



# Fostering a Robust Start-up Ecosystem in Pakistan

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## HIGHLIGHTS

Pakistan's start-up ecosystem has vast potential for economic growth, innovation, and job creation, but faces challenges like limited financing and regulatory barriers.

Key recommendations include enhancing access to financing, simplifying regulations, and fostering talent development to support entrepreneurial success.

Investment in infrastructure, both physical and digital, is crucial to building a thriving and globally competitive start-up ecosystem in Pakistan.



## Executive Summary

Pakistan's start-up ecosystem holds substantial promise for driving economic growth, fostering innovation, and generating employment. With a young, tech-savvy population and a growing digital infrastructure, the country is well-positioned to become a regional leader in entrepreneurship. However, the full potential of this ecosystem is constrained by several critical challenges. These challenges include limited access to financing, complex regulatory environments, insufficient talent development mechanisms, and inadequate infrastructure that hampers start-up growth.

This policy brief highlights these key issues and presents a comprehensive set of strategies aimed at overcoming these barriers. The document draws on data from Pakistan's nascent but growing start-up scene to provide a clear understanding of the current landscape. Key challenges include the lack of early-stage funding, restrictive business regulations that discourage innovation, a gap in specialized skills required for high-growth start-ups, and the need for better physical and digital infrastructure to support entrepreneurial ventures.

To address these challenges, the policy brief recommends targeted interventions. First, it calls for the establishment of a robust financing ecosystem that includes venture capital, angel investors, and government-backed funds to support start-ups at various stages of growth. Additionally, it advocates for regulatory reforms that simplify the process of starting and scaling businesses, with a focus on

reducing bureaucratic hurdles and promoting a business-friendly environment. Furthermore, the brief emphasizes the need for enhanced talent development programs, including partnerships between universities, incubators, and industry to create a pool of skilled professionals ready to contribute to the start-up ecosystem. Lastly, investment in modern infrastructure—both physical and digital—is critical to creating an environment conducive to innovation and business expansion.

By implementing these recommendations, Pakistan can create a more vibrant, globally competitive start-up ecosystem that not only accelerates economic growth but also positions the country as a leading hub for innovation and entrepreneurship in the region.

## Background

Over the past decade, entrepreneurship in Pakistan has witnessed significant growth, with more than 3,000 start-ups emerging across various sectors. Local and international investments have fueled this growth, attracting venture capital firms and individual investors willing to fund new ventures. Events such as the Momentum Tech Conference and Start-up Weekends have fostered collaboration and innovation, offering platforms for start-ups to showcase their ideas and connect with potential investors.

The Pakistan Start-up Act, aimed at encouraging entrepreneurship, introduced tax incentives and simplified regulations to improve the ease of doing business. Programs like the Prime Minister's Kamyab Jawan Program have provided young entrepreneurs with access to funding and training, while international start-up competitions and incubator programs have given Pakistani start-ups global exposure.

Despite these advancements, start-ups in Pakistan continue to face hurdles related to access to finance, regulatory complexities, and a shortage of skilled talent. These issues need to be addressed to sustain the momentum and nurture a competitive start-up ecosystem.

## Key Event: Entrepreneurship Championship 2023

A pivotal moment for Pakistan's start-up ecosystem was the Entrepreneurship Championship held in 2023. The event brought together a large number of entrepreneurs at various stages of their ventures, generating enthusiasm within the ecosystem. A total of 115 start-ups were selected for the event:

**40 start-ups** were in the ideation phase, where they were refining their business concepts.

**43 start-ups** were in the acceleration phase, focusing on refining business models and seeking resources for rapid growth.

**32 start-ups** were in the growth phase, concentrating on expanding operations and increasing market penetration.

This championship provided a valuable opportunity for start-ups to present their ideas, network with investors, and gain visibility within the entrepreneurial community.

## Challenges Facing Start-ups in Pakistan

### Fear of Failure

A pervasive fear of failure in Pakistan's entrepreneurial community has far-reaching consequences for the start-up ecosystem. While caution is natural, an excessive fear of failure stifles innovation and risk-taking, essential components of entrepreneurial success.

### Reduced Entrepreneurial Intentions

Fear of failure deters potential entrepreneurs from starting new ventures, leading to fewer innovative ideas entering the market.

### **Risk-Averse Culture**

A heightened fear of failure creates a risk-averse culture, where entrepreneurs avoid potentially transformative yet risky endeavours.

### **Lack of Investment**

Investors are more reluctant to fund start-ups in environments where the fear of failure dominates, restricting access to much-needed financial resources.

### **Decreased Resilience**

Entrepreneurs may abandon ventures prematurely at the first sign of difficulty, undermining the resilience necessary for success in the start-up world.

## **Opportunities in Pakistan's Start-up Ecosystem**

Despite the challenges, Pakistan's start-up ecosystem holds significant promise due to its large population, expanding middle class, increasing digital penetration, and a tech-savvy youth. Key sectors with notable growth potential include:

1. **E-commerce:** Driven by widespread smartphone usage and increasing internet penetration, Pakistan's e-commerce sector is booming. Entrepreneurs can capitalize on this by developing innovative solutions for supply chain management, digital payments, and last-mile delivery.
2. **Agri-Tech:** Agriculture is a cornerstone of Pakistan's economy, and agri-tech start-ups can leverage technology to improve productivity, streamline supply chains, and promote sustainable farming practices.
3. **EdTech:** With a large youth population and rising demand for quality education, edtech start-ups can create online learning platforms, digital content, and skills training programs to meet this demand.
4. **FinTech:** Pakistan's financial services sector is ripe for disruption, and fintech start-ups can offer solutions such as digital payments, peer-to-peer lending, and microfinance to improve financial inclusion.
5. **Health-Tech:** The COVID-19 pandemic underscored the need for advancements in healthcare technology. Health-tech start-ups can develop telemedicine platforms, electronic health records, and remote patient monitoring systems to enhance healthcare access.
6. **Energy Transition:** With energy shortages plaguing Pakistan, start-ups in the renewable energy sector can provide solutions in solar, wind, and hydropower to address these issues and contribute to sustainability efforts.
7. **AI and Data Science:** Start-ups focused on artificial intelligence and data science have the potential to transform various industries by optimizing decision-making, improving customer experiences, and streamlining operations.
8. **Textile-Tech:** Pakistan's textile industry is a major contributor to the economy. Start-ups in this sector can integrate sustainable practices and technological advancements to improve efficiency and reduce environmental impact.

## **Strengths of Pakistan's Start-ups**

Pakistan's start-up ecosystem boasts several strengths that position it for success both domestically and internationally:

1. **Tech-Savvy Workforce:** A young, tech-driven workforce with a growing pool of software developers, engineers, and IT professionals provides the necessary talent for innovation in technology-driven start-ups.

2. **Large Consumer Market:** Pakistan's growing middle class and increasing disposable income present a significant opportunity for start-ups to tap into a diverse and expanding market.

3. **Resilience:** Pakistani entrepreneurs have demonstrated resilience and adaptability in the face of economic and political instability, a critical trait for start-up success.

4. **Local Expertise:** Start-ups in Pakistan have a deep understanding of local culture, language, and consumer preferences, enabling them to create products and services tailored to the domestic market.

5. **Global Connections:** Pakistan's diaspora, particularly in the United States, the UK, and the Middle East, provides valuable networks that can facilitate international expansion and investment opportunities.

## Policy Recommendations

To build a robust start-up ecosystem in Pakistan, the following policy interventions are essential:

### Increase Access to Funding

- Establish a public-private fund to provide start-ups with seed funding, venture capital, and grants.
- Offer tax incentives, such as capital gains tax exemptions, to attract private investors and venture capitalists.
- Develop legal frameworks for crowdfunding platforms to enable entrepreneurs to access a wider pool of investors while safeguarding investor interests.

### Streamline Regulations

- Simplify the business registration and licensing process through a one-stop-shop model.
- Strengthen intellectual property protections and reduce costs associated with patent registration.
- Establish a regulatory sandbox to allow start-ups to test innovative products without initial regulatory burdens.
- Introduce a start-up visa program to attract foreign talent and entrepreneurs.

### Invest in Talent Development

- Integrate entrepreneurship education into the national curriculum at all levels of education.
- Expand incubators and accelerators to provide mentorship, training, and resources for early-stage entrepreneurs.
- Tailor skills development programs to equip entrepreneurs with the technical, managerial, and soft skills needed to succeed.

### **Enhance Infrastructure**

- Invest in high-speed broadband infrastructure, particularly in underserved regions.
- Create more co-working spaces to provide affordable workspace and networking opportunities.
- Support the establishment of R&D centres focused on emerging technologies like AI, blockchain, and biotechnology.

### **Promote International Collaboration**

- Build partnerships with countries known for their thriving start-up ecosystems to facilitate knowledge exchange, mentorship, and investment.

## **Conclusion**

Fostering a robust start-up ecosystem in Pakistan is essential for economic growth, job creation, and innovation. By addressing key challenges and implementing the policy recommendations outlined in this brief, Pakistan can build a dynamic start-up ecosystem that nurtures innovation, encourages investment, and develops talent. With the right policies and support, Pakistan has the potential to become a global hub for entrepreneurship and innovation.

### **Increased Access to Funding**

Establishing a public-private collaborative fund, alongside tax incentives, to provide start-ups with essential seed funding, venture capital, and grants. Legal frameworks for crowdfunding platforms would further expand access to a broader pool of investors.

### **Streamlined Regulations**

Simplifying business registration, enhancing intellectual property protections, and introducing a start-up visa program to attract foreign talent and encourage cross-border collaboration.

### **Talent Development and Infrastructure**

Incorporating entrepreneurship education into the national curriculum, expanding incubators, and investing in broadband infrastructure to foster innovation and enable start-ups to thrive.

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