

# INVESTORS' ROUNDTABLE



WHITE PAPER  
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A CONFERENCE  
ORGANISED BY

**Katalyst**  
**Labs**

# INVESTORS' ROUNDTABLE





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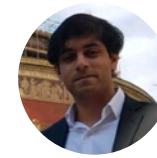
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KL>

THE PROCEEDINGS BEGAN  
WITH THE BIG QUESTION

**HOW MANY  
INVESTORS IN THE  
ROOM ARE STILL  
WRITING CHECKS?**

In a show of faith in the market and its founders, 90% of the room raised their hands. While it may sound pessimistic to fish for investor reassurance, it was important to get a view from the largest gathering of investors and ecosystem stakeholders in the country. Pakistan, for the past few years, has been developing a strong case as a high-potential market for startups. But a handful of stumbling blocks in 2022 threatened to derail trajectory. While we finish the 4th Quarter of 2022 strong, there is still a looming feeling that momentum might be slowing down. Perhaps because money is no longer cheap or maybe because Pakistan faces political headwinds. Nevertheless, the pressing question remains.

Having said that...

## “WHEN WILL THE GOOD TIMES COME BACK?”

As difficult as that sounds, the answer to this question won't be as straightforward. There are two aspects to take into account: the founder aspect and the investor aspect.

Additionally, there are two very important things to think about through these aspects:

1. With Venture Capital dry powder still available, some investors just feel that there is a need to be more judicious and to prioritize a “clear path to profitability” over just an idea.
2. Another perspective is that as long as high-potential founders are available who are working on the right problem, this is actually a good time for long-term investors as they can find better-priced deals on offer.

Since Pakistan's is a nascent market, the past two years saw an influx of 'tourist investors' testing the waters, some of whom got overexposed. But fund managers are now a lot more well-versed with the ecosystem, its challenges, and its potential. Given that they come with a longer-term mandate, find the right systems in place, and discover talent they feel confident betting on, Pakistan's early-stage investing status is not expected to regress.



From Left to Right:  
Alvaro Perezcano | Speed  
Invest, Jehan Ara | Catalyst  
Labs, Mubazir Siddiqui |  
Carbon Law, Jawwad Farid |  
Alchemy Technologies,  
Mannan Amin | Tintash,  
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# CHALLENGES FOR GROWTH

Understanding Venture Capital value chains is important if we want to find context on why follow-on funding isn't quite materializing the way we expected it to.

## TIMELINES

Since the entire funding funnel begins with Venture Capital firms raising, their timeline has shown to affect the dispersion of capital to startups in their portfolio. There must be a way around this. If things are bad, they're bad for both founder and investor funds - you can't predict when the economic situation will change, but regardless, that shouldn't affect the funding and quality of advice given to founders by investors.

## SUSTAINING PROGRESS

Tourist investors haven't always had Pakistan on their minds; however, their participation in the

Pakistani market shows that the country and its startup offerings are being seen far and wide as opportunities.

But no matter how much traction we build, the big question will always be: **how do we sustain progress?**

In terms of sustaining the ecosystem, we don't have to look much further than India for example - the constant flow of growth capital is the order of the day.

## COLLABORATION IS KEY

Additionally, another massive hindrance in later-stage growth capital is the inability of important stakeholders to collaborate. Regional and local VCs must deliberate together and arrive at a consensus on the way forward. Moreover, other important stakeholders within the ecosystem must be privy to these conversations as well.



## THE REST

Other factors currently at play are:

1. An unstable political environment
2. The disconnect between public and private markets

## BUT WHAT DO WE NOT TALK ABOUT?

It is imperative to discuss the state of private equity and venture capital firms in Pakistan. As a wider problem plaguing the country, there is a lingering mindset issue within those who are armed to support entrepreneurs in Pakistan. The startup culture isn't taken as seriously as corporate/traditional sectors – startups have to jump through hoops to access funding. Additionally, as a result of this thought process, there are not a lot of locally sourced funds.

However, roundtables such as these are indicative of the trend being bucked.

Furthermore, there is an argument to be made about the false sense of security investors have experienced as a result of previous success stories.

Over the last 3 years, the Pakistani startup ecosystem has experienced a purple patch; one that had led to investors building the courage to invest – but as a result of recent letdowns, this courage seems to have dissipated.

## THE OTHER SIDE

There is; however, ample reason to be optimistic about access to growth capital. We need to first understand that a slowdown isn't a uniquely Pakistani problem – globally, markets are under pressure. If we want to check the health and growth of our particular market we can compare it with a peer – the startup ecosystem of Egypt, which took off 3 years before Pakistan. Despite our late arrival on the scene, 2022 bore almost identical investment levels for both ecosystems.

There are indicators from the ecosystem that should predict a collective upwards trajectory in investment across various verticals. For instance, the average quality, preparedness, and intent of founders in Pakistan is steadily improving. There is also an understanding of the fact that we only really have 6 active investors and we need many more across different levels, not just seed.

## GOVERNANCE CHALLENGES: IS A REGULATORY CHANGE NEEDED?

From Left to Right:  
Ali Mukhtar | Fatima Gobi Ventures,  
Misbah Naqvi | i2i Ventures,  
Kulsoom Lakhani | i2i Ventures



## UNDERSTANDING AND EXECUTING GOOD CORPORATE GOVERNANCE PRACTICES

Early-stage startups understandably struggle with corporate governance. Consider annual audits, legal reviews, and agreements; making sure founders have their documentation - especially from a legal and financial vantage point - sorted, will help them focus purely on the business going forward. Founders also have to ask themselves “When do we set up a board?” “What will be their responsibility?”

Setting up a company has a lot more that goes into it than just having a good idea and seeking funding for it. Founders that are better prepared on issues of compliance and corporate governance make their lives easier as well as the lives of their financiers – whether local or international.



## FOREIGN FUND MANAGERS AND FISCAL DISINCENTIVES

A prevailing problem is that most fund managers are not domiciled in Pakistan. This hampers the way businesses look for funding because when it comes to foreign money, the regulatory framework is still complicated and creates bottlenecks in the funding process.

Taxation policy is another massive issue, specifically the fiscal incentives for private funds that were taken away in August of 2022. It is imperative to establish stability and continuity in the incentives provided for funds to be comfortable taking long-term bets. Regulators can also play a role in how fund managers are protected. Finally, clubbing private equity and venture capital acts together is a disservice because they are fundamentally different in their profile and strategy.



Alvaro Perezcano | Speed Invest

Mohamed Eissa | IFC



In March 2021, the government revoked an integral tax break for startups, making their income taxable. However, they have been allowed a 100% tax credit against their income tax liability. But to get access to this tax credit, startups must abide by six conditions, two of which include having filed withholding tax statements with the FBR and having relevant sales tax registrations (SRB, KPRA, BRA, FBR, PRA).

## WHAT SECTORS ARE STILL ON THE RADAR FOR INVESTORS?

Investors still consider plenty of sectors bankable, some of the more standout ones were discussed:

**LOGISTICS** – With the advent and growth of the likes of Rider, TruckItIn, and Trukker, the logistics sector is understandably in focus, especially in a country where there are several issues with infrastructure, leading to operational inefficiencies.

**E-COMMERCE** – One would think that perhaps e-commerce may have lost its sheen but the sector continues to capture interest, possibly because over the years, the model and demand have both been tested. With Bagallery, Kravemart, and GrocerApp, all figuring as part of Zayn Capital's portfolio and PriceOye getting the financial backing of SOSV, these are a few of the names that show that even recently, investors are willing to back this sector.

**TAQWATECH** – Sharia-compliant Fintech is a great vertical to build for because of the religious rules around how we bank. Islamic banking already has a foothold in the country and digitizing the space can offer great value.

**AGRITECH** – Falling yields, economic instability, and devastating natural occurrences have slowed progress through lack of access to resources and capital; however, for a country where a large percentage of its GDP comes from agriculture, the sector will inevitably garner a lot of interest. The only caveat? They must rely on hasty digitization.

**EDTECH** – Education has widely been considered one of Pakistan's biggest problems and so it comes as no surprise that founders have emerged to capture a piece of a large addressable market. With startups like Edkasa, Maqsad, and Taleemabad, the focus can now shift to a more skill-based and holistic curriculum, catering to education aside from K-12. The challenge still remains: figuring out a monetization model as well as user acceptance of alternate mediums.

**HEALTHTECH** – There will always be a need for healthcare professionals and greater access to associated services, which reaffirms the case for ventures that make inroads in this domain. Digital tools and platforms can be optimized to offer the masses easier access to doctors, medicines, insurance, and even techniques like electromyography.

**SAAS** – There is a lot of potential for Pakistan when building SaaS products; we just need to look at the Cloudways acquisition for \$350 million – this shows that we can build products that can find a place in globally competitive organizations; however, these kind of success stories take a decade or more to achieve. In India, we have a neighbor excelling in building SaaS products for global use, e.g Zoho Corporation. We should learn from excelling markets and not shun them because of our political/diplomatic ties with the country.

### It's not that easy!

It's not as simple as just naming sectors that we think are hot; most of our expertise comes from how markets in other countries function and we need to let go of that subconscious thought process. There is, in fact, a pressing need to go back to the drawing board and discuss the fundamentals; we should be able to test business models for suitability in the economic reality of the country.



## Having said that...

When it comes to functioning within the ambit of local regulations, the SECP offers a regulatory sandbox - a controlled environment for conducting live testing of services, products, business models, and processes on a limited scale and timeframe. This allows operators to test viability in-line with regulations and potentially launch at full scale.

## NURTURING NEW IDEAS: SECP'S REGULATORY SANDBOX

The proposals recently received by the SECP have been interesting and varied when it comes to ideation; however, many of them lack the necessary depth to make those ideas viable to even be tested in the sandbox. As a result of this, startups are ill-equipped, especially when announcing themselves and asking for funds. Hence, some efforts have to go in to educating entrepreneurs about how to build plans around their ideas, no matter the sector.

**"The challenge is: how do you test out business models for suitability in the economic reality of our country?"**

**- Rabeel Warraich**



## WHY HAVE SO MANY STARTUPS STRUGGLED TO SUCCEED?

Although this wasn't meant to be a talking point at the roundtable, one answer to this was that market cycles have not really been favorable for startups looking to sustain, survive, and grow. For instance, the Airlift shutdown has been attributed to circumstances. This includes a global pandemic, a drastic economic downturn, global unrest in the form of war and region-defining referendums, and a local political landscape that has been as unstable as it has been unreliable.

Additionally, those who supported Airlift in their rise to the top were adamant that there was no flaw with the founders, idea, or business model, and that they would support them again if required to do so. They are also optimistic about the effect of efforts the size of Airlift, they bring the ecosystem together, shed light on Pakistan as a serious arena for entrepreneurship and investment, and attract top tier talent back to the country. Therefore,

even if a startup manages to secure a big raise and spread its influence across the country and eventually fail, the experience will overall be good for the ecosystem and its maturity, it will offer others a blueprint of what they should and shouldn't do.

**"The founders lost 3 years but the ecosystem improved."**

**- Atif Awan**



# SUPPORT EACH OTHER

VCs, private equities, angel investors, etc, might not always share the same opinion on the way forward for the ecosystem, but it is very important to make sure they support each other and find some consensus. Unproductive competition and mistrust will do the ecosystem no good; startups will downplay other startups and funds will do the same. It is now integral to rally for regulations and policies that will help everyone.

In addition to that, as investors, it is important to enable the founders with tools they require to succeed. While capital is necessary, teaching them how to navigate agreements, hiring, networking, marketing, scaling, etc., is equally as important.

From Left to Right:  
Kashif Mustafa,  
Babar Lakhani,  
Ayesha Saleem |  
Lakson Investments



Having said that...



## VCAP: VENTURE CAPITAL ASSOCIATION OF PAKISTAN

The initiative is yet to gain a foothold in the ecosystem. Announced at Nest I/O's 021Disrupt in 2019, there has been a myriad of economic, regulatory, and political variables that the lack of action can be put down to. However, the primary issue happens to the aforementioned dearth of funds domiciled in Pakistan.

Whilst reopening the conversation on VCAP, it has come to light that there are recurring roadblocks for VCs, PEs, and other players in the funding world to circumvent alongside the SECP.

Some of the key talking points around the progression of VCAP were centered around:

1. The role of foreign-based VC firms
2. Domestic funds tax break
3. Whether venture capital firms and private equities should have separate associations

The only issue with progressing with VCAP is that there can be no decision taken without the go-ahead of officials from the SECP. Hence, there is a mobilization among investors to make a joint application and get the ball rolling.



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## BUT WHAT DO WE NOT TALK ABOUT

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However, roundtables such as these are indicative of the trend being bucked.

Furthermore, there is an argument to be made about the false sense of security investors have experienced as a result of previous success stories. Over the last 3 years, the Pakistani startup ecosystem has experienced a purple patch; one that had led to investors building the courage to invest – as a result of recent let downs, this courage seems to have dissipated.

## THE OTHER SIDE

It is not all doom and gloom, there are a lot of reasons to be optimistic about the access to growth capital for Pakistani startups. One of the loudest sentiments is that there is a global downturn to consider – a lack of funds isn't a uniquely Pakistani problem. Additionally, there is also a comparison to be made with the startup ecosystem of Egypt, which took off 3 years before Pakistan. Despite our late arrival on the scene, 2022 bore almost identical investment levels for both ecosystems.

There are also certain indicators from the ecosystem that predict a collective upwards trajectory in investment across various verticals. For instance, the average quality, preparedness, and intent of founders in Pakistan is steadily improving. There is also an understanding of the fact that we only really have 6 active investors and we need many more across different levels, not just seed.

Hence, the resounding optimism stems from the fact that there is a lot of value in Pakistan's overall portfolio right now and it will only improve with time!