karachi.
- **[DYL Ventures](#)** provides consulting services and venture capital funding to internet startups in Pakistan. DYL Ventures is based in Karachi.
- **[Acumen](#)** is a global impact investment fund that has been operating in Pakistan since 2002. Acumen's investment sectors include agriculture, education, energy, water, health, and housing, with \$14.6 million invested in companies thus far. Acumen Pakistan's head offices are in Karachi, with a smaller office in Lahore (global headquarters are in NYC).
- **Breeze Angel Investments** is an early stage technology fund that invests in about two to three deals a year, based in Karachi.
- **[Mini Ventures](#)** is a seed fund for small sized technology ventures and aims to fund, mentor and help launch start-ups to create an entrepreneur-friendly eco-system in the Pakistan market. Mini Ventures is based in Karachi.
- **[SEED Ventures](#)** provides investment to for-profit social enterprises in Pakistan, and also provides incubation space to startups based in Karachi via the SEED Incubation Centre.
- **[Indus Basin Holdings](#)** is a London and Islamabad-based firm that invests in high-growth agribusiness projects that have a lasting and meaningful impact on small-hold farming communities in Pakistan.

Private Equity

There are few private equity funds in Pakistan, with many citing deal flow and lack of exits as continuing issues. Recently, the United States Agency for International Development (USAID) announced the Pakistan Private Investment Initiative (PPII) to invest private equity in Pakistani SMEs. PPII pledged to seed two individual funds with \$24 million each, which will be matched by local private equity funds. As Dr. Rajiv Shah, USAID Administrator noted in June 2013, "Pooled funds will initially be \$100 million which we expect will grow many fold into hundreds of millions of dollars in investment for small and medium businesses."^{iv}

- **[Cyan Capital](#)** is a Pakistan-focused private equity firm in sectors like agriculture, logistics, retail, technology & media, telecommunications, education, pharmaceuticals, and healthcare. The Dawood Group of Companies launched the fund, whose offices are in Karachi.
- **[Abraaj Capital](#)** is a Dubai-based private equity fund that invests globally. The Abraaj Group and JS Private Equity partnered to win a bid to implement USAID's Pakistan Private Investment Initiative to mobilize at least \$150 million in private equity investment in Pakistan.
- **[JS Private Equity](#)** is a private equity fund under the JS Group of Companies. JSPE is working with Abraaj Capital to mobilize private equity investment in Pakistan via the PPII.
- **Catalyst Ventures** is a new private equity fund based in Islamabad that is also implementing USAID's PPII in Pakistan.
- **Abu Dhabi Group** is a foreign private equity firm that makes investments in banking, telecommunications, and real estate. Notable investments for the fund include Bank Alfalah, Warid Telecommunications, and United Bank Limited in

Pakistan. Last year, the fund committed to invest \$45 billion in various construction projects in Pakistan.

****Support****

Competitions & Forums

There are a number of competitions and forums within Pakistan to support entrepreneurial ideation, provide start up financing and validation, and raise visibility for companies in Pakistan. While this activity is exciting, it's important for ideas that result from such competitions to receive additional business support post-event to ensure that good ideas can turn into viable businesses.^v

- [Startup Weekend](#) is a global network of decentralized hackathons, in which potential entrepreneurs work in teams to launch a startup in just 54 hours. There have been a number of Startup Weekends in the country – in Islamabad, Karachi, Lahore, and Peshawar.
- [Pakistan Innovation Foundation](#) launched an initiative called the National Innovation Grand Challenge that is an “idea to reality” competition for individuals to create entrepreneurial solutions to Pakistan’s development problems.
- [P@SHA Launchpad](#) is an annual series of events that occur across the country. Organized by the Pakistan Software Houses Association for IT & ITES, the Launchpad series aims to identify and reward promising tech-based business ideas in Pakistan. It also recognizes promising startups and entrepreneurs during its Annual ICT Awards conference – winners of Pakistan’s awards go on to compete in the Asia Pacific ICT Awards (APICTA). In 2014, APICTA will be held in Pakistan for the first time.
- [Startup Cup](#) is a global network of locally driven business model competitions. The first Pakistan Startup Cup was organized in 2013 in partnership with TiE (The Indus Entrepreneurs) Islamabad Chapter.
- [Code for Pakistan](#) is a series of civic hackathons that aim to produce entrepreneurial solutions to improve the quality of life in Pakistan. Code for Pakistan has run Civic Hackathons in Karachi, Lahore, and Peshawar, with follow-on group meetings in Lahore for participants called the Lahore Brigade.
- [Global Innovation through Science & Technology \(GIST\)](#) helps to build entrepreneurial ecosystems around the world. The organization in particular aims to accelerate technology entrepreneurship through competitions and mentoring.
- [Jumpstart Pakistan](#) is a new forum/competition for early-stage entrepreneurs, located in Islamabad.
- [MIT Enterprise Forum Pakistan](#) is a chapter of the global MIT Enterprise Forum and aims to support technology businesses in the country. MITEFP’s Business Acceleration Program (BAP) aims to help accelerate the participating IT companies/teams to the next level by putting these companies/teams through a mentoring/coaching program.

Universities

There is a large role that universities and academia can play in supporting and promoting entrepreneurship, particularly providing space for students to test and incubate potential businesses and learn entrepreneurial skills. In Pakistan, where there are 128 fully recognized universities, there has been much activity at the university level in regard to

entrepreneurship incubation centers and courses. The Higher Education Commission, in particular, has played a role in promoting incubation at state universities (70 in the country), though the quality of such programs still need to be strengthened, and coordination among universities is extremely important.

- [Lahore University of Management Sciences](#) (LUMS) is a private tier 1 university in Lahore and one of the top schools in the country. LUMS is in the process of launching the Centre for Entrepreneurship in 2014, which will include an incubator program (irrespective if they are a student at LUMS), adaptive office space, and a seed fund.
- [National University of Science & Technology](#) (NUST) is a tier 1 university in Islamabad and another top school in Pakistan. NUST's Centre for Innovation & Entrepreneurship provides programming and space for NUST students who want to test and build their ideas into businesses.
- [COMSATS Institute of Technology](#), a university in Islamabad, provides students incubation and business support at their school via the Business Incubation Centre, and also aims to commercialize research that comes out of CIIT.
- [Institute of Business Administration](#) (IBA) is a tier 1 university and one of Pakistan's top business schools located in Karachi. IBA's Centre for Entrepreneurial Development (CED) provides entrepreneurship courses and space for students.
- [Karachi Institute of Technology & Entrepreneurship \(KITE\)](#), based in Karachi, provides students with a practical and technology centric education and an ecosystem with entrepreneurs and seasoned executives for networking.
- [Karachi School of Business & Leadership \(KSBL\)](#) is a strategic collaboration with Cambridge University to be a world-class business school in Pakistan.
- [Information Technology University](#) (ITU) is a new university based in Lahore that aims to teach entrepreneurial, industry-level technology skills, with courses on design thinking, critical thinking, and state of the art technology.
- [University of Veterinary & Animal Services](#), based in Lahore, established their Business Incubation Centre (BIC) in July 2011 in collaboration with the Higher Education Commission (HEC). BIC is the 5th incubator set up by the HEC in Pakistan to promote a more inclusive business environment, and develop stronger industry-academia linkages.

Other Universities

- **IBA Sukkur** (Centre for Entrepreneurial Leadership & Innovation)
- **University of Engineering & Technology, Peshawar**
- **Bahria University Entrepreneurship Centre, Islamabad**

Incubators

Incubators generally provide free office space and mentorship to idea-stage entrepreneurs to test and iterate their product or service. Currently, there are a number

of incubators in Pakistan, but the most notable program is Plan9, the country's largest technology incubator.

Plan9 is an initiative by the Punjab Information Technology Board (PITB) and is Pakistan's largest technology incubator. Housed at Arfa Software Park in Lahore, Plan9 has incubated 47 technology startups, and graduated 20 companies. Some of their graduates, like Eyedeus Labs have gone on to global incubation programs like Blackbox in the United States.

Cloud9 Startups provides free incubation space and seed capital up to \$10,000 for technology startups. Cloud9 is based in Islamabad and currently has three portfolio companies.

Accelerators

Accelerators typically provide business support and mentorship to businesses that are still early-stage but have achieved some sort of traction with their product or service. Accelerators sometimes invest in their startups, or take a small percentage of equity in these companies.

- **Invest2Innovate** accelerates early-stage impact entrepreneurs in Pakistan and connects them to mentorship and seed capital via i2i Angels, their angel investor group. The i2i team is based in Islamabad, but the program runs between Lahore and Karachi over four months each year. i2i has accelerated 11 companies thus far.

Coworking Spaces

Coworking spaces not only provide physical and subsidized office space for startup entrepreneurs and take care of many overhead and infrastructural headaches like electricity and internet, but it also creates a community for startups in the cities where they work. Coworking is a new concept in Pakistan, but it is gaining in traction and popularity.

- **DotZero** is a coworking space in Karachi founded in 2013 by four technology entrepreneurs. DotZero provides workspace and desks for startups, and also has a community space where the organization hosts events and talks to further foster the entrepreneurial ecosystem.
- **TechHub** is a new workspace for freelancers in Lahore, launched by the Punjab Information Technology Board (PITB) in 2014, run by the Plan9 Incubator, and under the umbrella of the Information Technology University (ITU) – all three, TechHub, Plan9, and ITU are housed at the Arfa Software Park in Lahore.
- **Basecamp** is a new coworking space in Peshawar that provides office space to startups as well as community events and networking. It was founded in 2013.

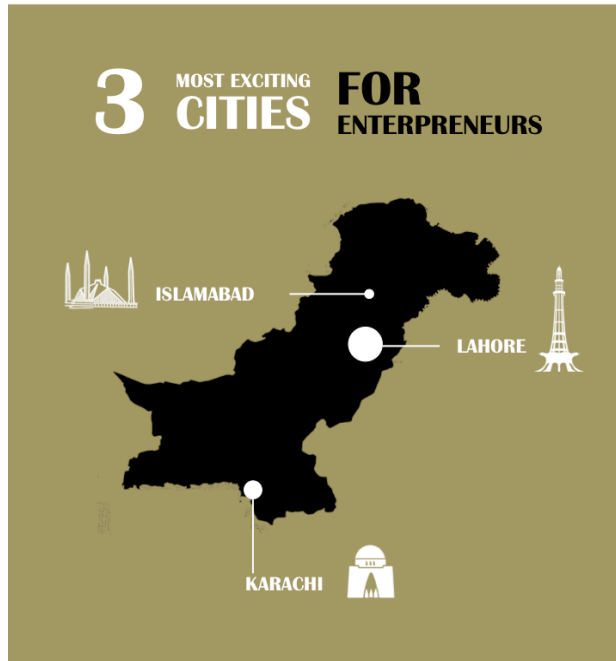
Industry Associations/Networks

There are a number of entrepreneur associations and groups in the country, which aim to build community and celebrate successes of entrepreneurs. OPEN, the Organization of Pakistani Entrepreneurs, for instance, began as an entrepreneurs network for the Pakistani Diaspora in the United States, but has since launched chapters in Islamabad, Lahore, and Karachi. TiE, The Indus Entrepreneurs, is for South Asian entrepreneurs, and has local chapters in all three major cities.

- [P@SHA](#) is the major association for software and IT companies in Pakistan. It holds a number of competitions and initiatives and serves to strengthen the entrepreneurship environment, particularly for technology companies.
- [OPEN](#) recently launched local chapters in Karachi and Lahore (with a chapter soon to be launched in Islamabad) and host annual conferences as well as quarterly events and networking opportunities.
- [TiE](#) is similar to OPEN except that its network includes both Indian and Pakistani entrepreneurs abroad. TiE has chapters in Islamabad, Karachi, and Lahore.
- [AllWorld](#) is a network for entrepreneurs in emerging markets, and aims to create the largest information system and network of growth entrepreneurs. The Pakistan100, for example, is a ranking of the fastest growing private companies in the country.
- [Ladies Fund](#) is a network for women entrepreneurs and business leaders, and is headquartered in Karachi.

Entrepreneurial Activity Mapping in Pakistan

The Entrepreneurial Activity Map of Pakistan gives a snapshot of the different activities happening in the major cities of Pakistan.



LAHORE

Lahore has the most entrepreneurial activity overall in Pakistan. It is also home to the largest tech incubator in Pakistan, Plan9, supported by Punjab IT Board (PITB).



20 GRADUATED FROM PLAN9
1 COWORKING SPACE
4 UNIVERSITY INCUBATORS



KARACHI

Karachi is the commercial capital of Pakistan, and houses many of the country's VC & PE Funds.

20 FUNDS & PE FIRMS
2 COWORKING SPACES
4 UNIVERSITY INCUBATORS

ISLAMABAD

Islamabad is the capital and has shown promise for emerging entrepreneurs. The presence of government agencies such as SMEDA and ICT R&D makes it the hub for all government supported initiatives to boost the entrepreneurial ecosystem. It's also home to the nationwide accelerator program for startups - invest2innovate.



1 ACCELATOR PROGRAM
4 UNIVERSITY INCUBATORS

ECOSYSTEM TRENDS & OBSERVATIONS

Based on the ecosystem map above, we can make a few observations of trends and overarching gaps:

- While SMEDA has been operating in Pakistan for a number of years and the new PM Youth Loan Scheme is an exciting development, currently government initiatives mainly involve loans to young businesses. There is an opportunity for the government to play a stronger role in regard to seed investment in startups, thereby taking on risk in lieu of investment funds at an early-stage level.
- Foundations and philanthropic capital can play a key role in the life cycle of an entrepreneur, providing seed grants that are high-risk and no-return. This will give startups room to test their market and make mistakes so that they are more investment-ready for Angel or VC Investment Funds later.
- Currently, there are very few foundations in Pakistan that award grants to initiatives outside their own programming – Aman Foundation, as an example is doing excellent work in Pakistan, but outside of Injaz and IBA, they do not currently support new initiatives outside of the Aman umbrella, nor they do work outside of Karachi.
- Overall, there is a lack of formalized VC and Private Equity players in Pakistan with a small number of investments that can further encourage activity in this space. We will discuss this further in the Gaps & Challenges section of this report.
- While there has been an increased amount of ecosystem activity, many initiatives, coworking spaces, competitions and incubators have only emerged in the past two years and need time to mature and garner success stories.
- There has been increased activity in Pakistan, particularly with competitions & forums, but there also has been a lot of noise and some issues in regard to quality of events and follow-up with startups post-challenges.
- There is a need to build a stronger pipeline, connecting entrepreneurs post-competitions to next-stage incubation or acceleration programs that then get them ready for early-stage investment. The focus of competitions should be on building *businesses* that can succeed in the country, not just on selecting winners of competitions. The ecosystem culture should value execution not just ideation.
- Many universities are building incubation centers on their campuses, but few are sharing best practices with one another, or truly altering their curriculum to encourage critical thinking and other facets of an entrepreneurial mindset. University incubation centers can play a significant role in giving students space to test ideas and concepts and fail.
- There needs to be more genuine incubator and accelerator programs in Pakistan. Incubators are traditionally programs that provide free space to participants as well as mentorship & networking opportunities to give them room to test and iterate their concept. Accelerator programs are also cohort-based programs that are typically the stage after incubation, providing support to entrepreneurs that are already generating revenue or have some traction with their product or service.
- Currently, the Pakistani Diaspora plays a strong role in the country, and is the 7th largest Diaspora in the world, sending home \$13 billion in 2012 in remittances. Associations like OPEN, TiE, and competitions like the MIT Enterprise Forum Pakistan are all positive efforts by the Diaspora to engage the entrepreneurial

ecosystem. More can be done to channel remittance money into development or even investment in local companies.

GAPS & CHALLENGES

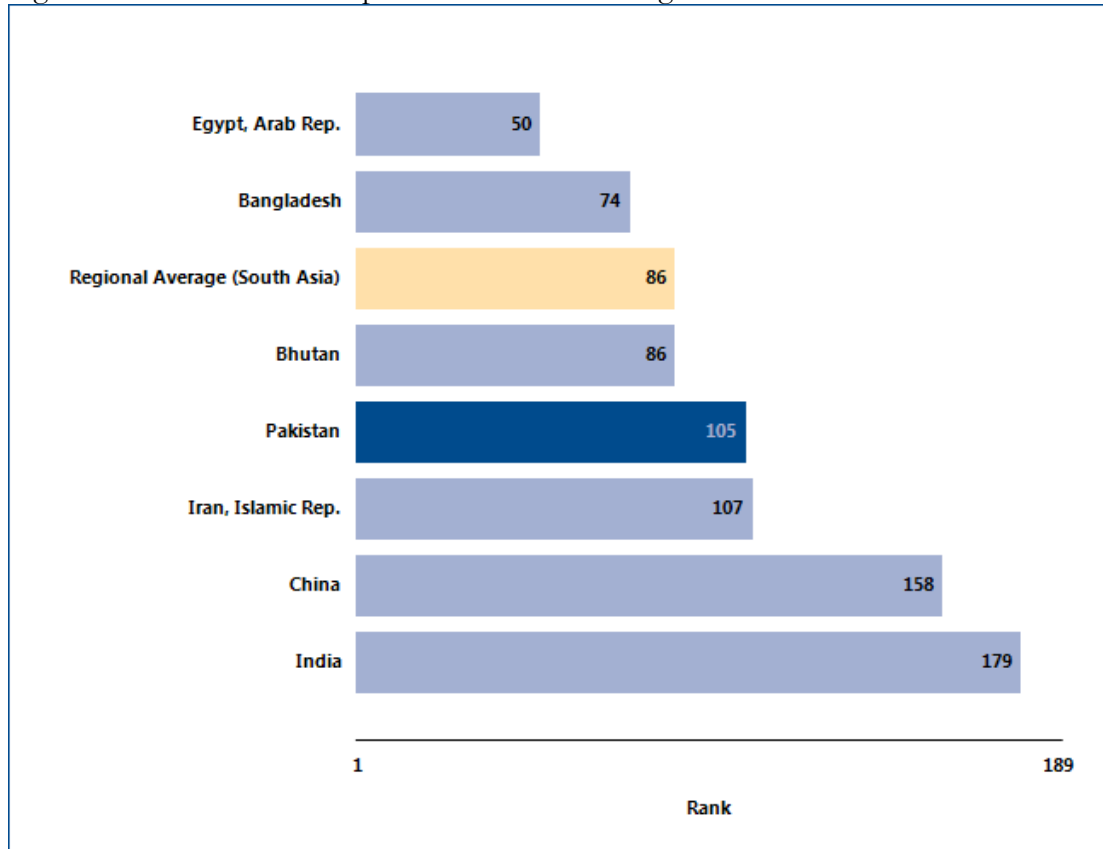
While recent ecosystem activity in Pakistan is encouraging, the support environment for entrepreneurship is still very nascent, and numerous regulatory and finance challenges persist. The overall security environment and infrastructure in Pakistan also are obstacles for entrepreneurs. In the survey conducted by Invest2Innovate in February 2014, respondents named external factors such as political instability (51%), corruption (59%), and crime/theft/disorder (42%) as major or severe obstacles to doing business in Pakistan. The continuous availability of electricity was also listed as an obstacle to running a business in the country (47.5%), with respondents also noting transport (37.6%) and security (35.3%) as somewhat difficult obstacles.

POLICY

It is essential that the government provide support, security, and a broad-based regulatory environment for businesses. Policies that increase transparency, simplify and facilitate the processes of business formalization, and support small businesses can serve as the cornerstone of a strong entrepreneurial ecosystem in Pakistan.

The current policy and regulatory framework in Pakistan is far from ideal, with the *2014 Doing Business* report by the World Bank Group ranking the country 110 out of 189 economies in 2014 (as compared to 106 in 2013). In the same study, Pakistan was ranked 105 in the process of starting a business in the country, in which entrepreneurs needed about 21 days to complete a dozen procedural requirements with a cost of 10.4% of income per capita. According to the report, “in South Asia six out of eight economies completed 11 reforms, simplifying the process of starting a business, strengthening access to credit or easing the process of paying taxes. Pakistan was not among these six countries.”^{vi}

Figure 3: How Pakistan compares on Ease of Starting a Business



Source: *Pakistan Doing Business Report, 2014*

In a survey conducted by Invest2Innovate of 119 firms in Pakistan, 48% felt they faced either no or minor obstacles in attaining a business license or permit, while 55% said it was either easy or somewhat easy to open a bank account in the country. Also, only 31% saw tax administration as either a minor obstacle or not an obstacle at all.

Nevertheless, entrepreneurs in Pakistan face a complex and opaque regulatory environment. The State Bank of Pakistan (SBP), the Securities & Exchange Commission of Pakistan (SECP), the Board of Investment (BOI), and the Competition Commission of Pakistan (CCP) are among the main government agencies that design and oversee the commercial and financial regulatory framework. In an interview with Zahid Jamil, a leading lawyer in the country with the firm Jamil & Jamil, he noted that complex regulatory policies ultimately encourage criminal conduct and corruption in the business community, given that entrepreneurs will have to bend or break laws to keep their businesses running and achieve their aims.^{vii} In effect, he added, we are criminalizing good actors rather than enabling them, and not doing enough to hold bad actors accountable.

A 2010 report, “Creating a Place for the Future,”^{viii} prepared for the Planning Commission of Pakistan, further echoed that this lack of a favorable enabling environment in Pakistan mean many entrepreneurs direct their energies to rent-seeking rather than productive entrepreneurship that contribute to much-needed equitable growth. The report states, “Business leaders have become conditioned to an environment in which the short-term gains from seeking advantage from the government are systematically greater than longer-term gains from the identification and exploitation of genuine economic opportunity” As a result, rent-seeking behavior ultimately

undermines a firm's incentive to innovate. Nadeem Haque, the Former Deputy Chairman of the Planning Commission (who commissioned the aforementioned report), stated in an interview with i2i that current regulatory policies also favor the government over private players,^{ix} ultimately keeping business out.

In an interview with i2i, Khurram Zafar, the former CIO of the Lahore Stock Exchange and the current Executive Director of the new LUMS Center for Entrepreneurship, noted that the government at the national and provincial level must not just support startups in Pakistan, but also businesses that have grown in this environment. The government, he suggested, can reduce preconditions for procurement and carve at least 20% of large-scale projects to allow businesses to compete and participate in this space.^x

While critics often point to the complex regulatory environment as a disabler of entrepreneurship and innovation in Pakistan, the solutions are actually not complex. According to the *Doing Business* report, "If a city in Pakistan adopted all existing best practices in the six areas covered by the report, it would rank 69th out of 183 economies—16 places ahead of Pakistan's position in *Doing Business 2010*." However, Pakistan has not initiated any new reforms since 2010, when the government introduced an e-service registration system, allowed an online registration system for sales tax, and removed requirement to make declaration of compliance on a stamped paper.

According to Jamil, reform of past policies would not require legislation or millions of dollars. Instead, he noted, "Every single thing is solvable by simple administrative sign offs."^{xi} What is needed, however, is the political will to reform, and federal push to have a long-term vision when it comes long-term growth in the country. Without policy directives to reform such policies, we are left with an environment that is difficult for entrepreneurs to enter, navigate and succeed.

FINANCE

The complex regulatory environment and lack of transparency not only impedes entrepreneurship, it also acts as an obstacle for commerce and investment. The current finance environment in Pakistan is fraught with many bottlenecks and challenges. As indicated in the ecosystem map earlier in this report, there are only a small number of formal institutional funds in the country, and while efforts like the Pakistan Private Investment Initiative (PPII) are encouraging, such investment vehicles focus on businesses ready for private equity investment, not entrepreneurs who require seed capital.

Given the nascent entrepreneurial ecosystem, there is still a major capital gap for startups looking for early-stage investment, either from angel investors or formal VC funds. As a result, entrepreneurs with either the personal means or strong networks to garner informal investment are more likely to succeed. In the survey conducted by Invest2Innovate, 76% of entrepreneurs surveyed said they used personal funds to start their business, while 37% said they received funding from family and friends. Meanwhile, 84% of respondents said it was either difficult or 'somewhat difficult' to raise investment for startups.

There is a chicken-egg problem in regard to Pakistan's investor environment. While many investors acknowledge the capital gap for entrepreneurs, they also note the significantly higher risk that comes with investing in earlier-stage companies in Pakistan.

Farrukh Khan, the Pakistan Director for Acumen, noted that due to the complex regulatory environment and lack of infrastructure, the cost of due diligence is much higher with early-stage companies than later-stage firms.^{xiii} Investors require a certain level of governance and transparency in businesses. Given that the current regulatory environment does not encourage entrepreneurs to have such structures in place, VC funds have to engage in a lot more hand holding to ensure investments are sound.

At the same time, if early-stage investment is not mobilized, this will in turn impact deal flow for later-stage investors. Entrepreneur support organizations, like Plan9 and Invest2Innovate, can play a strong role in reducing due diligence costs and overall risk for investors through capacity development and business support of these startups. Government can also play a significant role in seed-stage investment, absorbing risk that investors are less willing to take on. Although the PM Youth Loan Scheme, which aims to deploy 100,000 loans to support businesses led by Pakistani youth, is a positive step in the right direction, the government should build a more long-term initiative that does not expire at the end of a political party's time in power. Both Khurram Zafar and Monis Rahman, the CEO of Naseeb Networks, suggested the government launch a VC Fund to support startups in the country. Investment has a long-term horizon, and will therefore require a long-term vision that extends beyond political regimes. However, the benefits of such efforts will ultimately improve deal flow, and encourage more private funds to take on more risk and invest earlier-stage.

Isfandiyar Shaheen, the co-head of Growth Equity at Cyan Capital, a private equity investment fund in Pakistan, also noted in an interview with Invest2Innovate that there is an overall lack of reliable data on Pakistan's industries, particularly in agriculture. This lack of information is an impediment for funds that require transparency and credible data to make sound investments. According to Shaheen, "You buy something when you understand it."^{xiii}

Although many point to an overall lack of exits (either via mergers & acquisitions or initial public offerings) as a reason behind the small number of funds operating in Pakistan and corresponding low investment activity, Shaheen noted that this phenomenon is a function and effect of the larger problem – an opaque investor environment. Not only should data become more readily available for investors, but it also should be collected and verified by an objective third party.

According to the U.S. Department of State's Bureau of Economic and Business Affairs 2012 Study on the Investment Climate in Pakistan, "Foreign investors in Pakistan have complained of being subject to a confusing array of federal and provincial taxes and controls." Jamil, in his interview with i2i, noted the minimum allowable investment in the non-financial services sector for foreign investors (excluding Diaspora Pakistanis possessing a National Identity Card for Overseas Pakistanis) is \$150,000, meaning that if an investor purchases a share of a Pakistani company, it has to be worth \$150,000.^{xiv} This is therefore challenging for startups in the services industry looking for smaller amounts of capital, or for foreign investors who wish to co-invest a smaller amount of capital to dilute risk.

For local funds, there are also barriers to entry. In an interview with i2i, Ali Saigol, the Director of Indus Basin Holdings, which invests in mainly agribusinesses in Pakistan, he noted that Private Equity Investment Licenses are only valid for three years. "Our fund

has a ten year life, which means we have to renew that license three or four times, which is not encouraging for people to start more funds.”^{xv}

Nevertheless, most investors that i2i interviewed for this study were optimistic about prospects for investing in Pakistan. Consumer-facing industries as a whole are exciting, with sectors like telecommunication infrastructure, healthcare, retail, and internet-based startups presenting attractive opportunities. In the mobile phone sector, the long-awaited auction for 3G promises to revolutionize the telecommunications space, which achieved 73% market penetration in just the last decade. In an article for Pakistan’s *Business Recorder*, Wasio Ali Khan Abbasi wrote, “Businesses could start offering digital services for mobile users that were not possible with 2G. These include data sharing, file transfer, business-specific as well as general information-sharing services.”^{xvi} Startups can also further innovation using mobile phones with the advent of 3G and 4G.

While the advent of 3G is an exciting development, the need for a proper online payment system still persists, particularly to support e-commerce. Paypal and other payment platforms that can be leveraged by internet-based companies do not currently exist in Pakistan, meaning that companies need to set up such systems offshore. According to Jamil, there is a need for the State Bank of Pakistan to reform provisions for online payments and electronic money under the Payment Systems and Electronic Fund Transfer Act of 2007.

In the last four years, banks in Pakistan have adopted more risk-averse lending behaviors, partly due to poor economic conditions and growing non-performing loans. While it is relatively easy to lend to large corporates where the economies of scale, published financial information, collaterals and creditworthiness parameters favor such types of lending, small businesses cannot offer adequate collateral and banks are unable to determine whether the borrower possesses technical, managerial and marketing skills that will allow them to generate adequate cash flows and repay the loan on time. As a result, it is difficult for SMEs to receive loans from local banks to support their business growth. Banks can improve access to finance for SMEs by providing more customized and differentiated financial products and services to suit different SME segments. There is also a need to develop and implement appropriate credit evaluation techniques used globally, such as credit scoring, cash flow-based lending and program-based lending.^{xvii}

SUPPORT

In the last two years, the increase of entrepreneur support organizations – incubators, coworking spaces, accelerators, industry associations, competitions, and forums – is encouraging, particularly given the role that these ESOs can play in managing and diluting risk for investors in Pakistan.

However, while the activity is exciting, a lack of coordination persists, as well as a need to monitor the quality of such events and organizations. Entrepreneurship and startups have become buzzwords in the country, and as such, there are a lot of initiatives that launch without long-term plans to affect change or without a strategy of how they fit into the broader entrepreneurial environment.

At the university incubator level, there is a broad need for coordination and sharing of best practices among private and public institutions. The new LUMS Center for Entrepreneurship promises to host an exciting new incubator for startups, and the

NUST Center for Innovation & Entrepreneurship has already produced several interesting companies. These universities can support the growth of other similar centers at Tier 3 or Tier 4 universities in the country, and advise the Higher Education Commission (HEC) on replicating this model with public universities elsewhere. So far, the HEC has helped set up six technology/business incubation centers at the Agriculture University Faisalabad, KPK University of Engineering and Technology Peshawar, COMSATS Institute of Information Technology Islamabad, University of Veterinary and Animal Sciences Lahore, Institute of Business Administration Sukkur and at Quaid-e-Azam University.

Universities offer an important environment for students to test, iterate, and fail, and can provide both free space and mentorship to students, along with entrepreneurial curriculum to support this growth. In the survey conducted by Invest2Innovate, 88% of respondents felt that universities could do more to prepare students to launch their own businesses.

Incubators and accelerators like Plan9 and Invest2Innovate, beyond vetting deals, supporting entrepreneurs, and connecting startups to investment, can also support the growth of this pipeline. In a recent initiative dubbed the Plan9 Network Partnership Campaign, the incubator, launched by the Punjab Information Technology Board in 2012^{xviii}, is partnering with local universities like NUST and FAST to support the growth of their incubators and open the Plan9 network to their students. Invest2Innovate also partners with universities and other organizations to strengthen our pipeline, and offer consulting services to stakeholders.

Industry associations and organizations like P@SHA, OPEN and TiE play a strong role in creating peer support networks of entrepreneurs, providing mentorship to younger entrepreneurs, advising policy reform, and thought leadership for the ecosystem as a whole. P@SHA has especially been instrumental in Pakistan's technology sector, and has partnered with a number of organizations and corporations to further the IT space in the country. In their partnership with Google, P@SHA launched the P@SHA Fund for Social Innovation to seed technology ideas with a social good angle. The association has also worked on a number of other initiatives, including the P@SHA Launchpad series, the P@SHA ICT awards, and will be hosting the Asia Pacific ICT Awards in Pakistan in 2014. In an interview with i2i, Jehan Ara, the President of P@SHA, noted the need for support organizations to provide more in-depth trainings by more experienced entrepreneurs to young entrepreneurs (versus just sharing success stories), as well as compiling and publishing local case studies of businesses.^{xix}

The advent of coworking spaces in Pakistan is a very new phenomenon, with DotZero, TechHub, and Basecamp launching in the last year. Such communities are significant for the growth of the ecosystem because it lowers the startup costs for entrepreneurs by providing subsidized office space, and manages infrastructure needs like internet and electricity, which, in Pakistan, is a major advantage.

Overall, the growth of support organizations is exciting, but given that these entities are so new, it is difficult to measure their success at this time. It is therefore important for associations, forums, and organizations to coordinate activities in order to strengthen the overarching pipeline for entrepreneurship. While business competitions and hackathons support initial ideation of initiatives, they must work in tandem with incubators and accelerators to ensure that good ideas can attain further support and mentorship to grow

into well-executed businesses. Incubators and accelerators must in turn coordinate with each other as well as with players both upstream and downstream the entrepreneurial pipeline to not only select high-potential entrepreneurs and help them attain seed capital, but also to ensure their success later down the pipeline in achieving scale and follow-on financing.

HUMAN CAPITAL

Invest2Innovate's interviews and research indicate that the lack of developed human capital plays a major obstacle to strengthening the entrepreneurial ecosystem in Pakistan. Traditionally, attention has been more focused on the policy framework, access to finance and capital, and the development of business support services, which has left human capital issues out of the spotlight and has resulted in limited intervention in that area.

In the survey conducted by Invest2Innovate, respondents listed a number of challenges in hiring and retaining good talent for their businesses, including a lack of availability of good talent in their required field (41%), an overall lack of values, ethics, and transparency within human capital (51%), and a lack of motivation among good talent to work for startups in Pakistan (51%).

i2i interviewed Fatima Asad-Said, the Executive Director of Abacus Consulting, who emphasized that identification of the right talent continues to be a challenge, and companies need to invest quite significantly in talent, particularly to improve communication skills^{xx}. Benje Williams, the co-founder of Amal Academy, a soft-skills training institute in Pakistan, echoed the need for soft skills development, such as interpersonal skills, pitching, professionalism, persistence, and multitasking.^{xxi}

Universities should focus on grooming students for the workforce and incorporating critical thinking and soft skills to better ready them for jobs. Yasser Bashir, CEO of Arbisoft, a technology company based in Lahore, further noted that universities should do more to train youth for launching their own businesses, rather than just attaining jobs post-graduation^{xxii}. Rather than be output-focused, universities can learn from their counterparts in the United States, in which business or engineering students are also taking liberal arts courses and interdisciplinary approaches to their education. Schools should build and incorporate case studies that are entrepreneurial in nature in their curriculum rather than just those of big corporations. For example, by highlighting growth of companies like Packages or Rozee.pk will not only provide students practical knowledge, it will also give them local success stories.

Early-stage entrepreneurs often operate on bootstrapped budgets and face the challenge of finding and hiring good talent due to their inability to pay competitive wages. In countries with a more robust entrepreneurship ecosystem like the United States, entrepreneurs can offer new hires equity in exchange for lower salaries, thereby enabling them to find and hire strong talent. In Pakistan, there is still a lack of awareness and education surrounding equity and its intended benefits, which unfortunately affects the human capital pipeline. Moreover, even if startups find good talent, retaining them also proves to be challenging, with employees often leaving to join higher salaried positions at corporations or international companies.

Entrepreneurs from Pakistan's technology sector also noted that the easily replicable nature of businesses with the IT sector has led to problems related to talent poaching and employees leaving to setup companies to compete with former employees. These ethical issues foster distrust and a lack of transparency within the space.

CONCLUSION

While a number of gaps and challenges continue to persist in Pakistan's entrepreneurial framework, recent activity by an increased number of players and stakeholders is encouraging. On the macro level, there is a need for the government to address longstanding regulatory issues, as well as those related to infrastructure like electricity, gas, and security. At the federal level, the Pakistan government needs a long-term and consistent vision for enacting change, especially given that the results of such efforts may not be seen for a number of years, and likely when a new party is in power. Federal agencies and institutions can play a significant role in diluting risk for investors, investing in nascent companies, and reducing barriers in access to finance. On the micro level, the number of players will continue to increase, but those stakeholders must also work together to coordinate efforts and strengthen the pipeline for young startups. The perception issues that have plagued Pakistan and deterred foreign investors have as a result fueled indigenous innovation, led by local entrepreneurs and industry leaders. Innovation and entrepreneurship in Pakistan has increased despite all these issues at the macro level. This speaks to the energy in the country, and local desire to affect change through entrepreneurship. We need to tell success stories and build case studies to further build entrepreneurial motivation among the country's youth. Entrepreneur leaders in the Pakistani Diaspora can also continue to play a role in supporting this growth, providing virtual mentorship, funding, and potential investment. As Brad Feld emphasized in *Startup Communities*, "Building a startup community is not a zero-sum game where there are winners and losers; if everyone engages, they and the entire community can all be winners."

ⁱ Teller, Siim. "Pakistan Market Trends 2013: Online, Mobile, Social – Things Are About To Take Off." *Ansr.io*. 24 June 2013

ⁱⁱ Feld, Brad. *Startup Communities: Building an Entrepreneurial Ecosystem in Your City*. Wiley; 1 edition (October 9, 2012).

ⁱⁱⁱ Daudzai, Riaz Khan. "KP Launches Rs 2b Khud Kafalat Scheme." *The News*. 13 February 2014. <http://www.thenews.com.pk/Todays-News-7-232210-KP-launches-Rs2b-Khud-Kafalat-Scheme>

^{iv} USAID Press Office. "USAID launches Pakistan Private Investment Initiative to mobilize at least \$150 million in private equity investment." 25 June 2013.

^v Zafar, Khurram. "Promising Entrepreneurial Developments." *Spider Magazine (Dawn)*. 17 January 2014.

^{vi} *Doing Business 2014. Economy Profile: Pakistan*. World Bank & International Finance Corporation.

^{vii} Skype Interview, Zahid Jamil.

^{viii} Auerswald, Philip, Bayrasli, Elmira, and Shroff, Sara. "Creating a Place for the Future: Toward a New Development Approach for the Islamic Republic of Pakistan." *Competitiveness Support Fund*. December 2010.

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- ix Phone interview, Nadeem Haque.
- x Skype interview, Khurram Zafar.
- xi Skype interview, Zahid Jamil.
- xii Phone interview, Farrukh Khan.
- xiii Skype interview, Isfandiyar Shaheen.
- xiv Interview, Jamil.
- xv Phone interview, Ali Saigol.
- xvi Abbasi, Wasio Ali Khan. "Future of Mobile Banking with the Advent of 3G." Business Recorder. 13 March 2014. <http://www.brecorder.com/supplements/88/1162252/>
- xvii Hussain, Ishrat. "SME Financing: Issues and Strategies." http://www.sbp.org.pk/about/speech/financial_sector/2005/SME_Financing_10_May_05.pdf
- xviii Interview, Nabeel Qadeer, Program Manager, Plan9.
- xix Interview, Jehan Ara.
- xx Phone interview, Fatima Asad-Said.
- xxi Interview, Benje Williams.
- xxii Skype interview, Yasser Bashir.