

Topic: Building the Start-up Finance Value Chain; A Focus Group Discussion

Objective:

- To understand the classification and different phases of a start-up in terms of funding/finance
- To devise recommendations for the best financing sources for each phase
- To dissect the impact of external factors (climate change, recession etc.) on the start-ups and the investment opportunities available to them
- To assess the feasibility of collaboration as opposed to competition among start-ups and incubators to secure the right funding opportunities
- To explore the way forward for creating a level playing field for start-ups regardless of their geographic location

Participants:

1. Humaira Sajjad: Programme Manager Incubation, National Science and Technology Park
2. Dr. Qasim Siddiqui: Founder, Natural Fiber Company
3. Syed Mohsin Shayan Yar: Head of Investments & Partnerships, Teamup, NIC Islamabad
4. Syed Nisar Ahmed: Additional Director, National Incubation Center Quetta
5. Muhammad Ali Qasim Khan: Innovation Lead, Bahria Innovation Center, Bahria University Islamabad

Questions:

- **How do we determine a start-up's financing stage?**
A startup's financing stage is decided based on the maturity of the startup. Below are the funding sources and the respective development phases of a startup¹:
 - 1) Pre-seed funding stage:** This is the research phase of beginning a startup. In many situations, much of the business funding during this phase either comes from you or friends and family.
 - 2) Seed funding stage:** At this point, your idea is an actual business with some customer traction. Entrepreneurs in this phase provide company equity in return for larger amounts of cash provided by investors.

¹ <https://www.indeed.com/career-advice/career-development/startup-funding-stages>

- 3) **Series A funding:** The Series A funding stage marks the beginning of venture capitalist investment, and shares of the company are offered in exchange for capital.
- 4) **Series B funding:** Startups in this stage have dedicated user bases and steady streams of revenue. At this point, you've proven you can scale your idea.
- 5) **Series C funding:** Series C funding is for a company well on its growth path and often interested in expanding globally. It may be easier to find investors at this stage, as they trust the startup to succeed.
- 6) **Series D funding and beyond:** Startups go past the Series C funding when they either find a new lucrative opportunity before the IPO or the startup fails to perform during the Series C phase.
- 7) **Mezzanine funding and bridge loans:** A mezzanine loan blends debt and equity for lenders, while bridge loans are short-term financing. They close the financial gap between this phase and the IPO.
- 8) **IPO:** An IPO occurs when shares of the company are offered up for public purchase for the first time. The IPO is used to generate funds for further growth or allowing the startup owners to cash out their remaining shares for personal income.

The table² below states the amount of funds typically raised at each stage:

Startup stage	Funds raised
Pre-Seed	\$5,000 - \$6,000,000
Seed	\$15,000 - \$15,000,000
Pre-Series A	\$450,000 - \$11,000,000
Series A	\$1,000,000 - \$11,000,000
Series B	\$13,000,000 - \$85,000,000

² Pakistan Startup Ecosystem Report 2021 by Invest2Innovate

- **What are the different financing sources for start-ups?**
 - **Pre-seed & Seed funding stages:**
 - [PM National Innovation Award](#)
 - [Deosai Ventures](#)
 - [Global Founders Capital](#)
 - [Zayn Capital](#)
 - [Ratio Ventures](#)
 - [Walled City Co](#)
 - [i2i Ventures](#)
 - [Suya Ventures](#)
 - [Globinvest](#)
 - Afropreneur Syndicate
 - [+92 Ventures](#)
 - [Sunu Capital](#)
 - [Musha Investments](#)
 - [Innovator Seed Fund \(ISF\)](#)
 - [Kleiner Perkins](#)
 - [Grants by Ignite \(through NICs\)](#)
 - **Series A funding:**
 - [Zayn Capital](#)
 - [Kleiner Perkins](#)
 - [Sequoia Capital](#)
 - [Andreessen Horowitz](#)
 - [Sarmayacar](#)
 - [VEON Ventures](#)
 - [Khwarizmi Ventures](#)
 - [Oman Technology Fund](#)
 - [Cedar Mundi Ventures](#)
 - [Reflect Ventures](#)
 - [Century Oak Capital](#)
 - [Haitou Global](#)

- [GoingVC](#)
- **Series B, C & D funding:**
 - [Innovators' Seed Fund by HEC](#)
 - [USAID SMEA grants](#)
 - [Sarmayacar](#)
 - [Prosus Ventures](#)
 - [Dragoneer Investment Group](#)
 - [Tiger Global Management](#)
 - [Sequoia](#)
- **Mezzanine funding and bridge loans:**
 - [Prime Minister's Youth Business Loans](#)
 - [Green Investments by Karandaaz](#)
 - [Prime Minister's Kamyab Jawan Youth Entrepreneurship Scheme](#)

- **What are angel investor groups and how can we build those?**

Angel Investors are seasoned entrepreneurs who have proved their validity in the market. They often own successful startups such as Careem. Therefore, they tend to invest in early stage startups with high ROI and the potential to scale up. Moreover, they prefer to invest in impactful solutions that empower the bottom of the pyramid.

To build the angel investors' groups, we need to identify the verticals that the angel investors may be interested in. Agriculture and Water are two of the most in-demand areas when it comes to investment.

- **Can you name a few angel investors groups in Pakistan?**
 - The major angel investors and their latest activities including the value of investments made can be found on the [Crunchbase](#) website.
 - [TIE Angels](#)
 - [Angel Investment Network Pakistan](#)
 - [Dot zero](#)
- **Does the availability of funding sources vary according to start-ups' geographic locations? If yes, how?**

Yes. Due to the availability of resources and infrastructure, investors often see more potential in startups operating in major cities. However, setting up NICs in remote areas not only provides the startups with the required infrastructure but also helps eliminate the bias. In addition to that, NICs in KLI are now supporting NICs in smaller cities by sharing their investor' pools.

Besides the help of NICs, remote areas need to be digitally connected through broadband to secure funding opportunities. This connectedness would not only allow startups to reach out to investors, it would also enable them to initiate crowdfunding campaigns.

In addition to setting up incubators and providing broadband, community building in tier 2 and 3 cities is crucial. Instead of relying on external funding resources, local communities and entrepreneurs should get together to support startups and build an entrepreneurial climate.

- **What is the impact of the global recession on the investments available to start-ups?**

Owing to its proximity to the Middle east, Pakistan has not really suffered due to the global recession. Instead, the investments have increased manifold in the past few years. However, we need to devise investor friendly policies to facilitate not only investments but also the transfer of ROI to the country of origin.

- **How are the recent floods in the country going to influence the investment opportunities for local start-ups, especially the ones operating in the water and agriculture sectors?**

Due to climate change across the globe, the world is moving towards climate friendly solutions. The recent floods have not only highlighted gaps in this area but also created an opportunity for startups to create deployable solutions in the flood hit regions. Therefore, there is a great need for clean tech and agri tech solutions. By highlighting these areas, procuring investments for the viable solutions is highly likely.

- **How do we**

- **Create a culture of collaboration among incubators and start-ups**

- i) By being accessible
- ii) By share resources
- iii) By sharing investors pool
- iv) By organising roundtables and networking opportunities for startups and incubators
- v) No more working in silos

- **ensure a level playing field for all the start-ups?**
 - i) Like NICS, private incubators should start their operations in remote areas too
 - ii) Pakistani diaspora should be educated on the potential of smaller cities
 - iii) By ensuring the active implementation of policies that facilitate startups

 - **engage the Pakistani diaspora?**
 - i) Share 1 pagers of investment ready startups with groups such as Apna, TIE, OPEN
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