

Policy Paper

Fixing the Foundation— Rebuilding Capital Formation and Investor Confidence in Pakistan’s Startup Economy

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PBC's major thrust is **"Make-in-Pakistan"** with three pillars: **"Grow More/Grow Better"**, **"Make More/Make Better"** and **"Serve More/Serve Better,"** all with the objective of generating jobs, promoting exports and reducing imports. This study is under the **"Make More/Make Better"** pillar.

The Pakistan Business Council: An Overview

The Pakistan Business Council (PBC) is a research-based business advocacy platform established in 2005. It is now supported by over 100 private sector local and multinational businesses with significant investment in, and long-term commitment to sustainable growth of the country. They come from 14 countries, have leading roles in 17 major sectors of the formal economy, generate 40% of annual exports, contribute a third of Pakistan's total tax revenues and employ three million. Their combined sales represent every 6th Rupee of Pakistan's GDP.

PBC's major objectives are to advocate policies that lead to the creation of jobs, value-added exports and reduction in import reliance through improved competitiveness of manufacturing, services and the agriculture sectors. It also promotes formalization of the economy.

PBC's over-arching theme, **"Make-in-Pakistan"** consists of three pillars: **"Grow More/Grow Better"**, **"Make More/Make Better"** and **"Serve More/Serve Better."** Its evidence-based advocacy is backed by over a hundred studies to date through its full-time research team, supplemented by collaborative research with renowned industry experts and economists. Through its Centre of Excellence in Responsible Business (CERB), PBC works to build capacity and capability of businesses beyond its membership, to adopt high environmental, social and governance standards. PBC holds conferences, seminars and webinars to facilitate the flow of relevant information to all stakeholders in order to help create an informed view on the major issues faced by Pakistan. Through its presence in Islamabad and Karachi, it works closely with relevant government departments, ministries, regulators and institutions, as well as other stakeholders including professional bodies, to develop consensus on major issues impacting the economy.

PBC is a pan-sectoral, not-for-profit, Section 42 entity. It is not a trade body; therefore, it does not advocate for any specific business sector. Rather, its key advocacy thrust is on easing barriers that thwart competitiveness of businesses in Pakistan. The PBC's founding objectives are:

- To provide for the formation and exchange of views on any question connected with the conduct of business in and from Pakistan.
- To conduct, organize, set up, administer and manage campaigns, surveys, focus groups, workshops, seminars and fieldwork for carrying out research and raising awareness in regard to matters affecting businesses in Pakistan.
- To acquire, collect, compile, analyze, publish and provide statistics, data analysis and other information relating to businesses of any kind, nature or description and on opportunities for such businesses within and outside Pakistan.
- To promote and facilitate the integration of businesses in Pakistan into the world economy and to encourage in the development and growth of Pakistani multinationals.
- To interact with governments in the economic development of Pakistan and to facilitate, foster and further the economic, social and human resource development of Pakistan.

The PBC Member Companies





The PBC Affiliates



Preface

Why PBC Engages on Startup Capital Policy

The Pakistan Business Council (PBC) is a business policy advocacy platform established in 2005 as a not-for-profit entity. It is a pan-industry advocacy group, not a trade body and therefore does not advocate for any specific business sector. Rather, its key advocacy thrust is on easing barriers to allow businesses in Pakistan to compete in regional and global arenas. It represents Pakistan's leading private-sector businesses, including multinationals and large domestic enterprises, with a mandate to advocate for measures which will improve the domestic business climate, foster industrial competitiveness, and support evidence-based policymaking. PBC works closely with policymakers, regulators, and development partners to address structural challenges affecting economic growth, formalization, investment, and job creation.

While PBC has traditionally focused on industry, trade, and macroeconomic issues, it is now exploring new avenues to support innovation-driven economic transformation. This research marks an initial step toward understanding the structural enablers and constraints in Pakistan's startup ecosystem—particularly in capital formation—with the aim of informing future policy engagement. Startups, once viewed as peripheral to mainstream policy debates, now represent a critical node in driving employment, digitalization, export capability, and integration into global innovation networks. Through this work, PBC aims to build institutional knowledge and explore how its mandate can align with and support this emerging sector.

Crucially, many of the challenges faced by startups mirror the institutional bottlenecks that PBC has long highlighted in its work on traditional

industry. These include a complex and unpredictable regulatory environment, fragmented oversight across state institutions, weak investor protections, and underdeveloped capital markets. The absence of a coherent capital formation framework for startups is not an isolated startup-sector problem—it is emblematic of broader inefficiencies in Pakistan's investment ecosystem.

As an organization that represents both established firms and emerging sectors, PBC is uniquely positioned to articulate a cross-cutting perspective on reform. It brings to this conversation both macroeconomic understanding and private-sector credibility. The Council has previously made formal recommendations on tax policy, regulatory streamlining, and the ease of doing business—several of which directly align with the issues identified in this paper.

This policy paper reflects PBC's conviction that enabling capital formation in the startup economy is essential—not only for innovation, but for Pakistan's long-term economic resilience. The paper builds on PBC's broader institutional agenda and aims to contribute to an actionable reform conversation—one that situates startups within the country's formal economic narrative, and capital formation as a foundation of inclusive, forward-looking growth.

Finally, this research project was undertaken in collaboration with the National Science and Technology Park (NSTP) at NUST University, Islamabad. Established in 2019, NSTP is Pakistan's first fully integrated, university-backed science and technology park, designed to promote high-tech entrepreneurship and industrial R&D. Home

to over 100 resident companies, including 27 international firms conducting R&D within the premises, NSTP provides direct access to NUST's state-of-the-art research infrastructure and faculty expertise. Through its TechOne incubator, NSTP has supported startups that have collectively raised over PKR 15 billion, backed by global investors including Tokopedia, Palm Drive Capital, HOF Capital, and Peter Thiel. NSTP's growing role in the national innovation ecosystem, especially in areas like AI and chip design, makes it a pivotal stakeholder in shaping Pakistan's startup landscape.

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Acronyms

Acronym	Full Form
BoI	Board of Investment
DFI	Development Finance Institution
ETF	Exchange Traded Funds
FBR	Federal Board of Revenue
FoF	Fund-of-Funds
GEM Board	Growth Enterprise Market Board
HNWI	High-Net-Worth Individual
IPO	Initial Public Offering
KYC	Know Your Customer
LP	Limited Partner
M&A	Mergers and Acquisitions
MoITT	Ministry of Information Technology and Telecommunication
MSMEDA	Micro, Small and Medium Enterprises Development Agency
NBFC	Non-Banking Finance Company
NIC	National Incubation Center
NSTP	National Science and Technology Park
PBC	Pakistan Business Council
PE&VC	Private Equity and Venture Capital
PSF	Pakistan Startup Fund
PSX	Pakistan Stock Exchange
SBP	State Bank of Pakistan
SECP	Securities and Exchange Commission of Pakistan
SME	Small and Medium Enterprise
STZ	Special Technology Zone
UBO	Ultimate Beneficial Owner
VC	Venture Capital

Executive Summary

Despite momentary bursts of investor interest, Pakistan's startup ecosystem continues to face chronic capital scarcity and structural impediments that hinder long-term sustainability. This policy paper investigates the foundational problem of **capital formation**—how capital is raised, structured, deployed, and exited—and explores why Pakistan has failed to build a coherent, enabling environment for early-stage investment. While foreign venture capital dominated early activity, recent pullbacks have laid bare the systemic fragilities of the domestic investment base. In response, this paper provides a multi-dimensional analysis of the capital environment and offers institutional and regulatory reforms that align with Pakistan Business Council's (PBC) broader agenda for market deepening, investment mobilization, and formalization of the economy.

Pakistan's capital vacuum begins with a **weak and disengaged domestic investor base**. Family offices, corporate entities, and institutional investors such as pension funds and insurance companies remain largely absent from venture capital activity. Cultural unfamiliarity with high-risk asset classes, lack of regulatory clarity, and insufficient fund structuring mechanisms contribute to this disconnect. Meanwhile, promising early signs—such as growing interest from younger family office principals—remain isolated and unsupported by institutional infrastructure. To activate domestic capital, the paper recommends enabling pooled investment structures through legal reform, allowing for passive Limited Partner (LP) participation, and anchoring a professionally governed **fund-of-funds** to crowd in private capital.

At the operational level, **regulatory friction and fragmentation** across the SECP, SBP, and FBR create persistent uncertainty for startups and investors. From ambiguous share issuance procedures to burdensome KYC requirements and documentation inconsistencies, regulatory

misalignment not only delays capital inflows but erodes investor confidence. Commercial banks often act as additional gatekeepers, introducing further procedural rigidity beyond their remit. To address these inefficiencies, the paper recommends a **"single-window capital clearance"** mechanism and the creation of an inter-agency **Startup Advisory Board, with private sector inclusion**, that aligns regulatory frameworks, standardizes processes, and reduces inter-institutional ambiguity.

Compounding these challenges is a broader **institutional trust deficit**. Startups and investors cite frequent policy reversals, opaque tax enforcement, and mid-cycle changes in rules as deterrents to engagement. The perception of an unpredictable and unaccountable regulatory regime makes capital sticky and reinforces investor hesitancy. Cases of denied tax exemptions under government-endorsed incentive schemes serve as cautionary tales. To restore credibility, the paper recommends legally enforceable commitments for regulatory timelines, institutional accountability frameworks, and clear rules for capital protection and repatriation.

Even where investment occurs, **viable exit pathways remain elusive**. Pakistan lacks a functional mergers and acquisitions (M&A) market and has no dedicated ecosystem of analysts, funds, or mechanisms to support tech IPOs. The Pakistan Stock Exchange's GEM Board is underutilized and ill-suited to startups with high-growth, asset-light models. Without clear exits, investors hesitate to deploy capital, and founders face constrained growth options. To address this, the paper calls for the reform of listing regulations to allow **dual-class share structures**, targeted tax incentives to stimulate corporate acquisitions, and the development of structured matchmaking platforms for startup buyouts.

Finally, while the **Pakistan Startup Fund (PSF)** represents a bold step toward de-risking early-stage investment, it remains limited in scope, transparency, and integration into the broader capital ecosystem. Currently focused on deal-by-deal co-matching, the PSF would benefit from greater scale, institutional participation, and policy coherence. The paper recommends embedding PSF into a **blended finance architecture** that includes DFIs, corporate LPs, and family office syndicates, thereby expanding its leverage and systemic value. Moreover, while co-investment remains an important tool within any government-backed initiative to catalyze startup capital, the broader emphasis should be on strengthening the venture capital ecosystem through a fund-of-funds modality—one that enables the private sector to lead in deploying and managing capital.

In totality, this policy paper underscores that capital formation for startups is not just a sectoral concern—it is an economic competitiveness issue. Without systemic reform, Pakistan risks losing its most promising startups and investors to more stable, better-structured markets. The recommendations presented here seek to create a cohesive framework that unlocks private capital, strengthens institutional trust, and positions Pakistan’s innovation economy for long-term resilience.

Introduction

In recent years, Pakistan’s startup ecosystem has captured growing attention as a driver of innovation, job creation, and digital inclusion. The surge in early-stage entrepreneurial activity—particularly between 2020 and 2022—signaled the country’s potential to build globally competitive, technology-enabled enterprises. Startups are no longer peripheral actors in the economy; they are emerging as core contributors to productivity, exports, and formalization.

Yet, despite this momentum, the ecosystem remains structurally fragile. The rapid rise and subsequent contraction of startup funding have exposed deep vulnerabilities in Pakistan’s capital landscape. During the 2021–22 funding boom, startups raised record amounts of venture capital, primarily from foreign investors. But as global liquidity tightened, Pakistan experienced a sudden pullback—revealing its overdependence on external capital and the absence of a resilient, locally grounded investment environment. While the downturn is global in nature, its impact in Pakistan has been amplified by underlying structural weaknesses.

At the heart of the problem is the issue of capital formation. Startups in Pakistan do not face a temporary funding gap—they face a foundational crisis. The capital base is shallow and externally driven; domestic family offices, institutions, and corporates remain largely disengaged. Regulatory processes around capital flow and fund formation are fragmented, ambiguous, and slow-moving. Confidence among both foreign and local investors has been weakened by inconsistent policy enforcement, procedural opacity, and the absence of credible exit channels. Without resolving these issues, no amount of new funding can create a sustainable innovation economy.

This policy paper offers a focused, evidence-based analysis of the capital formation and investor environment in Pakistan’s startup ecosystem. Drawing on primary research, stakeholder interviews, and existing reports, it identifies the key structural constraints preventing the development of a deep, credible, and inclusive capital base. It also offers concrete policy recommendations to address these gaps—ranging from regulatory reforms and legal infrastructure to exit mechanisms and de-risking platforms.

Lastly, while this paper focuses specifically on capital formation and the investor environment, it is important to acknowledge that broader structural constraints and macroeconomic realities continue to challenge startup growth in Pakistan. These include limited market depth—particularly the low purchasing power of retail consumers and a relatively small enterprise customer base—alongside lagging digital infrastructure and patchy internet access that hinder digital scale. Additionally, gaps in skilled human capital, as cited by several founders, further compound operational inefficiencies. These systemic issues reinforce the need for a more robust capital framework that can help startups navigate and offset such constraints.

Capital Formation & Investor Environment: A Structural Diagnosis

Startups represent a new growth frontier, but their ability to scale, attract capital, and contribute meaningfully to the economy depends on the financial and regulatory infrastructure that surrounds them. This section presents a detailed diagnosis of the current capital formation environment for startups in Pakistan. Drawing from interviews, ecosystem reports, and secondary research it highlights the structural deficiencies that impede investor participation and constrain the emergence of a healthy, risk-tolerant capital base. Each subsection unpacks a critical dimension of this challenge, forming the foundation upon which this paper's policy recommendations are based.

7.1 Why Capital Formation Is Foundational to Startup Growth

A thriving startup ecosystem cannot function without capital that is risk-tolerant, accessible, and supported by enabling regulation. While Pakistan briefly attracted record-breaking startup funding in 2021–22, this surge masked fundamental weaknesses. The sudden contraction in global venture funding exposed the structural fragility of Pakistan's capital formation landscape. The core challenge is not just a temporary dip in funding—it is the absence of a deep, diverse¹, and trusted investment base that can sustain innovation in the long term. Without addressing this deficiency, Pakistan's

startup potential will remain episodic, externally dependent, and vulnerable to macroeconomic shocks.

With capital formation now established as the foundational constraint, the next logical question is: Where is Pakistan's capital coming from? The answer reveals a critical gap—one that sits at the heart of the country's economic vulnerability.

7.2 The Absence of Domestic Risk Capital for Startups

At present, Pakistan's investment ecosystem is characterized by the lack of a robust domestic capital stack with the vast majority of venture capital deployed coming from foreign sources. At nearly every level—angel, early-stage venture capital (VC), growth capital—local investors are sparse, and where present, often lack exposure to venture-style risk models. A handful of early-stage VC firms dominate the funding landscape, and very few are domiciled or funded locally (Annex A). Institutional investors such as pension funds, insurance companies², or corporate LPs are either legally excluded or culturally disengaged from venture investing. Family offices, while capital-rich, remain unstructured, risk-averse, and unfamiliar with startup investment logic.

1 Depth here means that there is sufficient volume of capital available at each stage. Diversity here means that the capital comes from different sources: angels, VCs, corporates, family offices, DFIs, government-backed funds, etc., with different risk appetites and investment horizons (long-term, strategic vs. short-term, financial returns).

2 SECP's regulations for such classes of institutional investors either outright forbid or severely limit VC participation to protect contributors' and policyholders' fund. The SECP in 2022 allowed insurance unit linked funds and equity sub-funds of pension funds to invest up to 5% of net assets in private fund units (Government of Pakistan, Press Information Department, "PR No. 127: SECP registers 7 new private funds in 2022, Islamabad", December 13, 2022, https://pid.gov.pk/site/press_detail/21640)

Table 1: Pakistan’s investment stack is broken at nearly every level. Startups face capital access issues — either lack of supply, poor terms, or frictional barriers.

Stage	Ideal Capital Source	Pakistan Reality
Ideation	Angel investors, grants	Extremely limited — most ideas self-funded or die early
Seed	Angel networks, early-stage VCs	Thin pipeline, few active angel groups, very limited local VC deployment
Pre-Series A / Series A	Domestic VC funds, family offices	Reliant mostly on foreign VCs; limited/diminishing domestic capital formation
Growth / Series B+	Institutional investors, corporate funds, Development Finance Institutions (DFIs)	Almost nonexistent in local market; Series B+ rounds have been raised mostly from foreign funds, typically one-offs, not from repeat investors or an ecosystem of growth funds
Exit	M&A, Initial Public Offerings (IPOs), private equity	No liquid M&A market, no track record of tech IPOs

The country’s lackluster risk appetite for startups stems, in part, from the underdevelopment of its financial system. As one industry insider put it, the country bypassed the gradual maturation seen in other markets—failing to build a private equity foundation and leaping from real estate and fixed-income assets directly into venture capital, the riskiest asset class. This leap came not from strength, but from a COVID-enabled, prolonged post-2008 global capital glut, and without the institutional risk capital and regulatory framework needed to sustain it.

This sentiment is echoed by others who view Pakistan’s financial system as skewed toward passive and speculative assets like real estate, rather than productive equity investments, with one expert suggesting, in jest, an “amnesty scheme” for startup investments to expedite the formalization of economy. Foreign capital, which once seemed to validate the ecosystem, retreated just as quickly as it arrived, revealing the lack of domestic investment conviction. As the industry insider put it, *“I think foreign investors only invest in a country where locals are also investing. If I tell you to invest in Cambodia, would you invest? And it turns out that Cambodians are not investing in any business in Cambodia, but I am calling you. Why would you invest? So foreign capital will only come in [Pakistan] when there is enough local capital being invested and that’s how an opportunity gets created.”*

This persistent underutilization of domestic capital does not merely reflect cultural conservatism—it signals a deeper structural failure to integrate local wealth into productive, innovation-led finance. It is also the starting point of a broader credibility gap that deters not only local stakeholders but also external investors seeking predictability, regulatory clarity, and exit potential. The next sub-sections examine the procedural frictions and trust deficits that further complicate capital mobilization in Pakistan’s startup economy.

Policy Imperative

No ecosystem can thrive on foreign capital alone. Pakistan must de-risk and incentivize local capital formation as the foundational layer of its innovation economy.

7.3 Regulatory Friction and Capital Controls

While capital scarcity is often cited as a core challenge for Pakistan’s startup ecosystem, an equally pressing but less visible barrier lies in the regulatory infrastructure that governs capital formation, flow, and investment structuring. Startups and investors operate within a fragmented and opaque regulatory environment, where even when capital is available, access to it is frequently constrained by procedural hurdles, overlapping institutional mandates, and a lack of fit-for-purpose legal frameworks. These frictions not only slow the pace of investment but also erode confidence in Pakistan as a jurisdiction for venture-backed innovation.

7.3.1 Capital Movement Constraints

Although recent reforms have made it legally permissible for Pakistani startups to incorporate holding companies abroad—a critical enabler for attracting global venture capital—practical barriers remain. Investors and founders report that repatriation of profits, approval of foreign currency accounts, and capital remittance processes continue to involve ambiguity and delay. As the Securities and Exchange Commission of Pakistan (SECP) notes in its 2024 position paper, *Holistic Framework for Building a Supportive Start-up Ecosystem in Pakistan*, “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 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.” There is little clarity on timelines, procedural requirements, or inter-agency coordination between the State Bank of Pakistan (SBP), the Federal Board of Revenue (FBR), and the Securities and Exchange Commission of Pakistan (SECP).

For instance, investors often encounter uncertainty around whether their agreed-upon valuation will be accepted by the SBP when issuing shares to a foreign entity³, or whether capital inflows will be delayed by documentation inconsistencies⁴. The absence of streamlined processes introduces transaction risk and leads many to seek offshore alternatives—opting to register in Singapore or Delaware, where regulatory frameworks for capital flow are more

predictable and tailored to venture capital needs. In addition, offshore jurisdictions are preferred by foreign investors themselves, offering control and ancillary advantages that enhance investor confidence, including stronger intellectual property protections for tech companies, and familiarity with U.S. tax and legal systems—particularly important given the concentration of global investors and fund managers in those markets.

7.3.2 VC Fund Registration Complexity

A second major bottleneck lies in the process of registering and managing venture capital funds within Pakistan. Under current law, VC fund management companies (FMC) must register as Non-Banking Finance Companies (NBFCs) under SECP’s Private Equity and Venture Capital Fund Regulations, 2008 and Private Funds Regulations, 2015. However, this framework is widely viewed by legal advisors and fund managers as outdated, cumbersome, and not aligned with the risk-return profile or operational model of early-stage investing.

Legal experts highlight the lack of any standardized, “plug-and-play” fund formation template⁵. As a result, fund registration often entails protracted engagement with the SECP, with no clear guidance on compliance timelines, tax treatment, or profit distribution rules. The overlap of SECP rules, NBFC licensing, FBR tax codes, and SBP foreign remittance policies results in a regulatory maze. This has discouraged local fund formation, pushing most Pakistani VC activity to offshore domiciles, evidenced by the

3 When a Pakistani startup issues/transfers shares to a foreign investor (e.g., a U.S.-based venture capital firm), it must obtain regulatory approval from the State Bank of Pakistan (SBP) to allow the inward flow of foreign capital (State Bank of Pakistan, *Foreign Exchange Manual*, Chapter 20: “Securities,” https://www.sbp.org.pk/fe_manual/pdf/2021/Chapter-20.pdf). However, SBP often scrutinizes the valuation at which the shares are issued, particularly if it appears high/low or lacks traditional revenue-based justification. Since startup valuations are often based on projected growth, not current revenues or assets, there is no standardized or transparent benchmark at SBP for accepting such valuations. This creates uncertainty for investors and founders about whether their agreed-upon terms will be accepted or delayed.

4 Documentation requirements for registration of share issuance with State Bank, for due diligence on foreign investor, and for foreign capital remittance (as specified in the *Foreign Exchange Manual*)—including share subscription agreements, valuation justifications, board resolutions, and regulatory forms—are often interpreted differently by different authorized dealers (banks) and SBP officers. This leads to inconsistencies, long wait times, and unpredictable outcomes, delaying funding rounds and creating transaction risk.

5 A standardized, simple, and ready-to-use regulatory path. In other ecosystems (e.g., Singapore, UAE), VC fund formation templates exist, licensing timelines and documentation are standardized, tax regimes are VC-specific, and legal and operational compliance is simplified. In Pakistan, there is no pre-approved legal model, fund management company registration must go through NBFC licensing, with high regulatory burden, multiple compliance layers, and no dedicated VC regime.

modest number⁶ of VC or PE&VC funds registered in the country, with total assets accounting for only 0.2% of the NBFI industry as of March 2025⁷. In effect, the regulatory regime unintentionally incentivizes capital flight by making local structures difficult to operationalize.

7.3.3 Limited Pathways for LP Participation

Even when investors are interested in backing VC funds, they face structural limitations due to the absence of an enabling framework for Limited Partner (LP) participation. In developed ecosystems, there are clear frameworks for Limited Partners (LPs) to invest in VC funds, including legal agreements, tax transparency, and regulatory safe harbors⁸. In Pakistan, the NBFC framework (under SECP) is ambiguous for private equity or venture structures. There are no clearly defined rules governing how domestic family offices, corporates, DFIs, high-net-worth individuals or institutional investors can become LPs in venture capital funds operating in Pakistan with clarity on capital commitments, profit distribution and taxation, governance rights, and exit/liquidity treatment. This contrasts sharply with mature markets, where fund-of-funds structures, syndicates, tax-pass-through vehicles, and a simplified LP/GP structure make VC an accessible asset class allowing these capital providers to participate with confidence and legal certainty.

Family offices, in particular, have shown increased interest in entering the startup space in Pakistan, but remain constrained by unclear tax implications, a lack of governance protocols for VC exposure, and the absence of co-investment syndicates or managed fund options. In mature markets, these gaps are addressed through structured LP frameworks and public-private capital platforms. In Pakistan, however, LP participation remains informal, fragmented, and mostly ad hoc—preventing the formation of a

stable domestic capital base for venture investment.

7.3.4 Operational Inefficiencies and Institutional Fragmentation

Beyond legal constraints, startups and investors frequently encounter procedural inefficiencies in the day-to-day navigation of public institutions. A recurring theme in the interviews was the duplication of documentation requirements across SECP, SBP, and FBR. For example, foreign directors are often required to submit notarized or apostilled documents separately to multiple agencies, with no data-sharing or coordinated verification system in place. This lack of institutional interoperability delays company registration, foreign ownership approvals, and tax registration processes—especially when multiple shareholders or cross-border transactions are involved.

Another recurring concern is the obstructive role played by commercial banks in implementing regulatory procedures. Banks impose documentation and Know Your Customer (KYC) requirements that go well beyond the regulatory baseline. While SBP guidelines require identification of Ultimate Beneficial Owners (UBOs) holding 25% or more of a company's shares for opening a bank account, in practice, startups report being asked to provide extensive documentation for all foreign shareholders—even for minority shareholders. For example, one founder shared that a bank refused to open a company account without KYC documents for every foreign investor, including those with fractional equity stakes. In another case, a global multi-stage VC firm holding less than 0.5% in a Pakistani startup was asked to disclose confidential information about over a hundred of its individual LPs—an impractical and commercially unreasonable demand. In other reported instances, banks often act as informal compliance checkpoints across unrelated

6 There were 7 registered PE&VC funds in Pakistan, as of March 2023, according to Pakistan Economic Survey 2024–2025. For comparison, as of July 13, 2023, the Securities and Exchange Board of India (SEBI) had registered 1,148 AIFs, a 27 times increase in just over a decade (NSE Indices Limited, *Beyond the Basics: Navigating the World of Alternative Investment Funds*, March 2024).

7 Securities and Exchange Commission of Pakistan (SECP), *NBFIs Sector Summary Report*, March 2025

8 A regulatory safe harbor is a provision within a law or regulation that gives certain parties protection from penalties or liability, as long as they meet specific conditions.

regulatory domains. These excessive and inconsistent practices create additional barriers to foreign investment and undermine the credibility of Pakistan's capital facilitation narrative.

Such procedural burdens not only consume valuable founder time but also create reputational risk when foreign investors encounter unpredictable regulatory responses. In one reported case, a startup was forced to submit quarterly auditor letters to foreign investors explaining why tax exemptions—legally granted under government incentive schemes—could not be accessed due to delays and obstructions by the FBR. These episodes accumulate into a broader perception of risk, further deterring capital inflows and complicating future fundraising efforts.

7.3.5 A System of Conflicting Mandates of Public Institutions

Ultimately, startups and investors must navigate a complex, multilayered regulatory landscape shaped by the three foremost institutions made responsible for sustaining the ecosystem, each operating under its own mandate and strategic lens. The SECP seeks to balance regulatory facilitation with prudent market oversight; the SBP must ensure deposit protection while enabling capital mobility; and the FBR prioritizes fiscal responsibility alongside tax facilitation. It is the intersection—and often, the misalignment or skewness—of these institutional priorities that produces the regulatory frictions experienced by startups on the ground.

Collectively, these regulatory frictions form a critical but under-acknowledged barrier to capital formation in Pakistan's startup ecosystem, simply accepted by those in the ecosystem as the cost of doing business in the country. Legal permission alone is not sufficient; capital must also be able to flow smoothly, be structured with clarity, and be supported by institutions that

understand and accommodate the dynamics of high-risk innovation. Without regulatory coherence, even the most well-funded incentives will underdeliver on their potential, and investor confidence will remain fragile.

Policy Imperative

Reforms should:

- Streamline SBP and SECP processes for capital movement and fund registration
- Enable LP participation through regulatory clarity and tax neutrality
- Establish a unified VC facilitation framework to reduce procedural ambiguity

7.4 Investor Perception & Institutional Trust Deficit

In high-risk markets, where currency volatility and political instability increase perceived risk premiums, investor sentiment and regulatory predictability are often as important as macroeconomic indicators. The perceived volatility and unpredictability in how government agencies engage with startups directly undermines foreign and domestic investor confidence. Unfortunately, Pakistan's ecosystem suffers from a perception deficit fueled by policy inconsistency, poor institutional coordination, policy ownership failure, procedural ambiguities, red tape, and arbitrary enforcement.

The abrupt removal of the pass-through status⁹ (allowing income to be taxed only at the investor level, avoiding double taxation) and the capital gains tax exemption¹⁰ for private funds in 2021 is a case in point. These tax incentives had been introduced in 2016 to promote the growth of private equity (PE) and venture capital (VC) funds and aimed at attracting both local and foreign investments into Pakistan's nascent startup ecosystem. However, the Federal Board of Revenue (FBR) rescinded these tax incentives for the private funds sector despite having a negligible revenue impact. These changes led to

⁹ Clause 101 of Part I of the Second Schedule, ITO 2001: Deleted, removing the pass-through status for private funds. Furthermore, PE and VC Fund's omission from Clause 47B Part IV, Second Schedule of ITO 2001 via Finance Act 2021 also introduced withholding tax on private funds, even though such tax is non-applicable for other categories of funds with pass-through status.

¹⁰ Clause 103 of Part I of the Second Schedule, ITO 2001: Removed, eliminating exemptions on distributions received by taxpayers from capital gains of a private fund.

multiple layers of taxation on private funds, making investments through them less attractive and significantly damaging investor confidence. The Securities and Exchange Commission of Pakistan (SECP) termed the taxation of private funds a “fiscal dilemma” and emphasized the need for consistent fiscal policies to maintain investor confidence.

One VC investor, who operated a Pakistan domicile fund at that time, remarked: *“You can’t implement one policy, then change it in two years. And the investor has done all their assumptions on one particular policy for 10 years. And then the returns don’t make any sense, right?”* This is not an isolated incident—multiple stakeholders report similar reversals or non-implementation of announced incentives, such as those under the startup tax credit¹¹ scheme or Special Technology Zones¹² (STZs). Startups operating have consistently been unable to obtain tax exemption certificates from FBR, reports one founder. Although the exemptions are clearly defined in law, their implementation has been obstructed by intentional delays, procedural ambiguities, arbitrary enforcement, and limited validity periods of certificates (six-month certificate validity term, despite statutory provisions for a ten-year exemption) issued by the Federal Board of Revenue (FBR). As a result, startups have been forced to pay taxes they are not liable for and have faced reputational risk when explaining these discrepancies to their foreign investors.

Such instances exemplify how discretionary enforcement undercuts legal certainty affecting market outlook by foreign and local investors.

Policy Imperative

Investor trust must be rebuilt through:

- Predictable, rules-based policy
- Time-bound processing and implementation of announced incentives
- Coordination between public sector institutions and harmonization of aims
- A central platform or council to steward long-term innovation policy

7.5 Unlocking Dormant Domestic Capital: The Role of Family Offices

While Pakistan’s startup ecosystem has relied heavily on foreign venture capital over the past decade, a large pool of domestic wealth—particularly in the hands of family offices and high-net-worth individuals (HNWIs)—remains largely on the sidelines. This disconnect represents one of the most significant missed opportunities in the capital formation landscape. Unlike global peers that have gradually diversified their capital base by mobilizing local private wealth¹³, Pakistan has yet to develop the institutional, legal, and cultural foundations necessary to channel domestic capital into high-growth, innovation-led ventures.

7.5.1 Family Offices: An Untapped Reservoir of Risk Capital

Pakistan’s family offices—many of them multi-generational business conglomerates—hold substantial assets across real estate, manufacturing, and trading. Despite their financial depth and risk-bearing capacity, these entities have shown limited appetite for venture investments. The reasons are multi-dimensional but ultimately converge on a lack of familiarity, trust, and enabling infrastructure.

11 Through clauses 65F(1)(b) of Part X of Chapter III, ITO 2001 and Clause 43F of Part IV of the Second Schedule ITO 2001, a PSEB registered startup business, which intends to offer technology driven products or services, and has turnover of less than one hundred million in each of the last five tax years, is eligible for a Tax Credit regime. There is no tax deduction from payments being made to startup for supply of goods, services, or contacts; provided exemption certificate under section 153 is submitted.

12 Under Clauses 126EA and 103D of Part I of the Second Schedule ITO 2001

13 The number of FO-backed deals represented ~10% of all the investments in startups worldwide in 2022. Further, 32.5% of all capital invested in startups in the same year was provided by FOs (PwC, *Global Family Office Deals Study*, 2024).

Culturally, family offices have traditionally preferred stable, cash-generating assets such as land, industrial operations, or fixed-income products. Venture capital, by contrast, is perceived as opaque, illiquid, and excessively risky. As a VC investor observed, *“Family offices have to get serious and start to invest. It can’t all be foreign capital.”* Yet this seriousness is difficult to catalyze in the absence of credible exposure to the startup asset class. Early signs of change are emerging, driven by a younger generation of investors who are digitally literate, globally exposed, and more willing to engage with higher-risk, innovation-led opportunities.

7.5.2 Gaps in Knowledge and Institutional Capacity

Beyond cultural conservatism, structural barriers also deter family office participation. Most lack dedicated investment teams or internal processes for evaluating startups. There are few if any common tools or benchmarks to assess:

- Founding team quality
- Business model sustainability
- Startup valuation, dilution, or exit potential

As a result, even interested investors face a high degree of entry friction, unsure of where to begin or whom to trust. Without standardized frameworks or guidance, many choose to remain passive observers rather than active participants.

7.5.3 Absence of Enabling Investment Platforms

As aforementioned, these challenges are compounded by the lack of investment infrastructure designed to absorb family office capital. Pakistan currently offers:

- No fund-of-funds structure to match private capital with institutional oversight¹⁴
- No syndication platforms¹⁵ or angel networks tailored to family offices
- No blended finance vehicles linking public guarantees with private wealth (except for the nascent Pakistan Startup Fund)
- No equity crowdfunding mechanisms for HNWIs and non-institutional domestic investors who are otherwise excluded from traditional VC structures.

The Family Offices in Pakistan 2024 report reinforces this gap. In contrast, regional ecosystems such as India and Indonesia have successfully deployed syndication, co-investment, and risk-matching tools to bridge this divide.

7.5.4 Emerging Experiments Engaging Domestic Capital, But No Systemic Response

Some private actors have attempted to close this gap through informal syndicates or curated deal flows. GroundUp Ventures, for example, is experimenting with co-investment models that allow family offices to piggyback on vetted deals and share due diligence processes. These efforts are promising but remain limited in scale and dependent on individual relationships, rather than scalable institutional channels. Without broader support—from regulators, DFIs, business councils, or policy think tanks—these models cannot deliver a sustained shift in domestic capital behavior.

¹⁴ Our regional competitor India launched the Fund of Funds for Startups (FFS) in 2016 as part of the Startup India Action Plan. The fund has a corpus of INR 10,000 crores plus and is managed by the SIDBI (Small Industries Development Bank of India). It invests in Securities and Exchange Board of India (SEBI)-registered VC funds, which then invest in Indian startups. Till date, FFS boasts of committing INR 10,229 crores in 129 funds with 7.4x of this capital (INR 75,700 crores) raised by the funds themselves (Small Industries Development Bank of India (SIDBI), *Impact – Fund of Funds for Startups*, accessed June 5, 2025, <https://www.sidbivcf.in/en/impact>).

¹⁵ Syndication platforms allow multiple investors to pool their money together to co-invest in a single startup or deal.

7.5.5 Consequences of Neglecting Domestic Capital Integration

The absence of domestic participation in startup funding imposes strategic and systemic costs:

- Foreign capital continues to dominate, leaving Pakistan exposed to global cycles and investor sentiment shifts.
- Wealth that could be recycled into the innovation economy remains locked in non-productive or speculative assets.
- The ecosystem's growth remains shallow and episodic, without the anchor capital needed to sustain it through downturns.

More than just a missed opportunity, this represents a structural weakness in Pakistan's broader innovation strategy. A thriving venture ecosystem cannot be built on foreign capital alone. Local capital—especially family and institutional wealth—must be engaged, de-risked, and empowered to act.

Policy Imperative

Pakistan needs a neutral platform—possibly anchored by business associations or investment facilitators—to:

- Train and educate family offices
- Create co-investment structures or syndicates to de-risk family office entry
- Build standard tools for due diligence and risk assessment

7.6 Valuation Corrections and Investment Maturity

Beyond regulatory friction and capital availability, the maturity of Pakistan's startup ecosystem is equally shaped by the quality of financial practices and investment behavior within it. The 2021–22 funding boom, while unprecedented in scale, exposed significant gaps in governance, valuation discipline, and founder readiness. The subsequent market correction has not simply curtailed funding—it has catalyzed a much-needed rebalancing in investor-founder dynamics. This phase of recalibration, though difficult, offers a unique opportunity to build a

more resilient and accountable capital culture. Understanding this shift is essential to shaping policy tools that go beyond capital access and toward capital quality.

Pakistan's startup funding surge in 2021–22 marked a turning point for the ecosystem. Spurred by global liquidity, a low-interest rate environment, and growing enthusiasm for emerging markets, venture capital poured into Pakistan at record levels. While this boom helped validate local entrepreneurial potential, it also inflated startup valuations to levels unsupported by domestic market fundamentals or governance capacity. As the global funding climate contracted in 2022, Pakistan's startup space entered a period of painful correction—one that has begun to expose deeper issues in how capital was deployed, valued, and governed.

7.6.1 The Overvaluation Era: Hype Outpaced Fundamentals

During the peak years, valuations were often driven more by investor sentiment than by verifiable growth metrics. Round sizes grew disproportionately, with some seed-stage startups raising valuations comparable to Series A or B benchmarks in more mature markets. This surge was amplified by “fear of missing out” among investors and a growing sense that Pakistan's startup moment had arrived. In many cases, due diligence was rushed, term sheets were founder-friendly but legally vague, and cap tables became distorted as investors sought early access at any cost.

However, this exuberance had consequences. Founders struggled to raise follow-on rounds at realistic terms, often facing significant valuation markdowns. In other cases, inflated valuations led to early dilution, complicated governance structures, and investor misalignment—making it difficult to attract institutional capital in later stages.

7.6.2 Gaps in Founder Readiness and Legal Literacy

The funding boom also highlighted critical weaknesses in founder preparedness for venture financing. Many first-time entrepreneurs lacked a clear understanding of cap table mechanics, dilution, liquidation preferences, and investor rights. Legal and compliance processes were treated as an afterthought—contributing to errors in share issuance, regulatory filings, and founder equity arrangements. Early-stage transactions often proceeded without board structures, shareholder agreements, or clear rights frameworks—leaving founders vulnerable in later-stage negotiations and weakening the enforceability of investor protections.

This lack of investment literacy was not limited to founders. Some investors, in their eagerness to close deals, also neglected standard governance mechanisms. As a result, companies entered growth phases with structurally fragile investment foundations.

7.6.3 A Correction that Signals Maturity

Since 2022, funding volumes have declined significantly, but the quality and structure of deals have shown signs of improvement. Valuations are now more conservative, investor scrutiny is deeper, and founders are increasingly selective about capital sources and deal terms. In short, the ecosystem is undergoing a **disciplinary reset**—a period in which ambition is being tempered by accountability.

This evolution is not a regression but a sign of increasing maturity. Founders are beginning to prioritize long-term sustainability over short-term cash infusions, while investors are revisiting risk models and demanding cleaner cap tables and better legal compliance. The boom may be over, but the foundations of a healthier startup economy are being laid.

7.6.4 Still Missing: Institutional Support for Investment Readiness

Despite positive shifts, the ecosystem still lacks formal, institutionalized mechanisms to prepare founders for the rigors of venture investment. There are no standardized legal playbooks, no public platforms offering term sheet templates, and no structured training on cap table management or equity planning. Investment readiness programs—whether delivered through incubators, accelerators, or regulatory partnerships—are either missing or inconsistently implemented. However, such programs will only be impactful if they move beyond generic capacity building and are designed with precision—tailored to address the specific legal, financial, and strategic challenges that founders face when engaging with venture capital. Without relevance and depth, trainings risk becoming performative rather than enabling.

This gap presents a clear opportunity for ecosystem actors, including regulators like SECP, law firms, business associations, and venture networks, to collaboratively design tools that can equip startups with the legal and financial fluency required to navigate a more disciplined capital market.

Policy Imperative

Institutionalize governance and investment readiness programs—potentially through SECP, National Incubation Centers (NICs), and private law firms—to prepare founders for sustainable scaling.

7.7 The Missing Exit Pathways: M&A and IPO Challenges

A credible startup ecosystem is sustained not only by capital inflows but by the availability of clear and functional exit pathways. Without exits—through mergers and acquisitions (M&A), initial public offerings (IPOs), or strategic sales—the venture capital cycle breaks down. Investors have no way to realize returns, founders struggle to cash out or move on, and capital does not recycle into the next generation of startups. In Pakistan, the current absence of exit routes has emerged as a structural bottleneck, reducing investor confidence, depressing valuations, and contributing to the broader stagnation of capital formation.

7.7.1 The M&A Vacuum

Among the most glaring gaps is the lack of a functioning mergers and acquisitions market for startups. Domestic corporates, which in many ecosystems serve as key acquirers of innovation, remain largely disengaged. Risk aversion, unfamiliarity with startup models, and the absence of structured corporate venture activity have left startups with few acquisition prospects. Founders consistently noted that corporate stakeholders often lack an understanding of how startups work, especially in the local context, resulting in misaligned expectations during investment discussions, mentorship engagements, or training programs.

One startup founder emphasized that, bar a few examples, exits in Pakistan have not resulted in meaningful capital transfer to the founders or shareholders of the acquired companies, and argued that this challenge is as consequential as the lack of capital itself. His view is echoed across investor conversations, where the inability to exit investments via M&A is seen as a core reason for risk-adjusted capital hesitancy.

Even when corporate interest exists, transactions are hampered by:

- Poor visibility of startups within traditional industries
- Governance concerns around startup financials and compliance
- Tax disincentives in share transfer and acquisition structures

This makes it difficult for early-stage investors to plan for liquidity events or strategic exits, especially in sectors where IPOs are not viable.

7.7.2 Public Markets: The GEM Board and Its Limitations

Pakistan Stock Exchange's Growth Enterprise Market (GEM) Board was launched with the intent to create a listing pathway for startups and smaller companies with relaxed regulatory requirements, lower fees, and easier listing criteria. While conceptually aligned with international models like India's SME Exchange or the U.K.'s AIM, the GEM Board has struggled to attract startup listings. Several factors contribute to this:

- Valuation mismatch: Many startups that raised capital during the 2021–22 boom at inflated private valuations cannot justify those numbers in public markets, especially when profitability is years away. Pakistan Stock Exchange (PSX) investors, moreover, use traditional value metrics (P/E ratios, dividend yields, asset-backed earnings) which are not appropriate for valuating startups. Startups would have to down-round or devalue themselves to match public market expectations.
- Investor unfamiliarity: The local stock market doesn't yet have a critical mass of institutional or retail investors who understand or are comfortable with exposure to tech-enabled or high-growth companies with asset-light models, and there is no ecosystem of analysts or funds tracking or supporting tech listings.
- Liquidity constraints: The existing listed SMEs (Small and Medium Enterprises) on

GEM receive very little trading activity. The low trading volumes make the GEM Board unattractive for founders and investors looking for meaningful exits. A startup that lists simply risks being ignored by the market.

- Compliance and disclosure burden: Even with relaxed rules, listing involves costly and ongoing compliance, audits, and disclosures. Startups don't have the bandwidth or internal governance capacity to handle this early in their growth stage.

The Ignite report, *Study for Assessment of Pakistan's Startup Ecosystem (2023)*, reinforces this, noting that startups would find it difficult to list on the PSX given that public market valuations are considerably lower than private market benchmarks.

7.7.3 Cross-Border Acquisitions: Legal and Currency Barriers

In most emerging ecosystems, exits often occur through cross-border M&A—where global technology companies acquire promising startups to enter new markets. In Pakistan, this path remains largely unrealized. Founders and investors cite challenges such as:

- Restrictions on repatriating acquisition proceeds
- Complex procedures around IP transfer and shareholding reallocation
- SBP and FBR clearance delays, particularly for foreign currency accounts and ownership transitions
- Lack of dual share structures or simplified foreign acquisition norms

This reduces the attractiveness of Pakistani startups as acquisition targets for foreign buyers, particularly when compared to peers in regional ecosystems such as Egypt, Indonesia, or Vietnam.

7.7.4 Systemic Impact: The Consequences of No Exit Options

The absence of viable exit routes has cascading consequences across the capital landscape:

- Investors hesitate to deploy capital, knowing that liquidity events are uncertain.
- Valuations are discounted, as exit risk gets priced in.
- Founders become locked into unsustainable growth models, unable to pivot, merge, or exit.
- Foreign capital sees Pakistan as a “high-entry, no-exit” environment—raising the bar for due diligence and participation.

Without viable exits, even well-capitalized startups remain trapped in a growth cul-de-sac, and institutional investors are unable to justify long-term capital allocation to the market.

Policy Imperative

- Provide tax incentives for startup M&A
- Reform GEM Board to allow dual-share structures and tech-aligned listing norms
- Introduce anchor investment programs to support early listings or strategic acquisitions

7.8 The Pakistan Startup Fund: Promise and Limitations

The Pakistan Startup Fund (PSF), launched by the Ministry of Information Technology and Telecommunication (MoITT), represents the government's first structured attempt to directly address the financing challenges faced by startups through a market-based risk mitigation mechanism. Rather than providing grants or taking equity stakes, the PSF aims to catalyze private investment by offering first-loss coverage to eligible venture capital (VC) funds investing in Pakistani startups. While the initiative is welcome development, and its structure aligns with international de-risking models, its current scale, visibility, and integration into the broader capital ecosystem remain limited.

7.8.1 PSF: A Promising Framework with Clear Intent

At its core, the PSF is designed to absorb a portion of investment risk by covering part of the downside for VC firms that commit capital to startups operating in Pakistan. This model is commonly used in emerging markets to crowd in private capital where risk perceptions are high. The fund is open to both local and foreign VC firms, regardless of investment stage, and is explicitly aimed at attracting new capital into underserved segments of the innovation economy.

By anchoring the fund within a risk-sharing rather than capital-deploying logic, MoITT has chosen a model that avoids distorting market dynamics or competing with private investors. This aligns with the best practices observed in comparable markets, where public funds act as catalysts, not capital providers, to correct market failures.

7.8.2 Structural Gaps and Visibility Challenges

Despite its promise, the PSF suffers from limited ecosystem awareness and institutional clarity. Public information about the fund remains sparse, with few published details on:

- The eligibility criteria for VC partners
- The evaluation and disbursement mechanisms
- The number and type of startups supported to date

This opacity limits the fund's signaling value and weakens its role in shaping market confidence. Stakeholders interviewed for this research expressed cautious optimism about the fund's potential but also noted that its credibility depends on scale-up, demonstrable implementation and transparency in operations.

Furthermore, while PSF seeks to incentivize risk-taking, it does so only from the investor's side. It does not currently interface with complementary reforms needed on the founder side of the ecosystem—such as legal documentation readiness, cap table governance, or SECP compliance education. As a result, the fund cannot by itself address the deeper structural issues that deter capital deployment.

7.8.3 Lack of Integration into a Broader Capital Stack

One of the key limitations of the PSF is its isolation from the rest of Pakistan's investment infrastructure. It is not linked to:

- A domestic fund-of-funds platform
- Any corporate co-investment pool
- DFI partnerships, which could provide long-term institutional credibility
- Or any family office syndication mechanism

In mature ecosystems, public sector de-risking tools are embedded within blended finance architectures that align multiple layers of capital—from concessional funding to institutional LPs. The PSF, by contrast, remains a standalone initiative, reducing its multiplier effect and long-term scalability.

7.8.4 A Platform Worth Building Upon

Despite its limitations, the PSF offers a starting point from which to build a more comprehensive capital mobilization framework. It reflects an important institutional recognition of risk asymmetry in the startup space and a shift toward policy instruments that crowd in private actors rather than replace them.

For this promise to be realized, the fund must evolve with greater transparency, scale, and integration. This includes:

- Publishing operational guidelines and reporting mechanisms
- Opening up governance to a broader set of stakeholders
- Anchoring the fund within a larger fund-of-funds or blended finance strategy that engages banks, DFIs, corporates, and family offices

As currently structured, the Pakistan Startup Fund is a necessary but insufficient intervention. It represents a useful step toward correcting investor risk perceptions, but without structural enhancements and ecosystem alignment, it will fall short of catalyzing sustained capital formation at scale.

Policy Imperative

PSF should evolve into a multi-stakeholder, public-private fund-of-funds, inviting contributions from DFIs, corporates, banks, and high-net-worth individuals. Transparency and professional fund management will be key to its credibility.

7.9 A Final Word: Building the Investment Backbone

Capital follows trust, clarity, and exit potential—not just opportunity. Pakistan's startup ecosystem has proven its entrepreneurial energy, but without a credible and accessible investment infrastructure, that energy will dissipate. Reforms must target both the mechanics of capital formation (regulations, structures, incentives) and the psychology of investment (trust, consistency, coordination). A resilient startup economy requires a resilient capital system—and building that should now be a national policy priority.

Policy Recommendations

Pakistan's startup ecosystem stands at a critical juncture. While entrepreneurial activity and early-stage innovation have accelerated in recent years, the underlying capital environment remains shallow, fragile, and fragmented. The insights presented in this paper reveal that resolving the capital formation challenge is not merely about attracting more money, but about constructing an enabling architecture for sustainable, high-trust, innovation-focused investing.

The following recommendations offer a detailed roadmap to address constraints across six strategic domains. They reflect a synthesis of primary stakeholder insights, policy analysis, and cross-market comparisons.

8.1 Institutionalize Capital Policy and Restore Investor Confidence

A recurring theme in stakeholder interviews was the erosion of trust in public institutions due to policy volatility, unclear processes, and inconsistent enforcement. Without institutional predictability, even well-structured financial incentives fail to mobilize capital.

- **Establish a Startup Advisory Board.**
Create a standing inter-agency body composed of SECP, SBP, FBR, Board of Investment (BoI), MoITT, and private sector stakeholders (including representation of institutional investors, founders, and corporate sector for thought leadership) to harmonize regulation, resolve policy conflicts, and monitor implementation of startup-relevant reforms.
- **Codify regulatory timelines and service standards.**
Enforce binding service-level agreements (SLAs) for issuing tax exemption certificates, remittance approvals, and corporate filings to ensure accountability and reduce bureaucratic delay.
- **Create a single-window facilitation desk for VC-backed startups.**
Offer startups a coordinated interface for dealing with SECP, SBP, and FBR, staffed with embedded legal and tax advisors to expedite high-quality compliance. Implementing this in practice may be challenging due to the limited availability of startup-focused legal counsel, most of whom operate on a private basis.
- **Publish “regulatory trust audits” and service benchmarks.**
Track and disclose turnaround times and service quality metrics across regulatory institutions to build transparency and institutional credibility.
- **Ensure fiscal policy consistency for long-horizon investors.**
Protect existing incentive frameworks—such as STZ tax exemptions and startup tax credits—from mid-cycle reversals that undermine investor confidence.

8.2 Expand Domestic Capital Participation

Despite holding significant financial assets, domestic family offices, corporate treasuries, and institutional investors remain disengaged from the venture capital asset class. A deliberate policy and market-building effort is required to activate this capital.

- **Enable Limited Partner (LP) participation through legal reform.**
SECP should introduce pooled capital structures (e.g. Special Purpose Vehicles (SPVs) or simplified partnerships) with tax clarity, capital repatriation assurance, and standardized governance models.
- **Pilot syndication platforms for family offices and HNWIs.**
Launch co-investment syndicates through PBC or PSX to allow family offices to pool resources and share due diligence responsibilities.
- **Establish a domestic fund-of-funds.**
A publicly capitalized anchor vehicle should be structured to invest in accredited Pakistani VC funds, enhancing their fundraising viability and de-risking early-stage deployment.
- **Offer tax incentives for angel and venture investments.**
Introduce deductible allowances, capital gains exemptions, or rollover relief for qualified early-stage investments in certified startups.

8.3 Address Regulatory Bottlenecks and Ease Compliance

Regulatory complexity—particularly in fund formation, foreign capital movement, and inter-agency documentation—remains a critical barrier to both local and international capital deployment.

- **Revise SECP's fund registration regime.**
Move beyond the Non-Banking Finance Company (NBFC) model and introduce a dedicated venture fund licensing track tailored to early-stage investing.
- **Standardize KYC and documentation protocols across regulators.**
Develop interoperable standards for foreign investor onboarding, reducing duplicative and discretionary compliance by commercial banks.
- **Clarify SBP's treatment of valuation, remittance, and repatriation.**
Issue formal circulars or FAQs outlining approved processes for capital inflows, share issuance at varying valuations, and foreign currency account management.
- **Launch a centralized investment facilitation portal.**
Digitally integrate the registration, share transfer, capital approval, and compliance processes under a unified platform with tracked SLAs.

8.4 Enable Viable Exit Markets and Capital Recycling

In the absence of credible exit pathways—either through M&A or IPOs—venture capital cannot deliver returns, leading to capital stagnation. Creating liquidity events is critical to unlocking long-term investor participation.

- **Enable dual-class share structures.**
SECP and PSX should permit differentiated voting rights post-IPO to protect founder vision and encourage listing of high-growth firms.
- **Introduce startup-specific tax and cost exemptions for exits.**
Waive capital gains tax and reduce listing fees for qualifying startup M&A transactions and GEM Board listings.
- **Create a GEM Board “listing readiness” program.**
Provide audit, governance, and disclosure support to help Series B and later-stage startups prepare for public market entry.
- **Support the launch of tech-focused Exchange Traded Funds (ETFs) and mutual funds.**
Provide seed capital or incentives for asset managers to create publicly traded vehicles focused on innovation and startup equity.
- **Facilitate analyst coverage and market education.**
Partner with brokerage houses to train analysts on startup valuation metrics and publish accessible equity research for public market investors.
- **Develop acquisition matchmaking infrastructure.**
Organize recurring “Startup Acquisition Days” to match strategic buyers and startups, supported by data rooms and legal templates.

8.5 Build Investment Literacy and Legal Infrastructure

Pakistan’s ecosystem suffers from foundational weaknesses in legal literacy, cap table management, and investment documentation—challenges that create fragility in even well-funded startups.

- **Publish standardized legal playbooks.**
Make vetted templates for term sheets, shareholder agreements, and cap tables publicly available through SECP or a legal advisory consortium. This would need a deeper dialogue with the private VC and angel network.
- **Integrate governance and equity training into incubators.**
Mandate investment literacy modules in National Incubation Centers (NICs), accelerators, and entrepreneurship curricula.
- **Incentivize legal and tax advisory services for early-stage companies.**
Provide subsidized legal clinics, or donor-backed advisory vouchers to support founders in preparing investor-ready documentation.

8.6 Strengthen and Scale the Pakistan Startup Fund (PSF)

The Pakistan Startup Fund (PSF) is a necessary intervention, offering first-loss coverage to incentivize VC participation. However, its current scale, visibility, and ecosystem integration limit its impact.

- **Publicize PSF's structure, disbursement, and performance.**

Publish quarterly data on deal volume, sectors supported, investor partners, and capital deployed to increase fund credibility and visibility.

- **Embed the PSF within a blended finance strategy.**

Use the PSF as an anchor to attract risk-sharing capital from DFIs, corporate LPs, and family offices through tiered structures or co-investment vehicles.

- **Tie PSF access to legal and investment readiness.**

Make PSF eligibility conditional on cap table hygiene, governance documentation, and financial reporting to improve deal quality and investor protection.

8.7 Conclusion

These recommendations aim not only to unlock more capital, but to build a smarter, more credible capital environment—one that is transparent, institutionally trusted, and aligned with the realities of early-stage innovation. If implemented coherently, this framework can shift Pakistan from episodic capital access to a continuous, sustainable cycle of investment, innovation, and economic growth.

Appendix

Annex A

9.1 List of Local and Foreign Domiciled VC Firms

Locally Domiciled VC Firms

Fund Name	Domicile	Focus Areas
Sarmayacar	Pakistan	Early-stage tech startups across sectors
Fatima Gobi Ventures	Pakistan/Malaysia	Joint venture; tech startups
i2i Ventures	Pakistan (operated via Delaware)	Seed/early-stage startups
Ignite (National Technology Fund)	Pakistan	Government-backed innovation and R&D
TPL e-Ventures	Pakistan	Logistics, fintech, proptech
Lakson Venture Capital	Pakistan	Tech startups, health, e-commerce, fintech
DotZero Ventures	Pakistan	Consumer tech, fintech, marketplace
Kinnow Capital	Pakistan	Pre-seed/seed-stage startups
NIIDA Ventures	Pakistan	Shariah-compliant VC in agriculture, energy, SMEs
Deosai Ventures	Pakistan	Early-stage, social impact-driven startups
Cordoba Ventures	Pakistan	Impact investing in health, education
Indus Valley Capital	Pakistan	High-growth early-stage startups (Bazaar, Colabs)
Entrepreneurship Development Fund (EDF)	Pakistan	Public-private early stage support
TRG Pakistan	Pakistan	Focused on BPO/tech-enabled service businesses
sAi Venture Capital	Pakistan	Focused on frontier technologies

Foreign-Domiciled VC Firms Actively Investing in Pakistan

Fund Name	Domicile	Focus Areas
Zayn VC	Cayman Islands	Early-stage, fintech, logistics, edtech
SparkLabs Pakistan	USA (Palo Alto)	Seed-stage Pakistani startups
Gobi Partners	Malaysia/China	Pan-Asia tech fund (co-manages Fatima Gobi)
1839 Ventures	USA	Deep tech and frontier market startups
Nama Ventures	Saudi Arabia	Early-stage MENA and Pakistan tech startups
Acumen Fund	USA	Impact investments in health, agriculture, energy
Omidyar Network	USA	Social impact, fintech, education
Village Capital	USA	Impact-driven startups (has operated in Pakistan)
Shorooq Partners	UAE	MENA and Pakistan – fintech, SaaS, marketplaces
Global Ventures	UAE	Pakistan entries via regional portfolios

Public/Govt-Backed or Hybrid Entities Supporting VC Activity

Name	Domicile	Role
Pakistan Startup Fund (PSF)	Pakistan	Co-investment grants to de-risk VC investments

Annex B

9.2 Understanding Fund-of-Funds — A Strategic Tool to Catalyze Startup Investment

What is a fund-of-funds (FoF)?

A fund-of-funds (FoF) is an investment vehicle that deploys capital into other investment funds—such as venture capital (VC) funds—instead of investing directly in startups or enterprises. In the startup ecosystem, FoF are typically structured as public-private mechanisms to strengthen the capital base and encourage professional fund management. Rather than displacing private VC activity, FoF leverage public or anchor capital to mobilize private investment, particularly in risk-averse or underdeveloped capital markets.

- De-risks Participation for Private LPs: By serving as a cornerstone or matching investor, a FoF reduces perceived risk and crowds in private institutional and high-net-worth capital.
- Professionalizes Fund Management: A well-structured FoF supports the emergence of local, experienced fund managers, enabling more efficient capital allocation and ecosystem development.
- Supports Policy Without Direct Intervention: Unlike direct grant programs, FoF rely on independent fund managers for investment decisions—thereby promoting efficiency and reducing political discretion.

Pakistan and the relevance of fund-of-funds model

- Bridges the Early-Stage Capital Gap: Local VC presence in Pakistan is limited, and new fund managers often struggle to raise capital. A FoF can address this funding bottleneck without crowding out private players.

Global Precedents

Country	Programs	Impact
Israel	Yozma Program (1993)	Catalyzed Israel's VC ecosystem; public capital triggered, ~\$3 private for every \$1 public; served as a model that other countries — such as Mexico, New Zealand, Singapore, and the United Kingdom, have replicated
India	SIDBI Fund of Funds	₹10,229 crore corpus backing 129 VC funds to boost domestic capital formation; 7.40x of this capital (Rs 75,700 crore) raised by funds; at least 10x leverage on capital raised by investee companies
Egypt	Fund-of-Funds for Venture Capital	Launched by MSMEDA in partnership with the World Bank as part of the Catalyzing Entrepreneurship for Job Creation (CEJC) project. In 2022, the program's pilot phase successfully deployed \$50 million, funded by the World Bank, across approximately 15 venture capital funds. These funds received between 10% and 20% of their capital from MSMEDA. The program plans to scale up to \$1 billion by raising funding.
Singapore	Startup SG Equity Scheme	One modality is co-investment. The other is investing in selected venture capital firms that in turn invest in eligible startups, through a fund-of-funds approach.

Key Design Considerations

- **Operational Autonomy:** Successful FoFs operate with professional governance, independent selection criteria, and clear performance metrics.
- **Co-Investment or Matching Requirement:** Public capital should be contingent on private sector participation, ensuring alignment of incentives and long-term sustainability.
- **Strategic Targeting:** FoFs can be used to support underserved stages (e.g., early-stage), sectors (e.g., deep-tech), or geographies (e.g., second-tier cities).

Conclusion

A Pakistan-specific FoF would not replace private capital—it would activate it. In an ecosystem where local fund formation remains thin, a well-designed FoF offers a catalytic instrument to professionalize venture investing, unlock dormant domestic capital, and support national innovation goals without over-reliance on direct government financing or discretionary grant mechanisms.

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