Closing the Funding Gap for Startups in Pakistan

Policy Brief

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List of Acronyms

AOP	Association of Persons
CAGR	Compound Annual Growth Rate
CDC	Central Depository Company (Central Depository Account)
CCP	Competition Commission of Pakistan
DRAP	Drug Regulatory Authority of Pakistan
EMI	Electronic Money Institution
ESO	Entrepreneurial Support Organization
FBR	Federal Board of Revenue
FIA	Federal Investigation Agency
FERA	Foreign Exchange Regulation Act
FEM	Foreign Exchange Manual
GEM	Growth Enterprise Market (Board)
LLP	Limited Liability Partnership
IP	Intellectual Property
IPO	Intellectual Property Organization of Pakistan
ITO	Income Tax Ordinance
MAS	Monetary Authority of Singapore
MoI	Ministry of Interior
MoITT	Ministry of Information Technology and Telecommunication
NAVTTC	National Vocational and Technical Training Commission
NBFC	Non-Banking Finance Company
NIC	National Incubation Center
P2P	Peer-to-Peer
PFMC	Private Fund Management Company
PRC	Proceeds Realization Certificate
PSDP	Public Sector Development Programme
PSEB	Pakistan Software Export Board
SAFE	Simple Agreement for Future Equity
SBP	State Bank of Pakistan
SECP	Securities and Exchange Commission of Pakistan
SME	Small and Medium Enterprise
SRO	Statutory Regulatory Order
STZA	Special Technology Zones Authority
USD	United States Dollar
VC	Venture Capital

About the Brief

Despite the rapid growth of Pakistan's startup ecosystem, the majority of startups fail within their first five years. While multiple factors contribute to this high failure rate, limited access to capital remains one of the most critical barriers to startup survival and growth. Tackling this challenge requires coordinated reforms that strengthen and connect both the demand and supply sides of capital in the country.

To help drive such reforms, Invest2Innovate, Telenor, and the Special Technology Zones Authority (STZA), with support from Ignite National Technology Fund, Telenor Velocity and Visa Foundation, co-hosted a roundtable discussion at the +92Disrupt 2024 Conference in Karachi. The convening brought together investors, entrepreneurs, Entrepreneurial Support Organizations (ESOs), corporates, regulators and policymakers to identify and advance reforms to close Pakistan's startup funding gap. Drawing on those insights, this policy brief outlines a reform agenda to unlock domestic and foreign capital by reducing the cost and complexity of doing business for startups, broadening their funding options, creating clear liquidity and exit pathways, and strengthening the entrepreneurial support ecosystem.

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Aleena Khan works at the intersection of research, public policy, and social development, designing evidence-based programs that advance the inclusion of women and youth. As the Head of Programs at Invest2Innovate, she leads data-driven capacity and community-building initiatives to foster an inclusive entrepreneurial ecosystem across Pakistan and MENA.

Aleena holds a Master's in Comparative Social Research from the Higher School of Economics in Moscow, and her career spans education reform, gender equity, and social inclusion. She has previously designed a $23 million youth internship program for Pakistan's Ministry of Planning, led a $1M grant portfolio of 21 peacebuilding projects at U.S. Institute of Peace, and led advocacy campaigns for education reforms across Pakistan at Alif Ailaan.

Aleena is driven by a commitment to systems change and inclusive growth. In recognition of her impact, the World Economic Forum nominated her as Pakistan's expert on the Future of Education, Gender, and Work.

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Mohtashim Ahmad Siddiqi is a Solicitor of England & Wales and Partner at Barsols Legal Consultants, a law firm operating across the US, UK, UAE, KSA, and Pakistan. He specializes in corporate, business, technology, and startup law, advising clients on cross-border structuring, regulatory compliance, and complex transactional matters.

Mohtashim regularly works with high-growth startups, investors, and global businesses, offering strategic legal counsel tailored to dynamic and fast-evolving markets. With academic credentials from Loughborough University, BPP University, and The University of Law (UK), he brings a multidisciplinary approach to legal problem-solving, grounded in both legal rigor and commercial insight. Mohtashim is particularly focused on supporting entrepreneurship and innovation through sound legal frameworks and policy development.

His work contributes to strengthening the legal infrastructure for startups operating across jurisdictions, and he actively collaborates on initiatives aimed at improving the business and investment climate in emerging markets.

Message from the Leadership

Sarah Munir
Chief Executive Officer,
Invest2Innovate (i2i)

At Invest2Innovate, we've spent over a decade working alongside startups across Pakistan, and the challenge is clear: it's not a lack of talent or ambition holding entrepreneurs back, but the structural barriers that limit access to capital and scale.

This policy brief, developed with Telenor Velocity and STZA, is a step toward shifting that reality. It outlines clear, actionable reforms to unlock early-stage capital and create an enabling environment for founders to grow.

At i2i, our commitment is to the ecosystem as a whole, supporting localized, evidence-based solutions that address both the demand and supply sides of capital. When we clear the path for innovation and entrepreneurship, we pave the way for broader economic growth.

Azfar Manzoor
Chairman,
Special Technology Zones Authority (STZA)

STZA is mandated to enable the development of Special Technology Zones as engines of innovation, tech investments, and high-value job creation. These zones are designed to serve as globally competitive hubs that attract venture capital, support R&D-driven enterprises, scale startups, and accelerate Pakistan's transition to a knowledge economy. Aligned with the priorities of the Special Investment Facilitation Council (SIFC), STZA is working to streamline investment pathways and reduce regulatory friction for high-growth enterprises. This policy brief provides targeted recommendations to improve early-stage capital access and directly supports the enablement of Zone Enterprises — licensed tech companies operating within a structured, de-risked, and incentive-rich framework.

Khurrum Ashfaque
Chief Executive Officer,
Telenor Pakistan

Over the past decade, Pakistan's startup ecosystem has demonstrated remarkable potential creating jobs, addressing real-world challenges, and driving digital innovation. But this progress is now under pressure. In just two years, venture funding has declined by nearly 88%, revealing deep-rooted structural barriers that extend beyond global capital trends.

In response, Telenor Pakistan, Invest2Innovate, and the Special Technology Zones Authority joined forces, supported by Ignite, VISA, and Telenor Velocity to better understand these challenges and chart a way forward. Our goal was simple: to listen, engage, and co-develop a policy agenda shaped by the ecosystem itself.

This brief is the result of that collaboration. Grounded in the voices of founders, investors, regulators, and support partners, it lays out a focused roadmap to unlock capital, enable investor confidence, and build a more supportive environment for startups.

At Telenor, our commitment goes beyond connectivity - we're invested in helping build the foundations that allow innovation to grow.

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Executive Summary

Pakistan's startup ecosystem has experienced rapid growth over the past decade, buoyed by a youthful population, increased digitization, and a wave of entrepreneurial energy addressing local and regional challenges. Tech-driven ventures are actively shaping the landscape, directly sustaining high-skilled jobs and indirectly generating thousands more through supply-chain contracts, gig platforms, and outsourced services. National Incubation Centers in Pakistan alone have incubated 1,950+ startups and created 183,000+ jobs to date, underscoring the growing economic weight of the country's startup ecosystem.

This momentum, however, is faltering. Venture investment plunged from USD 355 million in 2022 to just USD 43 million in 2024 - an 88 percent dip that threatens to stall enterprise growth and job creation. The plunge mirrors a global capital retrenchment but is amplified locally by currency depreciation, inflation spikes, internet shutdowns and political uncertainty, exposing the fragility of Pakistan's investment climate and the structural frictions that choke capital at every stage.

Recognising the urgency, Invest2Innovate, Telenor and the Special Technology Zones Authority (STZA), with support from Ignite National Technology Fund, Telenor Velocity and Visa Foundation, convened investors, entrepreneurs, regulators, policymakers, legal experts and entrepreneurial support organizations at the +92Disrupt 2024 Conference in Karachi. The roundtable diagnosed the funding gap and co-crafted a reform roadmap that underpins this brief.

Capital is the lifeblood of young firms: it lets them hire talent, build and test products, and absorb early losses while scaling. When funding is scarce or delayed, high-potential ventures either relocate offshore or shut down, taking jobs and innovation with them. Conversely, every rupee channelled efficiently into startups multiplies across supply chains, spurs technology adoption in traditional sectors and fuels broad-based economic growth.

Drawing on extensive consultations with ecosystem stakeholders, review of local laws and regulations, and global best practices, this policy brief identifies the critical barriers constraining both the demand and supply sides of capital in the country and proposes a coordinated reform agenda across 4 priority areas to mobilize domestic and foreign capital:

1. Enable Startup Growth through Regulatory and Tax Reforms
Introduce a dedicated "startup class" with simplified filings, electronic communication by default and exemptions from AGMs, cash-flow statements and CDC registration for the first 5 years. Launch a single digital gateway that unifies all federal and provincial regulators and tax agencies, cutting duplicative paperwork. Harmonise the legal definition of "startup" across corporate, tax and financial laws; replace the 3-year tax holiday with a 3-year exemption followed by a 5-10 percent flat rate in years 4 and 5, standardise provincial sales tax at 2 percent, introduce targeted incentives including salary and withholding tax relief and leaner STZA licensing. Ensure continuous fintech-sandbox access with a tiered licensing pathway for sandbox graduates, fast-track IP registration and strengthen IP enforcement. Together, these measures will slash early-stage compliance costs, keep companies onshore and broaden the tax base as growing startups formalise.

2. Expand Access to Diverse Funding Options
Adopt the Companies Act definition of startups across SBP prudential rules and other statutes. Issue SECP valuation standards to unlock IP-backed lending and introduce government guarantees for IP-backed loans. Streamline private-fund licensing, scrap the 50-investor cap and pilot sandboxes that let micro-VC and angel funds launch with lower paid-up capital and operate initially without license.

Extend legal recognition to SAFEs, KISS, convertible notes, venture debt and revenue-based finance. Extend VC tax exemptions to 7 years, offer 30 percent angel-investment credits and treat syndicates as flow-through entities. Modernise foreign-exchange controls through a single SBP portal, risk-based MoI screening, broad general permissions for foreign transactions through authorised dealers and explicit approval of share swaps. Scale a digital National Startup–Investor Matchmaking Portal to bridge information gaps and widen deal-flow. Collectively, these reforms will diversify Pakistan's funding options and ensure founders can raise patient capital across all stages of their development.

3. Create Liquidity and Exit Pathways via Capital Markets

Lower the GEM Board post-issue paid-up-capital requirement from PKR 25 million to 10 million, ease profitability and disclosure thresholds for IPOs, and publish clear graduation criteria so high-growth ventures can move smoothly from GEM to the Main Board. A vibrant, easier-to-access capital market will recycle domestic capital, attract institutional investors and complete the financing continuum from seed to public listing.

4. Build a Strong Support Ecosystem for Entrepreneurs

Shift Entrepreneurial Support Organisations (ESOs) from one-size-fits-all cohorts to tailored, needs-based programmes that prioritise investment readiness vis-à-vis valuation, financial management and due-diligence preparation. Engage NAVTTC to co-design and implement nationwide entrepreneurship and investment-readiness programmes and leverage PSDP funds to finance their large-scale rollout across the country. Provide subsidised legal, tax, IP and talent-acquisition services through National Incubation Centers and STZA. Create a regulator-ESO working group to share startup pipelines. Grant SECP-registered ESOs tax credits of up to 20 percent of operating spend, linked to transparent performance metrics. Strengthening these support structures will generate a larger, higher-quality pipeline of investment-ready startups that can attract capital quickly and scale sustainably.

Pakistan stands at a pivotal moment. Coordinated execution led by federal and provincial governments, regulators, investors, corporations and ESOs can turn today's funding crunch into an inflection point for long-term, innovation-driven growth. With bold, sequenced reforms backed by macro-economic and political stability, the country can transform its startup landscape from capital-constrained to capital-empowered, positioning Pakistan as a competitive player in the global digital economy.

Introduction

Pakistan is at a demographic-digital inflection point: a population of 241.5 million of which 67 percent is under 30, and 57 percent mobile-broadband penetration create a vast talent pool and consumer base. Tech-driven ventures already reshape the economy, generating high-skill jobs directly and thousands more through supply chains, gig platforms and outsourcing. National Incubation Centers alone have supported 1,950+ startups and created 183,000+ jobs till date, highlighting the sector's growing economic weight.

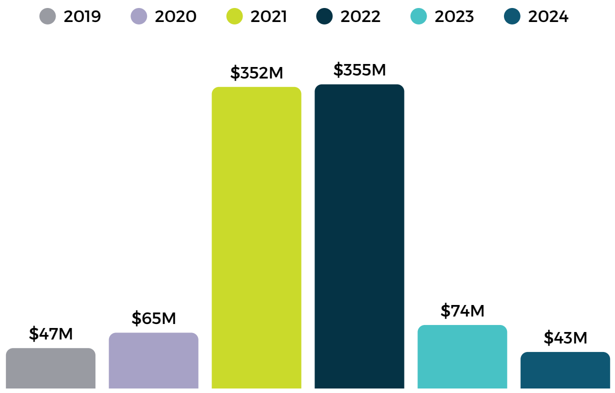
Growth has been strongest in fintech, e-commerce, logistics and mobility. E-commerce generated USD 5.2 billion in 2023 and is projected to reach USD 6.7 billion by 2029 (CAGR 5.9 percent), while IT-enabled-services exports hit a record USD 3.2 billion in FY24. Funding mirrored this rise, jumping to USD 352 million in 2021 and USD 355 million in 2022, signalling Pakistan's emergence as a regional venture capital destination.

This momentum is now at risk. Startup investment fell to USD 74 million in 2023 and USD 43 million in 2024, an 88 percent drop from 2022. While this downward trend follows a global reset, it has been magnified by local headwinds of high inflation, currency depreciation and elevated interest rates; recurring internet shutdowns; political uncertainty; and fragmented, inconsistent, policy implementation. Although interest rates and inflation have since declined, investors remain increasingly cautious about investing in emerging markets like Pakistan, deal activity remains precariously low, and existing investments continue to bear the brunt of significant valuation adjustments.

The pull-back in funding also exposes structural regulatory, financial and procedural barriers that choke capital at every turn. Startups face heavy compliance burdens, outdated share-issuance rules and licensing delays that push founders offshore. Banks require collateral and face prudential caps, while IP-backed lending, revenue-based financing and crowdfunding remain unregulated or prohibited. Domestic investors are hindered by punitive taxes, scarce investment vehicles and unfriendly fund-formation rules. Foreign investors grapple with a 1947-era forex regime requiring prior clearances and transaction-by-transaction repatriation approvals, causing lengthy delays and eroding returns.

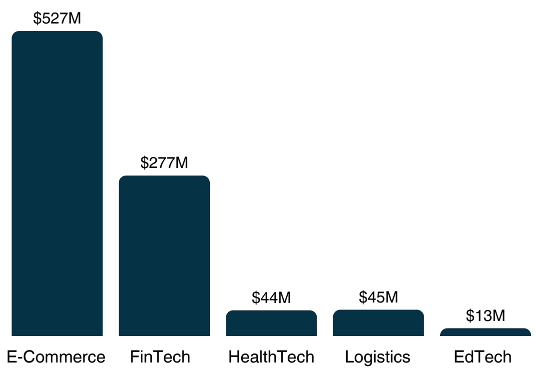
Capital is the lifeblood of young firms: when funding is timely and flexible, startups scale rapidly, attract global partners and tap Pakistan's expanding digital market, multiplying into jobs, stronger value chains, and technology spill-overs that lift traditional industries, boost exports, and broaden the tax base. Without it, ventures run out of runway, relocate or shut down, taking innovation and opportunity with them. Closing the funding gap is therefore essential to sustain the virtuous cycle of innovation, job creation and inclusive growth that Pakistan's startups are poised to deliver.

Total Startup Funding in Pakistan 2019-2024



Source: Invest2Innovate, Pakistan Startup Ecosystem Report 2024

Top Funded Sectors 2015-2024



Source: Invest2Innovate, Pakistan Startup Ecosystem Report 2024

Priority Areas

Drawing on global best practices and extensive stakeholder input, the reform agenda concentrates on four priority areas: enabling startup growth through regulatory and tax reforms, expanding access to diverse funding options, creating liquidity and exit pathways via capital markets, and building a strong support ecosystem for entrepreneurs. Together, these measures aim to unlock domestic and foreign capital, bridge the funding gap, and power sustainable growth in Pakistan's startup ecosystem.

1

Enable Startup Growth through Regulatory and Tax Reforms

Pakistan's startups spend disproportionate time and resources navigating one-size-fits-all corporate rules, conflicting tax definitions, and patchy provincial regimes. These frictions delay fundraising and push many founders offshore. By carving out a distinct "startup class" with streamlined filings, harmonised definitions, and phased tax relief, policymakers can cut early-stage compliance costs and free scarce capital for product development and hiring. A lighter-touch regime in the first 5 years would accelerate formalisation, widen the tax base over time, and send a powerful signal that innovation is a national priority.

1.1 Tailor Corporate Compliance for Early-Stage Startups

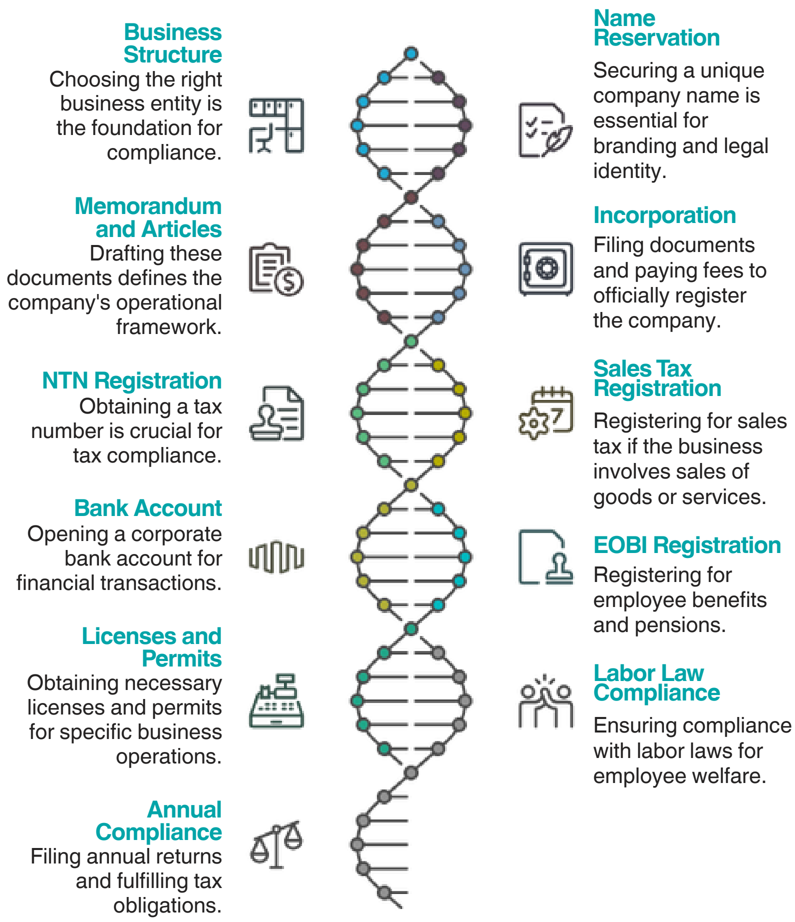
Problem
The Companies Act, 2017 imposes uniform financial reporting and governance standards on all businesses, regardless of size. Early-stage startups face significant challenges in complying with audit, disclosure, and shareholder requirements, causing delays in due diligence and deal closures. Excessive compliance and documentation requirements, including incorporation, share registration, payments, repatriation, and Central Depository Account (CDC) opening, further burden startups. These delays are intensified by onerous attestation and notarization requirements, particularly for foreign shareholders under Regulation 15 of the Companies Incorporation Regulations, 2017.

Recommendation
The Securities and Exchange Commission of Pakistan (SECP) should introduce a dedicated regulatory framework for startups to ease compliance during their first 5 years of operations. Proposed measures include simplified financial disclosures, flexible governance, and targeted exemptions such as:

- Electronic communication by default
- Removal of requirements for director's report to be attached with financial statements
- Exemption from filing cash flow statements
- Removal of CDC registration requirements
- Exemption from holding Annual General Meetings (AGMs)

1.2 Streamline Multi-Agency Compliance through a Unified Digital Gateway

Problem
Startups in Pakistan face significant regulatory challenges beyond company registration under the Companies Act 2017, including compliance with labor regulations (EOBI, ESSI) and provincial tax laws. Certain industries like FinTech and HealthTech require additional sector-specific licenses from agencies such as State Bank and Drug Regulatory Authority (DRAP). The extensive paper-based documentation required by multiple regulators, including State Bank of Pakistan (SBP), Intellectual Property Organization (IPO), Securities and Exchange Commission of Pakistan (SECP), Central Depository Company (CDC), Competition Commission of Pakistan (CCP), and Federal Board of Revenue (FBR), leads to duplication of efforts, increased time and financial costs for startups. Despite the availability of online registration portals, the process remains fragmented, creating delays and further complicating compliance. Due to overregulation and inconsistent policies, investors often choose to domicile startup funds in foreign jurisdictions with easier and more streamlined compliance processes.



Recommendation

A centralized electronic gateway should be established, regulated, maintained, and operated by one designated government department or entity, and integrated with all major government agencies including State Bank of Pakistan (SBP), Intellectual Property Organization (IPO), Securities and Exchange Commission of Pakistan (SECP), Central Depository Company (CDC), Competition Commission of Pakistan (CCP), Ministry of Information Technology and Telecommunications (MoITT), Pakistan Software Export Board (PSEB), Federal Board of Revenue (FBR), and provincial tax agencies, to provide startups with a one-stop solution for all regulatory compliance, including company registration, share allotment and transfer, application for regulatory sandbox, intellectual property registration, licensing, and tax filing.

Prior to the development of the digital portal, the Prime Minister's Office should constitute a joint working group with representatives from relevant government departments and private sector to define the scope, applicability and outcomes of the portal.

Additionally, directives should be issued by all regulators for accepting electronic signatures for authenticating documents without physical need for attestation, other than in the case of a power of attorney.

1.3 Harmonize Startup Definitions Across Tax Laws

Problem

Startups lacked formal tax recognition until the Finance Act 2017 amended the Income Tax Ordinance (ITO), 2001, introducing a tax exemption for a period of 3 years. A "startup" was defined as a technology-driven business registered with and certified by the Pakistan Software Export Board (PSEB) with an annual turnover below 100 million PKR over the past 5 tax years. However, this definition conflicts with the Companies Act 2017 which classifies startups as companies under ten years old, pursuing innovation or scalability, with annual turnover below 500 million PKR. Consequently, companies with a turnover between 100 and 500 million PKR are considered startups under company law but are ineligible for tax benefits under the ITO. Moreover, the definition of a startup under the Income Tax Ordinance excludes non-technology businesses, whereas the Companies Act adopts a broader approach, encompassing a wide range of startup sectors beyond just technology-driven enterprises.

Recommendation

The definition of 'startup' under the Income Tax Ordinance should be amended to reflect the broader and more inclusive definition set out in the Companies Act, 2017.

Mirroring best practices in Singapore ("Startup SG") and Saudi Arabia (Unified SME Definition 2022), SBP, SECP and FBR should issue a joint SRO adopting one startup definition to guarantee consistency in licensing, tax incentives and disclosure, and eliminate compliance friction and forum-shopping, letting founders focus on growth rather than re-qualifying for each programme.

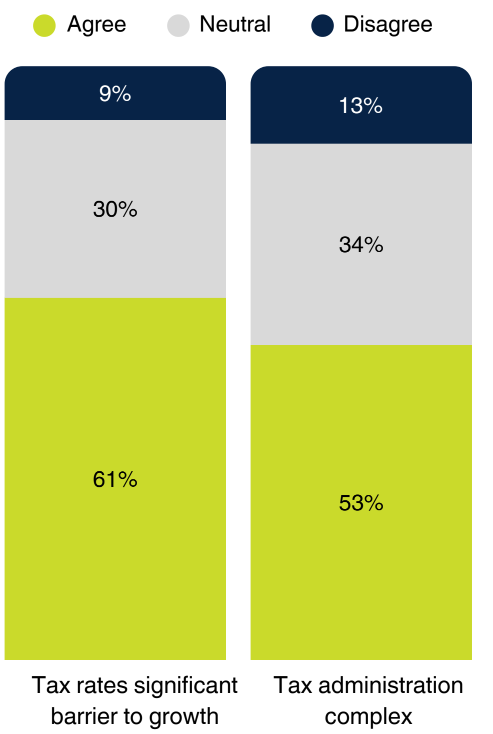
- Incorporated ≤ 10 years ago
- Annual turnover ≤ PKR 500 million
- Demonstrates innovation or scalability

1.4 Extend Startup Tax Holiday and Adjust Income Tax Rates

Problem
The expiration of the 3-year tax holiday, followed by higher income tax rates (20 percent for small companies and 29 percent for all other companies), strains startups with slow profitability trajectories, potentially preventing them from achieving expected returns within that period.

Recommendation
To reduce early-stage friction and incentivize formal incorporation, the current 3-year tax holiday should be replaced with a transitional tax relief framework that eases startups into the formal tax regime.

Under this model, startups would benefit from a tax exemption for the first 3 years, followed by a reduced flat tax rate (5–10 percent) for the next 2 years. This time-bound structure allows startups to stabilize operations and reinvest cash flows during their formative years. Startups opting in would commit to formalization, regular filing, and financial disclosures, creating a pathway into the full tax base over time. While this may involve short-term tax revenue loss, it is offset by the long-term economic benefits of job creation, enterprise formalization, and an expanded tax net as startups mature.



Source: Invest2Innovate, Pakistan Startup Ecosystem Report 2024, Founder Survey

1.5 Unify Provincial Sales Tax Regimes and Duty Exemptions

Problem
High and inconsistent provincial sales tax rates create significant compliance burdens and risks of double taxation for startups, particularly service-based businesses operating nationally. The lack of uniformity across provinces leads to a complex tax environment, increasing administrative overhead and reducing profit margins, especially for IT-enabled services delivered across multiple regions.

Recommendation
To foster a conducive environment for digital innovation, sales tax on IT and IT-enabled services should be standardized and reduced to a uniform rate of 2 percent across all provinces. Targeted tax and customs duty exemptions on IT equipment imports should also be extended to startups to lower operational costs and accelerate technology adoption.

1.6 Introduce Salary Tax Exemptions to Attract Talent

Problem
Startups struggle to attract and retain skilled talent, as larger companies dominate the competition for experienced professionals. This challenge is further compounded by the absence of tax exemptions on employee salaries, making it more difficult for startups to offer competitive compensation and retain top talent.

Recommendation
Startups often struggle to compete with larger firms in hiring skilled professionals due to constrained cash flows and lack of salary-based tax incentives. To address this, a targeted and time-bound salary tax relief program should be introduced under Section 149 of the Income Tax Ordinance. Key features could include:

- Eligibility-limited relief: Relief applies only to formally registered startups meeting predefined eligibility (age, turnover, innovation, and compliance).

- Duration cap: Salaries of full-time employees in startups may be exempt from income tax for the first 2–3 years, followed by a reduced rate (e.g., 5–10 percent) in years 4–5.
- Deferred taxation model: Alternatively, relief could be linked to a profitability or revenue threshold, with obligations deferred until the startup achieves certain income levels.

1.7 Exempt Startups from Withholding Tax Obligations

Problem
Withholding requirements from suppliers impose a significant compliance burden on startups.

Recommendation
Introduce a time-bound easing of compliance obligations for startups during their first 5 years of operations, including simplified or waived withholding requirements on vendor payments. This transitional measure would reduce administrative burden and free up cash flow during the critical early-growth phase. Startups benefiting from this measure would commit to a structured compliance roadmap, with progressive integration into the full tax system beyond the relief period.

1.8 Simplify and Strengthen STZA Licensing Benefits

Problem
Although STZA-licensed startups receive extensive 10-year tax exemptions including income, sales, property, and customs taxes, the licensing process is burdensome, the Qualification and Approval Rules 2021 provide vague evaluation criteria, and the overall assessment process lacks transparency.

Recommendation
The STZA licensing process should be streamlined further by reducing application requirements, clarifying the evaluation criteria outlined in the Qualification and Approval Rules 2021, and enhancing transparency through well-defined and publicly accessible assessment guidelines.

To ensure licensing benefits are accessible and targeted, STZA should establish regular pipeline-sharing mechanisms with incubators, accelerators, and other entrepreneurial support organizations and proactively source high-potential startups.

1.9 Streamline Sandbox Access and Graduation for FinTech Innovation

Problem
The sandbox programme suffers from a weak applicant pipeline. Limited regulator outreach and low ecosystem awareness mean many eligible fintech founders either do not know the facility exists or misunderstand its criteria, leaving cohorts under-subscribed and the sandbox unable to capture the full spectrum of early-stage innovation it was set up to support.

The regulatory mandates of SBP and SECP frequently overlap, particularly for fintechs that combine payment, lending, or investment functions. This leaves founders uncertain about which rules take precedence and which regulator will ultimately licence them. To hedge this uncertainty, startups often have to prepare near-identical sandbox applications for both agencies, duplicating paperwork and stretching review timelines. Cohort-based admissions for SBP regulatory sandbox create bottlenecks, leaving long gaps when applications cannot be submitted.

Early-stage FinTechs in Pakistan face formidable barriers to entry. Paid-up-capital thresholds are steep, and licensing and compliance costs are heavy. Regulatory sandboxes introduced by SBP and SECP help lower these barriers to entry by allowing limited pilots under lighter requirements. However, when a pilot ends, startups enter a regulatory void: they must transition directly to a full licence with a sudden, hefty rise in capital and compliance obligations, leaving many promising ventures stranded between proof-of-concept and full commercial launch.

Recommendation
To strengthen Pakistan's regulatory sandbox for FinTechs, regulators should first cultivate a broader and better-informed applicant pipeline. Regular pipeline-sharing mechanisms with incubators, accelerators, and other entrepreneurial support organizations should be established to proactively source high-potential startups. Coordinated nationwide "Sandbox Clinics" should also be organized quarterly by regulators in partnership with incubators, accelerators, universities, and provincial IT boards, to demystify eligibility, walk founders through application steps, and showcase success stories.

Streamlining the application process itself requires a single "Pakistan Innovation Testing Hub." A formal SBP–SECP memorandum of understanding can mandate joint review committees, shared data, and a harmonised application form hosted on the unified digital gateway with integrated checklists, a real-time status tracker, and secure document storage.

Access to the sandbox must also be more continuous and affordable. Similar to SECP's sandbox, applications and admissions under the recently introduced SBP sandbox should be on a rolling basis so innovators can enter year-round.

To close the regulatory void between graduation from the sandbox and a full license, SBP and SECP should establish a time-bound, transparent graduation route to full licences that offers restricted, tiered, and conditional licences that scale capital and reporting requirements in stages. This time-bound, transparent pathway would preserve the sandbox's testing benefits, cut procedural friction, and give founders and investors a predictable, affordable route from sandbox prototype to full market entry.

1.10 Strengthen Intellectual Property Protection

Problem
Pakistan's startup ecosystem faces a dual intellectual-property (IP) deficit. On one hand, founders have limited awareness of what elements of their innovation qualify for protection. Many early-stage teams wrongly assume IP registration is a late-stage chore, exposing them during fundraising and market entry. As a result, fee waivers, online filing and other well-intentioned reforms remain under-utilized. On the other hand, enforcement of existing laws including the IPO Act 2012, Copyright Ordinance 1962, Patents Ordinance 2000 and Trade Marks Ordinance 2001, is slow, costly and uncertain. Patent grants typically take 4 to 6 years; injunctive relief is hard to obtain; penalties rarely deter infringement; and compulsory-licensing provisions inject further uncertainty, allowing others to exploit a startup's IP before commercialization is achieved. IPO Pakistan's capacity constraints, high international-filing costs and frequent ownership disputes, especially over employee-created inventions, compound the problem. Unsurprisingly, more than 80 percent of investors and 53 percent of founders surveyed in PSER 2024 cite weak Intellectual Property protection as a major barrier to investment.

Recommendation
A two-pronged response that couples awareness with accessible enforcement should be rolled out through a public-private coalition of the Intellectual Property Organisation (IPO), Ignite, National Incubation Centres, the Special Technology Zones Authority, the Federal Investigation Agency and academia. First, a nationwide IP awareness campaign should demystify what can be protected, why early registration matters for valuation, and how founders can navigate domestic and international filings. IP Facilitation Desks embedded in incubators, STZAs and universities, staffed by trained advisors or rotating "IP fellows", can offer free or low-cost consultations, while interactive online toolkits and self-assessment checklists help startups map filing timelines and eligibility.

Second, the legal and enforcement apparatus must become faster, cheaper and clearer. A dedicated startup window should target a 12-month turnaround for patents and trademarks, with reduced fees for both domestic and international filings. Specialised startup IP tribunals, alternative-dispute-resolution options overseen by the tribunals and facilitation by FIA in infringement matters would provide expedited injunctive relief. Amendments to IP statutes should mandate standard IP-ownership clauses in employment contracts, automatically vest founder and employee-created IP in the startup during its formative years, and defer compulsory licensing by at least 5 years giving startups the time and protection needed to commercialize their innovations. Finally, fines for willful infringement should be increased and punitive damages enabled to create real deterrence.

To underpin these measures, the federal government should increase IPO Pakistan's operational budget to fund additional patent and trademark examiners, a comprehensive digitisation drive for filings and case management, and an intensive capacity-building programme for enforcement staff.

2

Expand Access to Diverse Funding Options

Traditional bank lending, collateral requirements and narrow prudential caps leave most high-growth ventures locked out of finance, while regulatory blind spots stifle micro-VCs, angel syndicates and use of modern startup-friendly financing instruments. Aligning financial regulations with the broader company-law definition of startups, recognising IP as collateral, and digitising foreign-exchange approvals would unlock both domestic and cross-border capital. Coupled with tax credits for angels and a sandbox for smaller funds, these steps can diversify Pakistan's funding stack and smooth the path from pre-seed to scale.

2.1 Harmonize Startup Definition Across Financial Regulations

Problem
Pakistan's financial rulebooks define "startup" in conflicting ways, creating a financing blind spot. The State Bank of Pakistan's Prudential Regulations for Small and Medium Enterprises and its Licensing and Regulatory Framework for Digital Banks consider any firm under 5 years old a startup, further splitting this group into small-enterprise startups (annual sales up to PKR 150 million) and medium-enterprise startups (PKR 150–800 million). In contrast, the Companies Act 2017 defines a startup as a company under 10 years old that pursues innovation or scalability and records annual turnover below PKR 500 million.

Recommendation
To close this gap, State Bank should revise its Prudential Regulations and Digital Bank framework to adopt the broader, innovation-focused startup definition in the Companies Act 2017. Extending small enterprise level prudential provisions and credit programmes to every company that meets the Act's criteria would create a single, inclusive regulatory category, and unlock both traditional and digital financing for a much larger pool of emerging ventures.

2.2 Enable IP-Backed Lending Through Formal Valuation Frameworks

Problem
For startups, intellectual property is often their most valuable asset, yet it lacks recognition as acceptable collateral in Pakistan despite the Financial Institution (Secured Transactions) Act, 2016, due to the complexity of valuing IP.

Recommendation
The Securities and Exchange Commission of Pakistan (SECP) should issue regulations to establish a formal valuation procedure for intellectual property (IP) assets.

Drawing on South Korea's IP Guarantee Fund, Ignite National Technology Fund should introduce a guarantee program that covers up to 50 percent of the principal on IP-backed loans, launching first as a pilot in Special Technology Zones before expanding nationwide.

2.3 Simplify Licensing for Private Fund Management Companies

Problem
The Non-Banking Financial Company (NBFC) licensing process and subsequent formation of Private Fund Management Company (PFMC) is lengthy, complex and burdensome, requiring extensive documentation and up to 8–12 months for approval, forcing many investors to establish venture capital funds in offshore locations like Singapore or the UAE, where fund registration is easier and regulatory frameworks are more investor-friendly.

Recommendation
SECP should simplify and ease the licensing process for private funds by launching a fully digital, end-to-end application portal with real-time tracking; issuing standardized templates for all required documents to remove ambiguity; and shortening and publicly disclosing approval timelines, with a fast-track lane for funds targeting early-stage startups.

Private Fund Registration Process

1.Draft Approval
Submit draft agreements for initial approval.

2. SECP Approval
Receive in-principle approval and custodian appointment.

3. Fund Registration
Apply for fund registration with necessary documents.

4. Registration Letter
Obtain the official fund registration letter.

5. Placement Memorandum
Submit the placement memorandum before fund launch.

Enhanced pre-application support delivered through dedicated helplines and consultations would further reduce initial rejections. A formal review committee including private fund managers should map the current process, pinpoint bottlenecks, and recommend these and other procedural improvements, which the SECP can adopt under its existing authority to ease administrative burdens and encourage the creation of local funds.

2.4 Remove Cap on Number of Investors

Problem
Section 9(iv) of Private Fund Regulations 2015 restricts the number of Eligible Investors in a private fund to 50. This cap limits the participation of high-net-worth individuals and smaller angel investors, reducing available capital for startups.

Recommendation
The hard cap on the number of Eligible Investors in a private fund should be removed, with the focus instead shifted to investor qualification and disclosure.

2.5 Introduce Regulatory Sandboxes for Micro-VCs and Angel Funds

Problem
High paid-up capital thresholds (PKR 10 million) under Private Funds Regulations 2015 prevent smaller, early-stage venture capital and angel funds from operating in the formal financial sector.

Recommendation
Drawing inspiration from models in other emerging markets (e.g., from the Monetary Authority of Singapore's (MAS) regulatory sandbox framework, which enables experimentation by early-stage financial entities without full licensing, and similar micro-VC sandbox initiatives seen in markets like India and the UAE), regulatory sandboxes for micro-VCs and angel funds should be introduced by SECP to allow new funds to launch with lower capital requirements, operate without NBFC registration initially, and scale over time.

2.6 Recognize Startup-Friendly Financing Instruments

Problem
Modern startup-friendly financing instruments such as SAFE (Simple Agreement for Future Equity), crowd SAFE, KISS (Keep It Simple Security), convertible note, venture debt and revenue-based financing are not formally recognized under SECP laws, limiting legal certainty for investors and startups.

Recommendation
SECP regulations should be amended to formally recognize these alternative instruments and provide guidelines for their use, enabling greater flexibility and innovation in startup financing.

2.7 Extend Tax Exemptions, Introduce Tax Credits and Eliminate Double Taxation for Investors

Problem
Pakistan’s current tax framework presents several disincentives for both venture capital and angel investment in startups. Under existing provisions, venture capital firms receive exemptions on dividends and capital gains for only 3 years. In contrast, investments in Zone Enterprises licensed by the Special Technology Zones Authority (STZA) are eligible for a 10-year exemption, although in practice, the exemption period often varies

depending on when the investment is made relative to the licensing date of the enterprise.

Additionally, the Income Tax Ordinance, 2001 does not extend any specific tax exemptions or credits to local angel investors, thereby discouraging domestic participation in early-stage funding. This lack of incentives stands in contrast to global practices where tax credits or relief are commonly used to catalyze early-stage funding.

A major impediment for institutional investors, especially angel syndicates, is the problem of double taxation. When investors pool capital through a syndicate, they are taxed twice: once at the syndicate level and again at the individual level. This undermines collective investment models by diluting potential returns and discouraging participation in pooled vehicles.

Recommendations

The exemption period for VC firms should be extended from 3 years to 7 years to better align with the typical startup growth and exit cycle. For investments in STZA-licensed Zone Enterprises, the 10-year exemption should commence from the date of investment, rather than the licensing date of the enterprise, to ensure clarity and consistency in incentive timelines.

Tax exemptions and credits are powerful tools that can help attract investment into startups, which are typically considered high-risk ventures. To encourage angel investment in SECP-registered startups, the Income Tax Ordinance, 2001 should be amended to introduce a targeted incentive package: a tax credit equal to 30 percent of the investment amount, capped at PKR 10 million per investor per year, along with 100 percent exemption on capital gains and dividend income, provided the investment is held and exited within a 7-year window, and the proceeds are repatriated.

To ensure transparency and compliance, formal documentation of investments should be a prerequisite for claiming these benefits. This incentive regime should initially be introduced as a pilot and evaluated based on its impact on investment volumes, expansion of the tax base, and startup survival rates.

SECP should enable the registration of Angel Syndicate Funds as Associations of Persons (AOPs) or Limited Liability Partnerships (LLPs) and designate them as flow-through entities for tax purposes. This would allow the fund to file a nil corporate return, with all income, losses, and credits passed on pro-rata to individual investors. VC firms structured as LLPs should be eligible for the same treatment.

The measure preserves limited liability, eliminates double taxation, and channels early-stage risk capital into the local tech ecosystem without eroding the overall tax base.

2.8 Digitize and Simplify Foreign Investment and Repatriation Processes

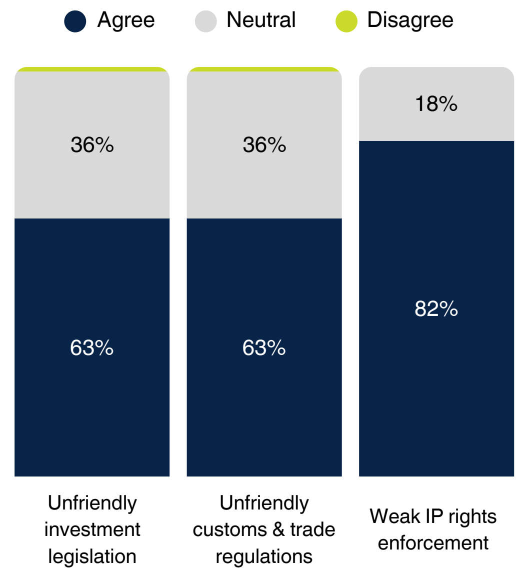
Problem

The regulatory framework governing foreign investments in Pakistan and repatriation of funds (Foreign Exchange Regulation Act of 1947 and Foreign Exchange Manual) relies on rigid, long, form-based processes that are not compatible with modern cross-border investment practices. Requirements such as pre-approvals for all fund movements, manual documentation, and lack of clear procedures for share transactions not only deter foreign investors from investing in Pakistan but also push startups to set up their companies outside of Pakistan.

Recommendation

The regulatory framework governing foreign exchange should be modernized by simplifying and digitizing all repatriation procedures. The SBP should create a centralized, online portal for all processes pertaining to foreign investments and repatriation of funds with predefined categories and streamlined documentation.

Regulatory and Legal Challenges Impacting International Investment



Source: Invest2Innovate, Pakistan Startup Ecosystem Report 2024, Investor Survey

2.9 Minimize MoI Approvals for Foreign Shareholders

Problem

Foreign individuals or investment firms need to navigate an additional bureaucratic hurdle by obtaining approval from the Ministry of Interior to become shareholders or directors in a Pakistani company.

Recommendation

The blanket requirement for Ministry of Interior (MoI) approval for all foreign shareholders should be replaced with a risk-based screening framework. This approach would exempt low-risk sectors such as technology, e-commerce, and education from MoI clearance, while retaining approval requirements only for high-risk or sensitive sectors, such as defense, telecom infrastructure, and cryptocurrency.

2.10 Eliminate Bottlenecks in Foreign Fund Transfers via Authorized Dealers

Problem

All fund movements by foreign shareholders need to go through approvals from Authorized Dealers (ADs), creating delays, uncertainty and complications. The approval process is overly rigid, and ADs often act as bottlenecks due to unclear guidelines, inconsistent practices, and bureaucratic inefficiencies, burdening both startups and foreign investors.

Recommendation

The SBP should grant broader general permissions for foreign equity investments and repatriations, particularly for startups operating in high-growth sectors, eliminating the need for transaction-specific approvals via ADs. Chapter 20 of the Foreign Exchange Manual should be amended to allow automatic repatriation for entities registered with the SBP, rather than requiring contract-level or shareholder-level permissions. The role of ADs should be minimized and foreign investors should be linked to SBP directly through the centralized portal.

2.11 Streamline Share Issuance and Cross-Border Transactions for Foreign Investors

Problem

Chapter 20 of the Foreign Exchange (FE) Manual is ambiguously worded and imposes complex, time-consuming procedures on private companies for issuing or transferring shares to foreign investors. This creates significant hurdles for startups engaging in common international investment practices such as share swaps. Currently, share swaps are not permitted for foreign investors because such transactions do not generate a Proceeds Realization Certificate (PRC), which is a regulatory requirement. Additionally, residents are restricted from holding shares acquired through a swap, further complicating cross-border deal structuring. These constraints often compel startups to set up offshore holding companies, leading to capital flight and loss of domestic control.

Recommendation

Chapter 20 of the FE Manual should be amended to clearly permit share swaps and simplify share issuance and transfer procedures for foreign investors. Specifically, the requirement for PRCs should be waived for share swap transactions, and residents should be allowed to hold shares received through such arrangements. These changes would align regulatory practices with international norms, reduce reliance on offshore structures, and facilitate greater cross-border investment in Pakistan's startup ecosystem.

2.12 Bridge Information Asymmetries through a Digital National Startup–Investor Matchmaking Portal

Problem

Despite a growing pool of founders and investors, capital flows in Pakistan remain highly concentrated and uneven. Since 2015, most startup funding has gone to a handful of ventures which are primarily male-led teams headquartered in Karachi, Lahore, and Islamabad, while hundreds of promising, women-led or secondary-city startups struggle to gain visibility. This imbalance is reinforced by the absence of a centralized, credible dataset on startups, investors, valuations, and past deals: information is scattered across incubators, law firms, individual cloud drives, and informal WhatsApp groups, making it difficult for investors to screen opportunities and for founders to find the right backers. Inconsistent valuation data and opaque deal histories further heighten uncertainty, discouraging new angel participation and inflating search and due-diligence costs for existing investors. As founders burn precious runway chasing meetings instead of building product-market fit, and investors spend months vetting fragmented information, Pakistan's funding landscape remains skewed, perpetuating regional, gender, and stage-based inequities and constraining the growth of the broader startup ecosystem.

Recommendation

Equitable access to reliable information is the bedrock of equitable access to capital. To deliver it, the Ministry of Information Technology and Telecommunication should establish a Digital National Startup–Investor Matchmaking Portal through a public-private partnership with a seasoned operator such as Invest2Innovate (i2i), whose Investor Founder Discovery Platform (IFDP) already offers Pakistan's first verified digital platform that connects startups with investors through curated discovery and matchmaking. By scaling IFDP's proven code-base which includes soft-KYC verification, curated startup and investor profiles, and warm-introduction tools, the portal can be deployed nationally far faster and cheaper than a ground-up build, while reserving resources to layer in new AI-driven search, matching, and analytics features.

Under this model, the Ministry of IT & Telecom and Ignite provide the policy mandate, seed funding, and API integrations with SECP, SBP, STZA, and FBR, while i2i operates the platform as technical lead and develops the planned AI modules. The enhanced portal will let investors filter opportunities by sector, ticket size, geography, or impact, and deliver data-backed investor recommendations to founders. By centralising credible data and automating discovery, it will slash search and due-diligence costs, surface women-led and secondary-city startups, and channel idle domestic capital into a wider, more inclusive investment stream.

3

Create Liquidity and Exit Pathways via Capital Markets

Without credible exit routes, investors hesitate to deploy long-term risk capital and founders struggle to recycle equity. Startup-friendly reforms like lowering GEM Board paid-up-capital thresholds, easing IPO profitability and disclosure requirements, and clarifying graduation to the Main Board, would deepen Pakistan's capital markets and give founders a domestic alternative to costly offshore listings. Greater liquidity, in turn, would attract institutional investors and complete the financing continuum from seed to public market.

3.1 Relax IPO Requirements for Startups

Problem
Startups aiming to go public under the Public Offering Regulations, 2017, face significant hurdles, including a two-year profitability requirement and extensive disclosure obligations that are often out of reach for smaller firms.

Recommendation
IPO compliance requirements related to profitability, disclosure and reporting should be eased for startups to encourage greater participation in public markets and foster a more inclusive and vibrant capital market for entrepreneurs and investors alike.

3.2 Lower GEM Board Entry Threshold

Problem
The current post-issue paid-up capital requirement of PKR 200 million for listing on the Main Board of the Pakistan Stock Exchange (PSX), while aimed at ensuring investor protection and company maturity, is beyond the reach of most startups. Rather than lowering this threshold, reform efforts should prioritize strengthening the Growth Enterprise Market (GEM) Board as a more accessible entry point. However, the existing post-issue paid-up capital requirement of PKR 25 million for GEM Board listing remains too high for many early-stage startups, effectively limiting their access to public capital markets.

Recommendation
The post-issue paid-up capital threshold for listing on the GEM Board should be reduced from PKR 25 million to PKR 10 million, making it more accessible to early-stage startups. In parallel, clear and transparent graduation criteria should be introduced to facilitate the transition of growing companies from the GEM Board to the Main Board. These reforms would not only make the board more accessible to early-stage startups, encouraging more companies to consider it as a viable option for raising capital from eligible investors, but also offer liquidity and an exit opportunity for early-stage investors.

4

Build a Strong Support Ecosystem for Entrepreneurs

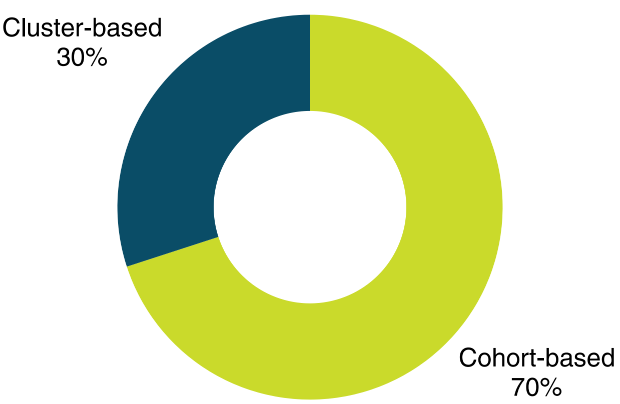
Despite the rapid growth of incubators, accelerators, and other Entrepreneurial Support Organisations (ESOs), 73% of incubator graduates fail to secure funding within two years due to limited investment readiness and inadequate support. A pivot to bespoke, sector and stage specific investment readiness support, underpinned by NAVTTC-led nationwide training and subsidised legal, tax and IP services is critical for closing this gap. Formal ESO-regulator linkages and targeted tax incentives are needed to effectively channel public resources toward high-potential startups and strengthen entrepreneurial support.

4.1 Shift to Tailored, Startup-Centric Support Model

Problem

The standardized cohort-based incubation model commonly used by ESOs is too rigid to effectively address the diverse needs of individual startups. Its one-size-fits-all approach that applies the same curriculum to all startups regardless of their sector, stage, and mentorship needs reduces the relevance and impact of the support provided.

ESO Support Model



Source: Invest2Innovate, Pakistan Startup Ecosystem Report 2024, ESO Survey

Recommendation

ESOs need to shift to a bespoke, need-based support model which provides individualized interventions tailored to each startup's specific needs, sector, and stage. This approach enables more targeted support, access to specialized resources, and customized programming to address the distinct challenges each startup faces.

4.2 Strengthen Investment Readiness Support for Startups

Problem

Startups often lack the investment readiness skills and knowledge needed to attract investors and secure funding. Only 11% of startups find the negotiation and valuation support from ESOs useful, highlighting a gap in these critical services. Investors also cite major challenges during due diligence, including missing data, poor understanding of valuations, weak financial management, and an inability to build sustainable, profit- and cash flow-focused businesses.

Recommendation

There is a need for specialized investment readiness programs tailored to the unique needs of startups at various stages. These programs should focus on building essential investment readiness skills, including financial management, fundraising strategy, investor relationship management, valuation, negotiation, and data preparation for due diligence. To ensure scale and national reach, the National Vocational and Technical Training Commission (NAVTTC) should play a leading role in designing and implementing these programs in collaboration with relevant ecosystem stakeholders. Additionally, PSDP funds administered by the Planning Commission should be leveraged to support the rollout of comprehensive entrepreneurship and investment readiness training programs across the country.

4.3 Expand Access to Business Support Services

Problem
Many entrepreneurs face significant challenges in accessing essential business support services, such as legal and tax advice, licensing and Intellectual Property registration, regulatory compliance, and talent acquisition, hindering their growth.

Recommendation
National Incubation Centers and STZA should provide subsidized business support services to startups, including legal and tax services, licensing and IP registration, regulatory compliance assistance, talent acquisition and tech support.

4.4 Strengthen ESO-Government Linkages for Startup Enablement

Problem
Startups often miss out on government programs and regulatory incentives, such as STZA Zone Enterprise status, IP registration, PSEB certification, NBFC and EMI licensing, and GEM Board listings, due to fragmented application processes and limited coordination among regulators. Entrepreneurial Support Organizations (ESOs) and regulatory bodies operate in silos, with no structured mechanisms to share startup pipelines, align requirements, or address common bottlenecks. This results in duplicative paperwork, conflicting guidance, and delays in market entry, ultimately diminishing startup engagement with public-sector initiatives.

Recommendation
A joint working group comprising key regulators, Ignite, and representatives from Entrepreneurial Support Organizations (ESOs) should be established under Clause 3 (para 13) of the STZA Act, 2021 or relevant provisions of the Ignite Policy Manual. This platform should enable ESOs to share curated pipelines of high-potential startups with government bodies, improving coordination and expanding the reach of public incentives across the startup ecosystem.

Additionally, the working group should be mandated to develop cohesive policies, strategies, and frameworks that facilitate increased investment in startups operating within National Incubation Centers (NICs), Special Technology Zones (STZs) as well as those supported by private ESOs.

4.5 Support ESO Sustainability Through Targeted Tax Reforms

Problem
Financial sustainability remains a core challenge for ESOs, many of which rely heavily on government funding and donor grants. The lack of tax exemptions further increases their operational costs, limiting their ability to provide the tailored support startups require and to maintain these services over time.

Recommendation
Entrepreneurial Support Organizations (ESOs) should diversify their revenue streams to ensure long-term financial sustainability by exploring private sector partnerships, fee-for-service models, and corporate sponsorships. In recognition of their critical role in enabling the entrepreneurial ecosystem, SECP-registered ESOs should be eligible for tax credits of up to 20% of their operational expenses. To qualify, ESOs must maintain formal accounting records and regularly report key performance indicators, including the number of startups supported, revenue generated, capital mobilized, and jobs created by their portfolio companies.

Conclusion

Pakistan stands at a pivotal juncture in its entrepreneurial journey. While the ecosystem's initial growth signals immense promise, the sharp decline in funding and persistent structural barriers threaten to erode these gains. Without urgent reforms, promising startups will continue to incorporate offshore, local capital will remain untapped, and Pakistan will miss a generational opportunity to build a competitive innovation economy.

However, even the most robust reforms will falter if macro-economic turbulence and political volatility persist. Low and stable inflation, a predictable interest-rate path and sustained policy continuity are pre-requisites for re-anchoring investor expectations and allowing new regulatory or fiscal measures to translate into real capital flows. A credible commitment to political stability and sound macro-management is therefore indispensable to the reform programme's success.
By addressing bottlenecks across regulatory, tax, financing, and institutional domains, this policy roadmap offers a path toward equitable capital access and sustainable startup growth. Implementing these reforms will require a coordinated commitment from federal and provincial governments, regulators, development partners, and private stakeholders alike.

With bold and timely action that is grounded in macro-economic prudence and political predictability, Pakistan can close the funding gap, restore investor momentum and unlock the full potential of its entrepreneurs to drive innovation, job creation, and economic transformation.

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