

# **INVESTING IN PAKISTANI SME SECTOR**

**Barrister Ahmed Uzair, of Lincoln's Inn**

# Why Pakistan

- “People who have an appetite for emerging markets will be attracted to Pakistan. It’s considered one of the next big frontier markets,”

**Shaun Di Gregorio, CEO of Frontier Digital Ventures**, a venture capital fund based in Malaysia

- Since 2015, investments in local SMEs has experienced a steady rise as dozens of them managed to attract investors, local and international.
- In 2015, 15 of the SMEs (which have disclosed their investments) have raised a hefty amount of almost \$30 million, with a projected growth rate of 400 percent.
- In 2016 investment deals have crossed \$20 million in funding in the first 4 months.

# How you can do it!

- As an investor you may be looking at the social aspects, or you are looking to create value from your investment. At the same time you want security and safety.
- In law there exist safeguards to ensure that the investment is legally protected.
- Lets look at some of the questions that you want to ask yourself:

# Valuation

There are two approaches here:

- Asset Based Valuation:
  - The skills and knowledge of the Founders and key employees is an intangible but real asset;
  - Customer base, existing market and other assets, like machinery etc.
  - Additionally the Intellectual Property that has been created by the Founders including patents, copyrights, software, computer applications and so on.
- Market Based Valuation:
  - This is based on estimating a company's earning potential based on theoretical demand in the market.
  - competition and barriers to entry (based on factors such as location, contracts with key customers, first-mover advantage, etc.)
  - Goodwill

# The S&S Rule:

## Safeguards and Supervision

- The best way to invest is by acquiring shares in the start-up.
- These shares will be at a premium to reflect the valuation that is agreed between the investor and Co-founders.
- The “Share Purchase Agreement” sets out the terms and conditions on which the shares are being acquired.
- A lot of young start-ups are happy to come and work under your umbrella, sit within your office premises so that you can exercise supervision, give guidance and provide support.
- At the initial stage this supervision can provide some security and at the same time provide the much needed support.

# Shared ownership: Employee Stock Options

- The stock option plan is critical for a SME.
- It ensures that the key employees have an invested interest in the company. It is well documented that the attitude of the employees towards the company changes dramatically when they also own it.
- A good case study for this Systems Limited a well known IT Company that has run a very successful and much admired employee stock options scheme.

# Case Study # 1

- King Kashmiri Tea
- Idea was to develop a sachet to develop Kashmiri Tea.
- With the help of Venture Capital he has been able to take the product around the world in a matter of 12 months.



# Case Study # 2

- InteraCta Technologies
- Received 22 Million in Funding from Fatima Ventures
- Product is a software/hardware solution to connect people with their TVs
- Taking the company to Pakistani New Channels, Buying Housing and international customers
- Product has been patent protected to secure the Intellectual Property



# Case Study # 3

## Sialkot Dry Port Trust has resulted in the creation of Export Culture and Boosting of Exports

Small and Medium exporters class has been developed due to provision of Custom Clearance Facility at their doorsteps in the form of Up-Country Dry Ports. Prior to this, this class of exporters was having lots of problems at Karachi and had to bear huge costs for clearance. Detail of increase in export from this region is as under:

<u>Year</u>	<u>No. of consignment</u>	<u>Value in Million Rs.</u>	<u>Value in</u>
<u>Million US\$</u>			
1986	15,395	1,843	92
2015	54,213	213,200	2,050

A social innovation has allowed 7000 SMEs to grow and contribute towards the export sector. The resources were pooled together in the form of a Trust. 52 Businesses combined together to set up this trust.