



invest2innovate™

END OF YEAR

REPORT 2023

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DEALFLOW SNAPSHOT

The year 2023 was slow in terms of the investment activity compared to 2022. The first half of the year was marked by an uncertain macroeconomic environment for Pakistan and news of Medznmore's closure and Jugnu's pivot reinforced this narrative. However, Q4 2023 saw a significant surge in fundraising activity, with 150% growth in the fundraising amount and deal count when compared to the same quarter of the previous year with 6 deals and \$15 Million raise.

Prominent deals during this period showed more confidence by investors in the Pakistani startup ecosystem, which ended the year on a positive note, hopefully signaling more growth in 2024.

INVESTMENT OVERVIEW

\$74M

38 DEALS
Raised in 2023

8 M&As

Recorded in 2023

INVESTOR TYPE - DEALS

\$28.6M

12 DEALS
Mixed

\$35M

19 DEALS
International

\$10.4M

7 DEALS
Local

TOP DEALS

retailo

\$15M
SERIES A

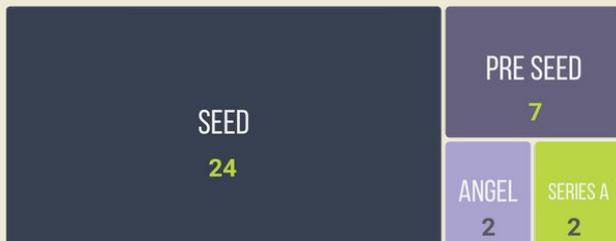
Adafi

\$7.5M
SEED

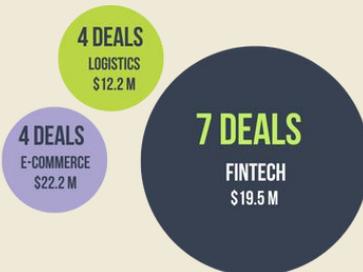
Trukkr

\$6.4M
SEED

DEAL COUNT BY STAGE



TOP FUNDED SECTORS BY DEALS



*Abhi's \$6.8 Million Sukuk bond (debt-raise) is not included
*EduFi's raise, a mix of debt and equity, is fully reflected in our numbers as the split was not disclosed.

AMOUNT RAISED & DEAL COUNT - YOY



AMOUNT RAISED & DEAL COUNT - QUARTERLY



\$AMOUNT RAISED BY GENDER



INVESTOR ACTIVITY

A SLOW START

In 2023, the Pakistani startup ecosystem experienced a considerable decline in venture capital activity, a reflection of broader global and local macroeconomic challenges. In the first nine months of 2023 (9MCY23), startups in Pakistan raised around \$33.6 million, which was only about 10% of the total funds raised in 2022.

The first quarter of 2023 started slowly with startups announcing \$23 million raised, a substantial portion of which were deals closed in 2022 but announced in 2023. This initial period was characterized by cautious investor sentiment, influenced by Pakistan's macroeconomic struggles and political instability.

QUARTER 2 AND ONWARDS: CRESTS AND TROUGHS

By the second quarter of 2023, the situation had slightly improved, with a total of \$5.2 million raised, indicating a quarter-on-quarter increase from the first quarter. However, the overall trend remained in a decline, with the total funding for the first half of the year (H1 2023) amounting to \$28.3 million across 13 deals, a stark contrast to the \$276 million raised across 27 deals in the same period of the previous year.

The third quarter saw a further decline, with funding plummeting to just \$6.8 million, an 87.7% year-on-year reduction from the \$55 million reported in the corresponding period of the previous year. The average ticket size has also dropped significantly, indicating a more challenging environment for startups seeking funding.

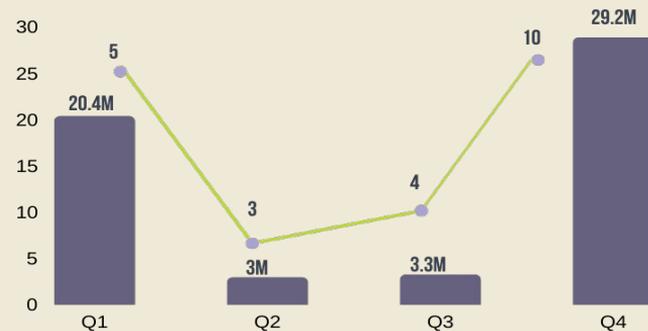
The fourth quarter of 2023 witnessed a significant uptick in Pakistan's tech startup funding, breaking the year's earlier funding drought. Five startups successfully raised over \$15.6 million collectively, injecting renewed optimism into the ecosystem. Notable raises included EduFi's \$6.1 million in a pre-seed round, leading the sector, followed by several million-dollar rounds in other startups like Voyage Freight and Helpo Technologies, marking a positive shift in investor sentiment as the year ended.

PROLIFIC INVESTORS BY DEAL COUNT 2023

● = 1 STARTUP



DEAL COUNT & SAMOUNT RAISED BY INTERNATIONAL LEAD INVESTORS



Source: i2i dealflow tracker, Profit Pakistan, Business Recorder and Samaa TV

TRIALS OF 2023: PANIC, PAUSE & PERSEVERE

POLITICAL AND ECONOMIC TURMOIL

In 2023, Pakistan faced a daunting trial amid global and internal geopolitical hurdles that impeded economic progress. The severity peaked on May 9th with the arrest of ex-PM Imran Khan, causing nationwide protests and a 3-day digital blackout.

As the year unfolded, cracks widen in the system, highlighted by record inflation in May (38% YoY), fears of default in June, and a significant rupee devaluation in October, with PKR plummeting to 307 against the US dollar. This uncertainty shook business confidence, contributing to a notable economic downturn. The subsequent caretaker government installation prompted a temporary pause, encouraging reflection on national priorities and emphasizing the crucial role of perseverance for every Pakistani.

RESTORATION

Currently navigating the path of short-term economic recovery, Pakistan relies on the IMF program and financial support from Saudi Arabia, the UAE, and China. The announcement of elections on February 8, 2024, has further restored investor confidence, evident in a significant increase in the KSE-100 index by 55% in PKR (24% in USD) on the Pakistan Stock Exchange this year. Nonetheless, the nation continues to grapple with debt and fears of default, making the prospect of recovery precarious without consistent regulatory support and political certainty.

DIGITAL DESTINY

Despite the challenges, growing Internet penetration has sparked a transformative shift in on-ground digital behavior. From grassroots entrepreneurs to tech-savvy youth, Pakistanis continue to harness technology to carve out a prosperous future.

GLOBAL INFLATION

6.9%

2023

REAL GDP GROWTH RATE

0.3% ↑

FY 2022 - 2023

INTERNET ADOPTION

36.7%

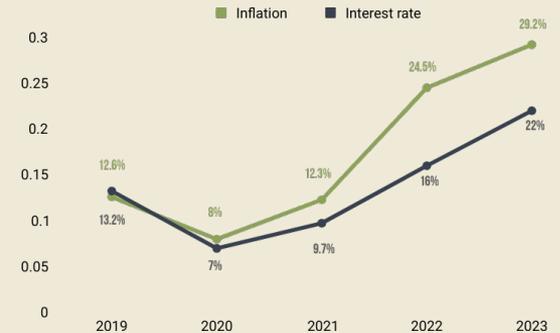
2023

SMART PHONE USERS

72.9M

2023

INTEREST RATE V. INFLATION RATE



TALKING TO THE FOUNDERS

SECTOR DEEP DIVES

Conversations with our founders from the frontiers of education, fintech and gaming



ALEENA NADEEM

Co-founder,
EduFi



FAISAL SHEIKH

Founder,
Shake The AI



SALMAN AKHTAR

Co-founder,
AdalFi



IMRAN KHAN

Founder,
Raptr Games

FINTECH FRONTIERS

Pakistani fintech companies closed the most deals in 2023, though the highest amount of funding was raised by ecommerce startups. While not factored into the 2023 startup funding numbers, fintech startup Abhi raised \$6.8 million for a Sukuk bond in May 2023, the first ever for a fintech in the MENAP region and one of the more notable developments in 2023.

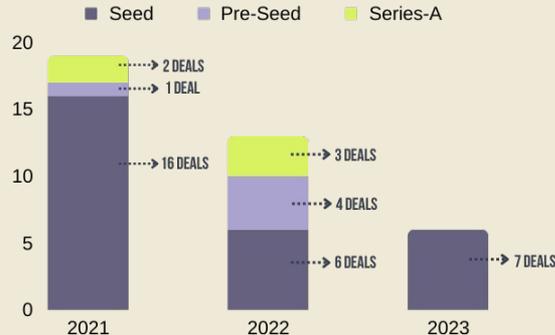
DIGITAL LENDING

A significant economic contraction eroded the spending power of the average Pakistani. In the face of this adversity, the opportunity for fintech grew, driven by a growing demand for lending solutions. This demand was also met with the rise of exploitative nano-lending apps, leading regulatory authorities to take notice after a public outcry. Lending in Pakistan faces a persistent challenge due to the lack of formal credit scoring mechanisms. To address the credit access gap, Pakistani fintechs are introducing alternative credit scoring mechanisms. AdalFi, securing a notable raise of \$7.5 million, collaborates with commercial banks to democratize credit access. EduFi, which raised \$6.1 million in 2023 and is founded by Aleena Nadeem, focuses on making education accessible through student loans, while GoldFin and QistBazaar are digitizing traditional concepts of gold-backed lending and installment payments.

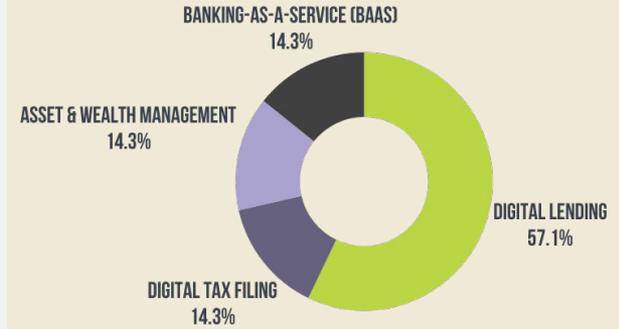
MERCHANT DIGITIZING

Beyond funding, another significant trend was the increased focus on merchant digitization. The State Bank of Pakistan (SBP) recently rolled out Raast's Person-to-Merchant (P2M) service, enabling merchants to accept payments through QR codes, aliases, and request-to-pay features. Within the startup community, there's a clear emphasis on developing an end-to-end digital financial ecosystem for small and medium enterprises (SMEs). Notably, Chikoo's partnership with Bank Alfalah seeks to promote the adoption of revamped point-of-sale (PoS) devices, facilitating digitization of orders, payments, and customer management.

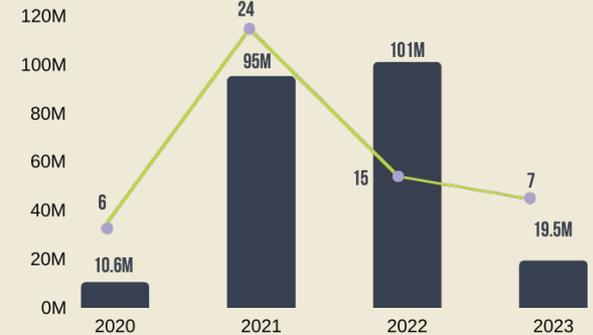
DEAL COUNT - INVESTMENT STAGE



% SHARE- FINTECH VERTICALS



\$AMOUNT RAISED - DEAL COUNT



REDEFINING CREDIT ACCESS IN PAKISTAN

CREDIT GAP

Pakistan's financial inclusion stands at 21%. Limited credit options often lead consumers to opt for high-interest personal loans to meet their credit needs. The traditional credit lending model, centered on a customer's repayment behavior, faces challenges in Pakistan due to low market penetration, limiting credit access to less than 5% of banking customers. Alternative credit scoring models, utilizing mobile bill payments and social media activity, often prove inadequate proxies for the unique dynamics of Pakistan's market. To change the status quo, Pakistani fintechs AdalFi and EduFi are utilizing their proprietary technology to increase credit access in the country.

ADALFI

Founded in 2021 by Salman Akhtar and Kewan Khawaja, AdalFi is revolutionizing credit access with its AI-driven scoring model. Using transactional data from 14 banks and 2 NBFs, the startup extends credit to an additional 15-30% of bank customers. Akhtar explains, *"We use the bank's data to identify borrowers, who are then digitally informed they can borrow money 24/7 in an automated, paperwork-free process, with instant disbursement."*

AdalFi, with its streamlined processes, boasts a low default rate of 0.1%, ensuring partner banks' satisfaction and delivering a seamless user experience. Operating on an asset-light, revenue-sharing model, AdalFi has provided over 150,000 loans to individuals and SMEs, with 25% of its gross loan volume dedicated to SME lending. The revenue model relies on successful loan repayments to minimize risk for partner banks. In the past year, AdalFi quadrupled its gross loan volume, overcoming challenges posed by high-interest rates. With \$7.5 million in seed funding this year, the founder aims for comparable growth in 2024, anticipating an acceleration in lending activity as interest rates decline.



SALMAN AKHTAR

Co-founder, AdalFi

EDUFI

In Pakistan, where 42% of students opt for private schools, spending over \$14 billion annually on education, limited student loan options contribute to a significant drop in college enrollments post-high school. Founded in 2021 by Aleena Nadeem, EduFi addresses this issue through its Study-Now-Pay-Later model, employing an education sector-focused credit scoring system to assess applicants' financial records, including 12 months' bank statements and income sources. Once approved, EduFi disburses funds directly to the college's bank account within 72 hours of application.

With a competitive 29% APR, EduFi undercuts traditional bank loans, promoting credit adoption in the market. Partnered with 15 universities, EduFi serves around 200,000 students. During the beta phase, EduFi tested its model with 80,000 consumer finance loans. Having obtained approval from the Securities and Exchange Commission of Pakistan, EduFi now awaits a non-banking financial company license. Nadeem advocates for robust fiscal policies and looks forward to crafting personalized financial products in the coming year. The startup secured \$6.1 million in pre-seed funding in 2023.



ALEENA NADEEM

Co-founder, EduFi

THE RISE OF PAKISTAN'S GAMING INDUSTRY

INDUSTRY OVERVIEW & FACTORS DRIVING GROWTH

The local gaming market boasts 43 million gamers out of which 26 million are active gamers. Mobile gaming dominates the market with a 70% share, followed by 20% for PC and 10% for console gaming. Mobile games alone generated \$171.3 million in 2022. The Pakistan Software Houses Association (P@SHA) predicts an annual growth rate of 9.77% from 2023 to 2027. The industry has witnessed substantial growth, with total spending, reaching \$350-400 million over the past two years. There are around 42 notable studios under the Animation Gaming Graphic Society (AGG) in Pakistan, including well-known names like Mindstorm and Game District, with the primary focus of developing an international standard gaming experience. Esports has emerged as a major vertical in Pakistan's gaming industry, fueled by substantial prize money allocated to esports tournaments. Even an 18-year-old is able to earn winnings of around PKR 250,000 through their gaming skills. This actively challenges societal taboos around gaming, prompting parents to reconsider their views as these young individuals contribute to their families' financial well-being while pursuing their passion. Content creators and gamers, like Arsalan and Sumail, have further accelerated industry's growth by promoting gaming platforms and gaming tournaments on different social media platforms. Youngsters lacking basic education find gaming to be the perfect substitute for their livelihood. Cheap smartphones, widespread broadband, tailored gaming packages from telecommunication companies, and the availability of micro-financing options, have also boosted accessibility.

RAPTR GAMES

Raptr Games is a game ecosystem startup. They are the Pakistan chapter of IGN.com, one of the world's largest gaming and pop culture platform. Raptr Games also provides support to the gaming community through a multitude services like gaming wallets, a content streaming platform and gaming tournaments.

They are focused on the monetization of the gaming platform and creating payout wallets for gamers globally. There is a global trend in gaming wallets from regions like Singapore, USA and the Middle East that is expected to grow in the near future. Raptr Games strives to be at the forefront of this wave, and has made more than 1600 disbursements into the gaming wallets of their users without relying on any external financial wallets. They also plan to introduce debit cards and streamer currency in 2024.



IMRAN KHAN
Founder,
Raptr Games

SHAKE THE AI

Shake The AI stands as a game development studio with a steadfast commitment to crafting enjoyable and captivating games across a spectrum of platforms, spanning mobile devices, PCs, and consoles.

Their dedication extends to creating cutting-edge titles that align with the latest trends, placing a particular emphasis on integrating AI and leveraging the advancements of web 3.0. Currently, the startup is actively engaged in the development of console-based gaming. They have received support from investors like Magnus Ventures.



FAISAL SHEIKH
Founder,
Shake The AI

TALKING TO THE GOVERNMENT, VCs & ESOs

LEADERSHIP INTERSECT

Perspectives on the evolving landscape and the promise it holds for the ecosystem



KALSOOM LAKHANI

Co-founder and GP,
I2I Ventures



DR. UMAR SAIF

Minister of IT,
GOP



SHEHRYAR HYDRI

Managing Director,
Endeavor Pakistan



AATIF AWAN

Founder & MP,
Indus Valley Capital

STAYING POSITIVE - INVESTORS & ESOS (ENTREPRENEURIAL SUPPORT ORGANIZATIONS)

Going into 2024, the key theme across startups and investors is around finding sustainable business models that are asset-light or don't become operational burdens. The path to profitability is the first question on everyone's mind and the growth at all cost mantra has gone out the window. Hydri advises founders to develop business models that are sustainable without relying on venture capital funding.

'Paying it forward' is a core ethos at Endeavor and the way we encourage that is by finding entrepreneurs who realize the strength of community building. Endeavor recognizes the need for more profound engagement in specific functions and verticals beyond basic entrepreneur support and women's promotion, advocating for tangible, direct interventions for founders. Another filter that investors are using on Pakistani startups is one of regional scalability unless a startup's numbers are extremely impressive inside Pakistan.

Long-term opportunity for Pakistani startups remains as exciting as ever, despite the local challenges. It is one of the largest markets untapped by VC. Seed round valuations have reverted to \$4-5M, the norm in 2019-2020 which is the right place to be. Assuming 20-25% dilution, this allows the founders to raise \$800K-1.25M, creating sufficient runway to establish product-market fit. A much bigger driver is the economy going online. If 15-20% of our \$350B+ economy is going to be online in a decade, that is bound to create many large successful outcomes, whether the overall economy grows at 3 or 5%.

We see opportunities across many sectors and want to continue investing in Pakistan throughout the market cycle. The only valuation that truly matters is the exit valuation so if you have to take a step back to go two steps forward, don't hesitate to do so. We're advising our portfolio companies to expect a challenging fundraising environment throughout 2024 since the bar for fundraising is set high right now.

Despite the challenging circumstances faced in 2023, Pakistan's startup ecosystem shows promise. The influx of capital in 2021 and early 2022 set high expectations, which made 2023 particularly difficult. Unit economics has been under focus this year with local companies realizing the importance of sustainable finance, understanding that endless capital availability is limited.

Businesses in Pakistan are transitioning from operationally intensive models to developing product verticals and diversifying revenue streams that are less capital and operations hungry. Again, this shift is leading to the creation of more product-focused businesses that are economically efficient. Fintech, known for being less capital-intensive, is expected to remain a prominent sector in Pakistan, offering significant opportunities. Additionally, the Software as a Service (SaaS) market is expansive, with various verticals emerging. Pakistani startups are increasingly focusing on global markets, with noteworthy developments in AI and commerce logistics sectors.



SHEHRYAR HYDRI

Managing Director,
Endeavor Pakistan



AATIF AWAN

Founder & MP,
Indus Valley Capital



KALSOOM LAKHANI

Co-founder/GP,
I2I Ventures

DR. UMAR SAIF ON PAKISTAN STARTUP FUND (PSF)

Dr. Umar Saif, interim Federal Minister for Science and Technology, brings extensive expertise to Pakistan's startup landscape. He formerly served as the Chairman of the Punjab Information Technology Board (PITB) and established Plan9, the country's inaugural government-backed startup incubator. As part of his entrepreneurial ventures, Dr. Saif founded aiSight.ai, an AI data analytics company, and continues to serve as the CEO of Khudi Ventures, a startup venture studio. Leveraging his significant IT and entrepreneurial background, he now leads initiatives in the ministry to accelerate the growth of Pakistan's startup ecosystem.



DR. UMAR SAIF

Minister of IT, GOP

In the local investment landscape, the years 2021 and 2022 were anomalies due to the sheer influx of capital. However, the tide shifted in 2023 when stakeholders confronted the stark reality of exorbitant interest rates amid macroeconomic challenges. This abrupt change significantly reduced risk appetite, resulting in a 79% drop in funding levels and 34% drop in deals this year.

CAPITAL VACUUM

Recognizing the emerging vacuum in startup capital, Dr. Umar Saif, within the IT ministry, has spearheaded the establishment of the Pakistan Startup Fund (PSF). The PSF is the government's effort to catalyze ecosystem growth, bridging the funding gap and instilling confidence to attract foreign investment.

PSF'S PKR 2 BILLION FUND

With a contribution of PKR 2 Billion, the PSF seeks to provide non-dilutive funding to startups. The fund aims to diminish the perceived risk associated with investing in Pakistan. Notably, PSF is adopting a sector-agnostic approach, aligning itself with broader national development goals in technology, healthcare, education, and sustainable development.

CONTINUITY PLAN

To ensure the PSF's continuity beyond this government's interim phase, financing will be facilitated through the Public Sector Development Programme (PSDP). A dedicated team will oversee execution, and the fund will be maintained through a continuous funding stream available to Ignite, a non-profit owned by the Government of Pakistan and administered by the Ministry of IT. The transition of government will ideally not impact the PSF's long term impact, since Ignite's mandate ensures continuity regardless of political regime changes.

MERGERS & ACQUISITIONS

M&A activity witnessed a decline globally. Global M&A deal volume was down 14% compared to the same period last year, while deal value dropped by 41%.

There were a total of 8 notable M&As in Pakistan in 2023, from both local and international players. While this is a slight decline of 20% from last year, consolidation in the Pakistan startup ecosystem is still an important and promising trend, a mark of a maturing startup ecosystem. We believe this activity will continue in 2024.

Notable M&A deals in 2023 included Abhi acquiring 2.7 million shares in logistic company BlueEx and Opay acquiring the EMI license of Finja.





FAISAL AFTAB

Founder and GP,
Zayn VC

LOOKING FORWARD

Pakistan's economy and investor sentiment bottomed in the first half of 2023. Our portfolio strategy during this period was to strategically build positions in strong companies at attractive valuations. Looking forward to 2024 and 2025, lower interest rates will stimulate the flow of capital into risk assets and frontier markets. While the US FED is likely to cut rates ahead, a near-zero interest rates environment is not anticipated, thus affecting the landscape for venture capital and startup scaling going forward. Additionally, global macro and geopolitical headwinds will continue to cause volatility and supply-chain disruptions for the remainder of this decade. This underscores the need for founders to focus on building sustainable businesses rather than relying solely on incremental capital.



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