

# SME Financing Portfolio in Pakistan

As of September 2023



Financial Services – B&SDS Division

## TABLE OF CONTENTS

<b>Disclaimer</b> .....	<b>3</b>
<b>List of Acronyms</b> .....	<b>4</b>
<b>1 National SME Definition</b> .....	<b>5</b>
<b>2 Financing Options for SMEs</b> .....	<b>5</b>
2.1 Debt Financing .....	5
2.1.1 Conventional Bank Financing .....	6
2.1.2 Islamic Financing .....	6
2.1.3 Export Financing .....	6
2.1.4 Lease Financing and Others .....	6
2.1.5 Microfinance .....	6
2.1.6 Government Subsidized Schemes .....	7
2.1.7 Informal Supplier Credit .....	7
2.2 Equity Financing .....	8
2.2.1 Initial Public Offering (IPO) .....	8
2.2.2 Startup Funding .....	8
<b>3 Overview of SME Financing in Pakistan</b> .....	<b>9</b>
<b>4 Debt Financing</b> .....	<b>9</b>
4.1 Small and Medium Enterprise Financing .....	10
4.2 Micro and Small Enterprise Financing .....	13
<b>5 Equity Financing</b> .....	<b>14</b>
5.1 IPO at GEM Board by PSX .....	14
5.2 Startup Funding .....	15
<b>6 Digital Finance</b> .....	<b>17</b>
<b>7 References</b> .....	<b>18</b>

## LIST OF TABLES

<b>Table 1: National SME Definition</b> .....	<b>5</b>
<b>Table 2: SME Incentive Schemes, Tenor and Pricing</b> .....	<b>7</b>
<b>Table 3: SME Financing in Pakistan</b> .....	<b>9</b>

## LIST OF FIGURES

<b>Figure 1:</b> SME Sector Lending Portfolio .....	10
<b>Figure 2:</b> Share of FIs in SME Financing .....	10
<b>Figure 3:</b> Total Outstanding SME Portfolio .....	11
<b>Figure 4:</b> SME Financing by Facility Type .....	11
<b>Figure 5:</b> SME Financing by Sector Type .....	12
<b>Figure 6:</b> Non-Performing Loans Ratio .....	12
<b>Figure 7:</b> No. of SME Borrowers .....	13
<b>Figure 8:</b> Micro & Small Enterprises Financing by MFIs .....	14
<b>Figure 9:</b> Equity Raised via GEM Board.....	15
<b>Figure 10:</b> Startup Funding in Pakistan 2015-2023 .....	15
<b>Figure 11:</b> Startup Funding Quarterly Q1-2021 to Q3-2023.....	16
<b>Figure 12:</b> Top Funded Sectors Q1-Q2 2023.....	16

### DISCLAIMER

---

To provide insights into the SME financing landscape, the following report on SME Financing Portfolio in Pakistan has been prepared by the Financial Services – Business and Sector Development Services Division of the Small and Medium Enterprises Development Authority (SMEDA).

The information presented in this report is based on secondary data derived from external sources and is duly referenced throughout the document. Although efforts have been made to ensure the reliability of such data, SMEDA does not assume responsibility for the accuracy, completeness or authenticity of the same. Such responsibility rests with the sources from which the data has been collected.

The SME financing landscape is subject to change as it is influenced by economic, regulatory and market dynamics. The findings within this report reflect a specific time frame and region that may not be representative of current conditions.

Readers and users of this report are informed that decisions based on the analysis and findings presented herein; shall be taken at their own discretion. It is recommended to verify specific details from primary sources and consult relevant experts before making critical decisions. SMEDA disclaims all liability for any consequences arising from the use of such information.

## LIST OF ACRONYMS

<b>DFIs</b>	Development Finance Institutions
<b>DFS</b>	Digital Financial Services
<b>FBR</b>	Federal Bureau of Revenue
<b>FINTECH</b>	Financial Technology
<b>GEM</b>	Growth Enterprises
<b>i2i</b>	Invest2Innovate
<b>IBFT</b>	Interbank Fund Transfers
<b>ICT</b>	Information and Communication Technology
<b>IMF</b>	International Monetary Fund
<b>IPO</b>	Initial Public Offering
<b>KJP</b>	Kamyab Jawan Program
<b>MFB</b>	Micro Finance Banks
<b>MFI</b>	Micro Finance Institutes
<b>MSEs</b>	Micro and Small Enterprises
<b>MSMEs</b>	Micro, Small and Medium Enterprises
<b>NBFIs</b>	Non-Banking Finance Institutions
<b>NPLs</b>	Non-Performing Loans
<b>NRSP</b>	National Rural Support Program
<b>PE</b>	Private Equity
<b>PKIC</b>	Pakistan Kuwait Investment Company (Private) Limited
<b>PMYBAL</b>	Prime Minister Youth Business and Agriculture Loans
<b>PSX</b>	Pakistan Stock Exchange
<b>SAAF</b>	SME Asaan Finance Scheme
<b>SBP</b>	State Bank of Pakistan
<b>SECP</b>	Security and Exchange Commission of Pakistan
<b>SMEDA</b>	Small and Medium Enterprises Development Authority
<b>SMEs</b>	Small and Medium Enterprises
<b>TELCOS</b>	Telecommunication Companies
<b>UNSL</b>	Universal Network Systems
<b>VC</b>	Venture Capital

## 1 NATIONAL SME DEFINITION

As per the National SME Policy 2021, the National SME Definition as adopted by Small and Medium Enterprises Development Authority (SMEDA), State Bank of Pakistan (SBP) and Security & Exchange Commission of Pakistan (SECP) is as follows:

Enterprise Category	Criteria
Small Enterprise (SE)	Up to PKR 150 Million
Medium Enterprise (ME)	Above PKR 150 Million to PKR 800 Million
Start-Ups SE or ME	A small enterprise or medium enterprise up to 5 years old will be considered as Start-up SE or Start-up ME

**Table 1:** National SME Definition

*Source: SMEDA SME Policy 2021*

## 2 FINANCING OPTIONS FOR SMES

There are several modes of financing available for Micro, Small and Medium Enterprises (MSMEs) in Pakistan to meet their financial needs. These financing instruments cater to a varied set of demands and are differentiated based upon accessibility and terms and conditions. For the purpose of this document, key focus has been maintained upon financing instruments available for Small and Medium Enterprises (SMEs).

There are two regulators for financial institutions in Pakistan; the State Bank of Pakistan (SBP) oversees commercial banks, Islamic banks and micro finance banks, whereas the Securities and Exchange Commission of Pakistan (SECP) regulates financing entities enlisted as non-banking financial institutions (NBFIs) e.g. microfinance institutions, leasing companies, fintech, etc. However, the two regulators regulate all financing provided through effective synchronization of regulatory protocols.

It is essential for SMEs to carefully evaluate their financing needs, assess terms and conditions and choose a financing instrument that best suits their business requirements and financial capabilities. SMEDA recommends SMEs to consult with financial advisors and institutions to help them make informed decisions regarding their financing choices.

Financing instruments are largely bifurcated into two categories; Debt financing and Equity financing. The section below provides an overview of instruments available under each category in Pakistan.

### 2.1 DEBT FINANCING

Debt financing is considered to be the most widely used financing by SMEs in Pakistan. It involves accessing funds from either formal or informal sources by borrowing money with the commitment to repay the principal amount along with interest over a specified period. Debt

financing offers SMEs access to capital without diluting ownership, making it a suitable option for those looking to maintain control of their businesses. Debt financing instruments and sources available in Pakistan are as follows:

### **2.1.1 Conventional Bank Financing**

SMEs can secure loans from commercial banks for working capital needs, expansion projects, equipment purchase, and other business requirements. Banks offer short-term and long-term loans, term finance certificates, trade finance and revolving credit facilities. Apart from conventional banks, SBP has issued in-principal approvals to 5 digital banks<sup>1</sup> in Pakistan, with the objective to promote SMEs access to finance including payments, deposits and lending, savings, remittances, insurance, advisory services, etc.

### **2.1.2 Islamic Financing**

SMEs can access Islamic financing modes such as murabaha (cost-plus financing), ijarah (leasing), and musharakah (partnership) compliant with Sharia principles. Islamic financing instruments are provided by both commercial banks with a license for Islamic financing and Islamic commercial banks.

### **2.1.3 Export Financing**

Export-oriented SMEs can access export financing (include pre-shipment and post-shipment) facilities to fulfill export orders and manage cash flows during the export process. The Government of Pakistan, as a result of its National Development Plan has operationalized the Export Import Bank of Pakistan. The Bank is to offer payment solutions and services to traders including SMEs. However, currently, export financing facilities are mostly offered by commercial banks.

### **2.1.4 Lease Financing and Others**

Non-Banking Financial Institutions (NBFIs) offer a range of financial products, including lease financing, factoring, etc. catering to the financing needs of SMEs. SMEs can lease equipment, machinery, and vehicles rather than purchasing them outright. In recent past, the financial technology (fintech) landscape in Pakistan has evolved to cater to the needs of SMEs. FinTech companies includes startups, banks, and telcos offering digital financial solutions. They offer innovative, user-friendly and cost-effective low value digital instruments such as mobile wallets, e-money, prepaid cards, micro/digital lending and payment gateways.

### **2.1.5 Microfinance**

Microfinance Institutions (MFIs) and Microfinance Banks (MFBs) provide smaller loans to MSMEs that may not qualify for traditional bank loans. These loans are tailored to meet specific requirements and are accessible to those with limited credit history. Traditionally, MFIs and MFBs in Pakistan have been catering to micro enterprises only, however off late,

---

<sup>1</sup> HugoBank Limited, KT Bank Pakistan Limited, Mashreq Bank Pakistan Limited, Raqami Islamic Digital Bank Limited and Telenor Microfinance Bank Limited.

the SBP has been encouraging MFBs to develop products for the lower tier of small enterprises.

### 2.1.6 Government Subsidized Schemes

The Government of Pakistan offers subsidized financing schemes to support SMEs, such as the Prime Minister's Youth Business and Agriculture Loan program (PMYBAL) and Punjab Rozgar Scheme, etc. These schemes often provide loans at lower interest rates and with extended repayment schedules. An overview of Government schemes is as follows:

- a. **Loan Limit:** Maximum loan limit/exposure in the normal course of business is up to PKR 25 million for SEs and up to PKR 200 million for MEs, unless otherwise specified by SBP as in Storage of Agriculture Produce scheme, the financing limit for a single project is PKR 500 million. Similarly, in Renewable Energy scheme the debt limit is up to PKR 6 billion in Category-I, PKR 400 million in Category-II and PKR 2 billion in Category-III<sup>2</sup>.
- b. **Tenor and Pricing:** Maximum loan tenor and markup varies in SBP subsidized schemes depending upon the category and type of loan:

Scheme Name	Limit (PKR)	Tenor	Pricing
Credit Guarantee for SEs & Special Persons	Up to 1.5m	5 years incl. up to 6 months grace period	Up to 5%
Refinance Scheme for WC Financing	Up to 50m	Maximum tenor of 1 year	6%
Refinance and Credit Guarantee for Women	Up to 5m	5 years incl. up to 6 months grace period	Up to 5%
Refinance Facility for Modernization of SMEs	Up to 200m	10 years incl. up to 6 months grace period	Up to 6%
Renewable Energy Financing Category-I	Up to 6b	12 years incl. up to 2 years grace period	Up to 6%
Renewable Energy Financing Category-II	Up to 400m	10 years incl. up to 3 months grace period	Up to 6%
Renewable Energy Financing Category-III	Up to 2b	10 years incl. up to 6 months grace period	Up to 6%
Financing for Storage of Agriculture Produce	Up to 500m	10 years incl. up to 6 months grace period	Up to 6%
Prime Minister Youth Business & Agri Loan	Up to 7.5m	8 years incl. up to 2 years grace period	Up to 7%
Punjab Rozgar Scheme	Up to 10m	5 years incl. up to 2 years grace period	Up to 5%
SME Asaan Finance Scheme	Up to 10m	Tenor of the loan as per bank policy	Up to 9%
Kamyab Jawan Program (Discontinued)	Up to 25m	8 years incl. up to 1 year grace period	Up to 7%

**Table 2:** SME Incentive Schemes, Tenor and Pricing

Source: [www.sbp.org.pk](http://www.sbp.org.pk)

In addition to the above SBP and Government Incentive Schemes for SMEs, each bank has its own SME financing products with requisite terms & conditions<sup>3</sup>.

### 2.1.7 Informal Supplier Credit

SMEs negotiate longer payment terms with suppliers, thereby, using their suppliers as a source of short-term financing. This mode of financing is considered to be informal and bears a higher end cost to the user.

<sup>2</sup> "Incentive Schemes for SMEs & Other Sectors" retrieved from [sbp.org.pk](http://sbp.org.pk) on August 21, 2023

<sup>3</sup> SME Debt financing products available through banks; visit [www.smeda.org.pk](http://www.smeda.org.pk)

## 2.2 EQUITY FINANCING

Equity financing allows businesses to raise capital typically by forgoing ownership stakes of their businesses to investors in exchange for funds. Unlike debt financing, where the SME borrows money and agrees to repay it with interest, equity financing involves issuing shares of ownership (equity) to investors who become shareholders in the company.

In Pakistan, equity financing is not a popular choice within the SME sector owing to the fear of liquidation of ownership. However, a considerable surge in startup equity funding was seen during the years 2019 to 2021. Equity options used in Pakistan are as follows:

### 2.2.1 Initial Public Offering (IPO)

In more advanced stages, SMEs can opt to go public by offering shares to the public through an Initial Public Offering (IPO). This allows them to raise substantial capital.

Pakistan Stock Exchange (PSX) offers Growth Enterprise Market (GEM) Board as a listing platform aimed at facilitating growth-oriented businesses, whether small, medium or green-field businesses, to raise capital to fund their growth and expansion plans.

### 2.2.2 Startup Funding

Startup funding in Pakistan is operational through online crowdfunding platforms, venture capital, angel investors and private equity firms. Startup small and medium enterprises utilize these platforms depending upon their business idea, sector, lifecycle of the business, scalability and other parameters.

Online platforms for Crowdfunding allow SMEs to raise funds from a large number of individuals, often in small amounts, in exchange for equity ownership or other benefits.

Venture capital (VC) firms invest in SMEs with high growth potential in exchange for significant equity ownership. This form of financing is suitable for SMEs with innovative business models and scalable ideas.

High-net-worth individuals; angel investors, invest their personal funds in early-stage startups and SMEs in exchange for equity or convertible debt. Angel investors often offer not only financial support but also mentorship and industry connections.

Private equity (PE) firms invest in established SMEs, often seeking controlling stakes in the business to drive growth and value creation.



### 3 OVERVIEW OF SME FINANCING IN PAKISTAN

SME financing in Pakistan is facilitated through various financial institutions, including banks, microfinance banks, PSX through its GEM Board, angel investors and VCs. SME Debt Financing has declined to PKR 438.05 billion as of September 2023 since December 2022 when it was standing at PKR 540 billion.

Micro financing to Micro and Small Enterprises (MSEs) has increased over the past 5 years to PKR 110.4 billion as of March 2023 with a slightly higher ticket size. However, the MSE loan size remained under PKR 500,000 which indicates that micro financing in Pakistan is mainly focused towards micro enterprises only.

Moreover, there are a number of Fintech companies registered with SECP providing digital financial solutions to SMEs but unfortunately there is no separate database available for analyzing their contribution in SME Financing.

Similarly, on the equity financing side, PSX has provided SMEs with the opportunity to list on GEM Board in order to enable SMEs to raise capital through the Pakistan Stock Exchange. To date, GEM Board has enabled three companies to raise PKR 1,119 million collectively through IPOs.

The startup ecosystem in Pakistan, despite a promising start in 2019 has been through a steady and marked decline in 2023. The political and economic uncertainty has adversely affected startup financing in Pakistan. As of September 2023 startup financing was USD 35.58 million as compared to USD 354.4 million in year 2022. This startup financing includes VC funding, private equity and angel financing.

The following table highlights total SME Financing in Pakistan:

Categories	Period	Amount
SME Debt Financing	Up to 30 <sup>th</sup> Sep 2023	PKR 438.05 billion
MSE Financing by MFIs and MFBs	Up to 31 <sup>st</sup> Mar 2023	PKR 110.4 billion
Equity Financing (IPO at Gem Board by PSX)	Up to 30 <sup>th</sup> Sep 2023	PKR 1,119 million
Startup Financing (Q1 to Q3)	In 2023	USD 35.58 million

**Table 3:** SME Financing in Pakistan<sup>4</sup>

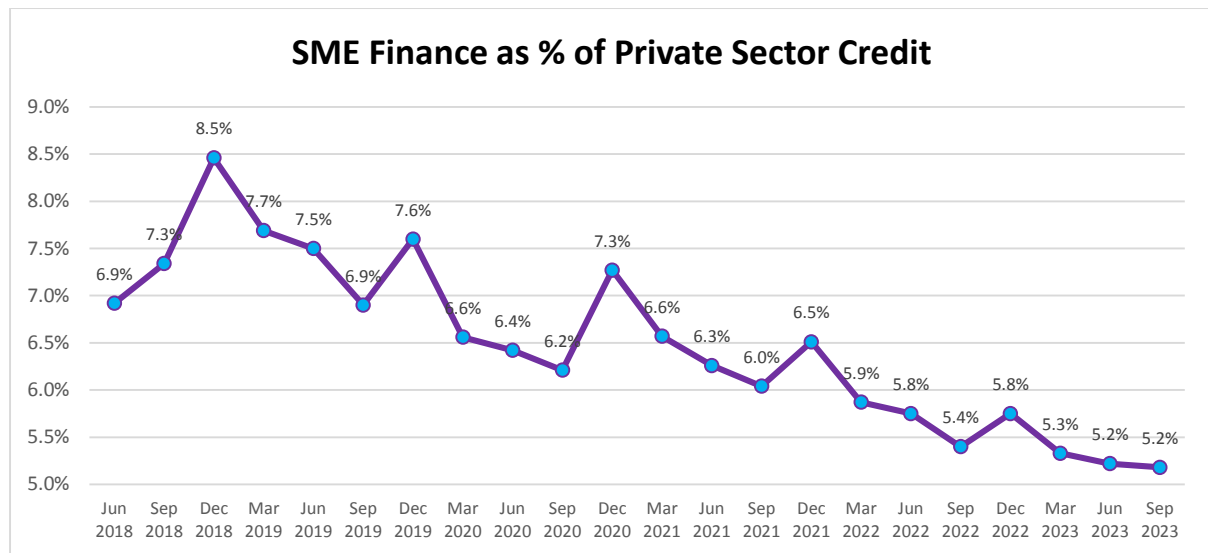
### 4 DEBT FINANCING

Debt financing is a common method for Small and Medium Enterprises (SMEs) in Pakistan to secure funding for their operations, expansion, or other business needs. SMEs can secure debt financing traditionally from commercial banks, microfinance banks, development finance institutes, SBP schemes, government backed schemes and Islamic banks.

<sup>4</sup> Data sources: [sbp.org.pk](http://sbp.org.pk), [portal.karandaaz.com.pk](http://portal.karandaaz.com.pk), [dps.psx.com.pk](http://dps.psx.com.pk) and [insightsi2i.com](http://insightsi2i.com)

### 4.1 SMALL AND MEDIUM ENTERPRISE FINANCING

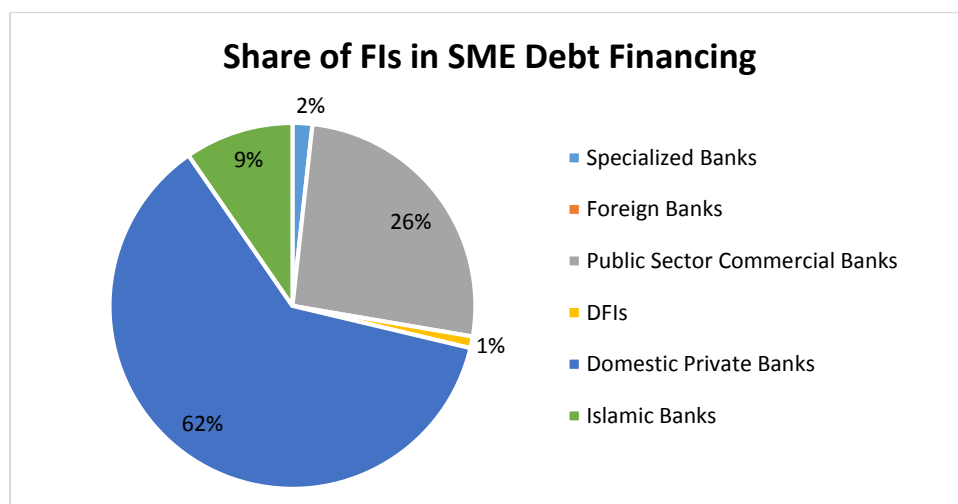
There is a continuous decline in SME financing as a percentage of private sector financing in Pakistan as shown in Figure 1 below. SME financing has touched its lowest level of the last 5 years i.e. 5.2% as of September 2023.



**Figure 1: SME Sector Lending Portfolio**

Source: [www.sbp.org.pk](http://www.sbp.org.pk)

Figure 2 reflects the share of financial institutions in total SME debt financing as of June 2023. Domestic private banks have the largest share of 62% in total SME financing in Pakistan, followed by 26% share of public sector commercial banks, 9% of Islamic banks whereas specialized banks and DFIs comprise 2% and 1% share respectively.



**Figure 2: Share of FIs in SME Financing**

Source: [www.sbp.org.pk](http://www.sbp.org.pk)

The restrictive economic situation, high interest rates, currency devaluation and inflation in Pakistan have influenced financing decisions of both startups and SMEs. The profitability and

payback capacity of SMEs has declined over a period of 5 years. In an environment of high cost of borrowing, SMEs look for alternative financing sources for raising funds as opposed to traditional debt financing facilities. Outstanding SME debt financing refers to the total loans/credit availed by SMEs in Pakistan on quarterly, semi-annually and yearly basis. Figure 3 below refers to the total outstanding SME portfolio<sup>5</sup> i.e. total loans disbursed to SMEs in Pakistan excluding bills purchased and discounted.

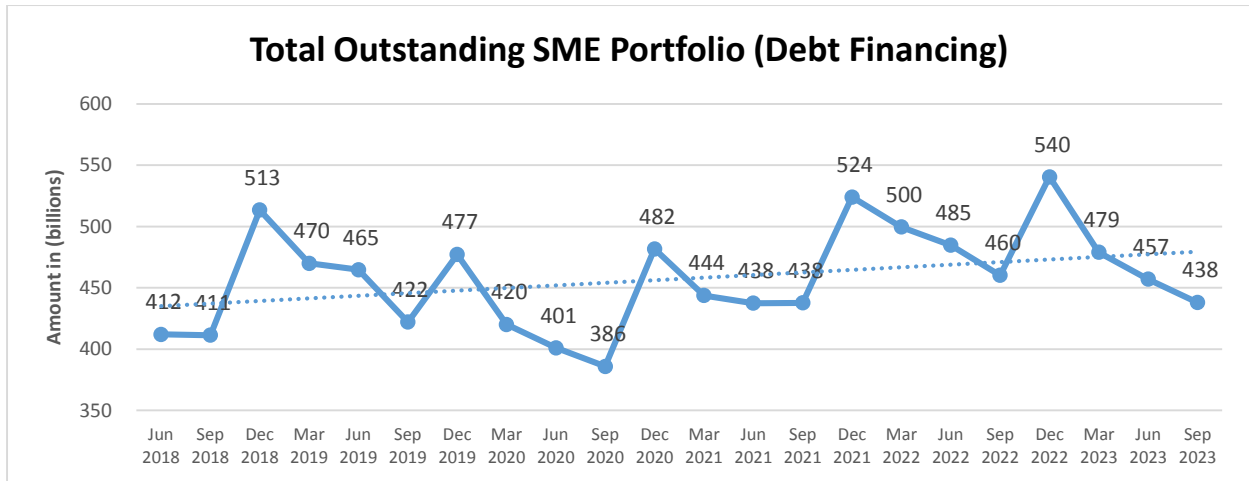


Figure 3: Total Outstanding SME Portfolio

Source: www.sbp.org.pk

In general, there is a slight rise in the trend line for outstanding portfolio, however, on average the total loan portfolio has not increased from 2018 to 2023 despite various subsidy loan schemes offered in recent times by SBP and the Government of Pakistan such as SAAF Scheme, KJP and PMYBAL Scheme.

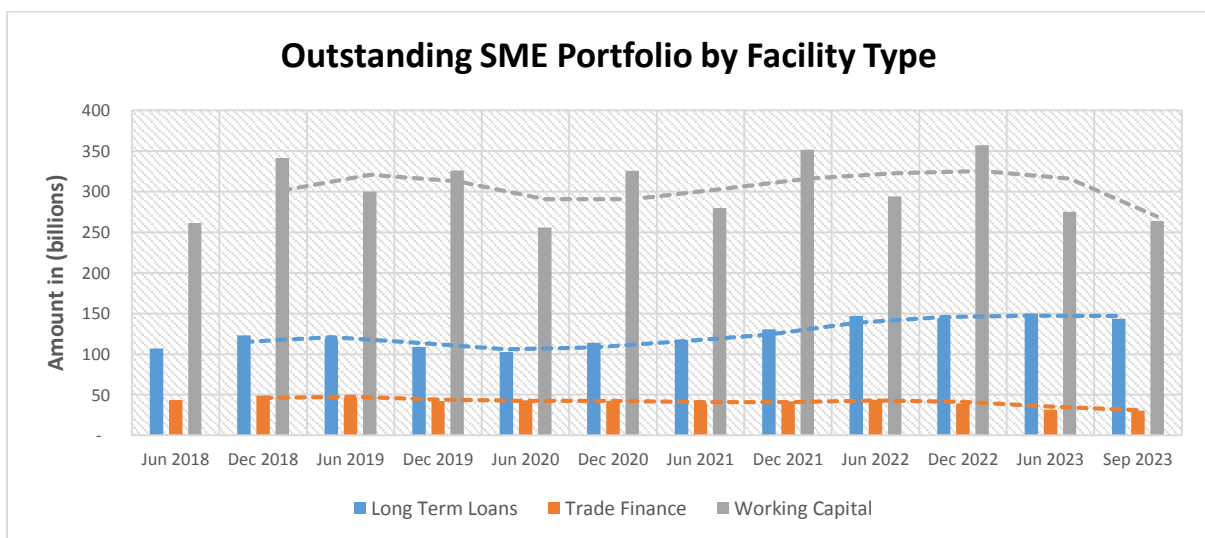
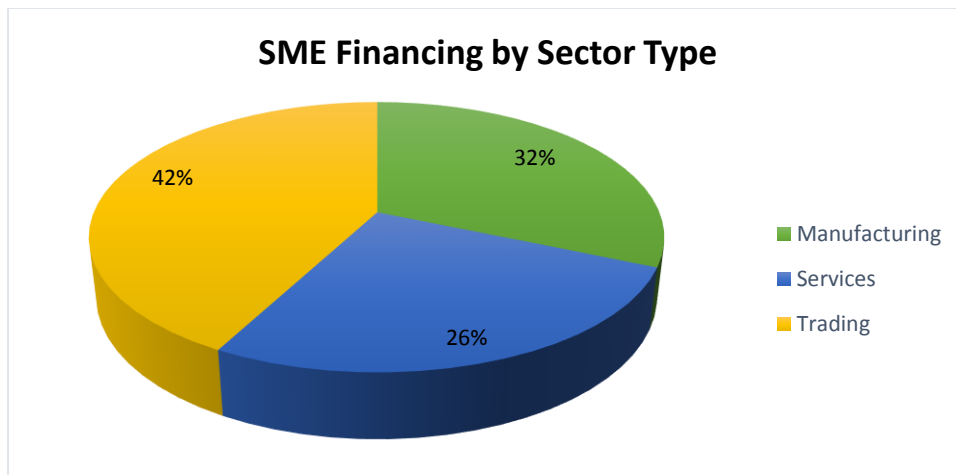


Figure 4: SME Financing by Facility Type

Source: www.sbp.org.pk

<sup>5</sup> Quarterly SME Finance Review 2018-2023, published by the State Bank of Pakistan (SBP).

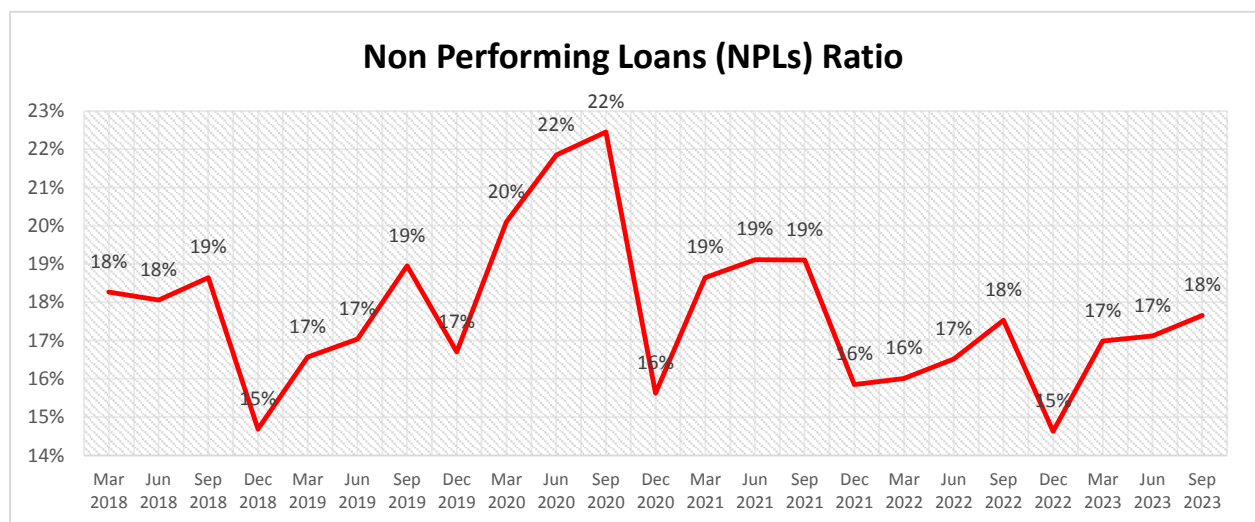
Figure 4 above indicates total SME debt financing by facility type i.e. long-term loans, trade finance and working capital. Majority of SME financing has been done through working capital loans over the years, however, there is only a marginal increase in working capital and long-term financing over the last five years. Through Figure 5 it is apparent that 42% of the total SME financing portfolio is in trading sector, 32% in manufacturing sector and 26% in services sector.



**Figure 5: SME Financing by Sector Type**

Source: [www.sbp.org.pk](http://www.sbp.org.pk)

Figure 6 below indicates non-performing loans (NPL) as a percentage of total outstanding SME loan portfolio which remain between 15% and 22% in the last five years. Given sluggish economic growth, business interruptions due to COVID pandemic and Government subsidy schemes mainly KJP, the SME NPL ratio surged to 22% in Sep 2020.

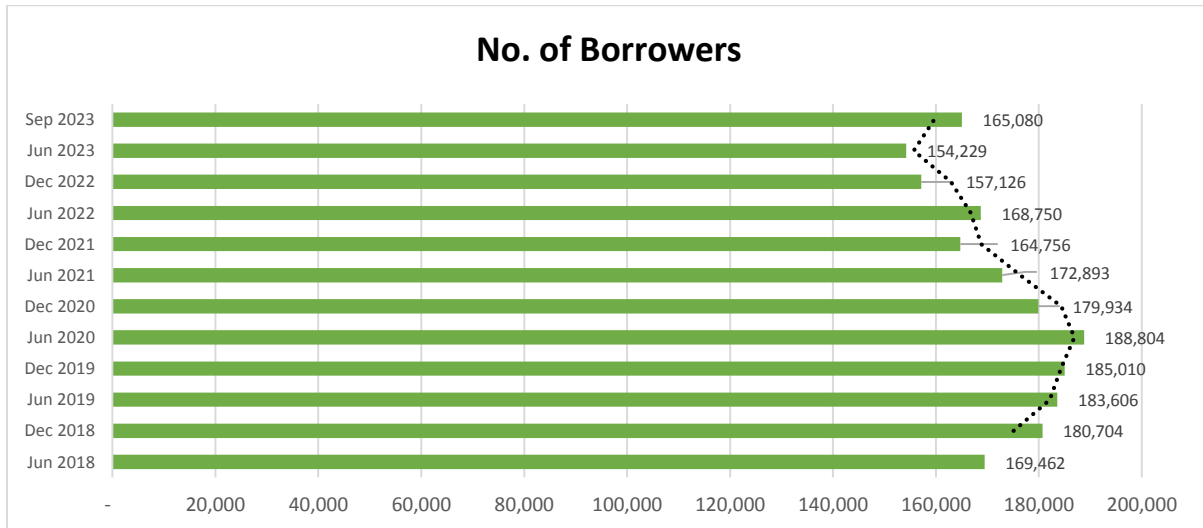


**Figure 6: Non-Performing Loans Ratio**

Source: [www.sbp.org.pk](http://www.sbp.org.pk)

Likewise, in Figure 7 below the number of borrowers decreased since June 2020 to June 2023. In June 2020, no. of SMEs borrowers increased mainly to curb their immediate need of

finances but at the same time the NPLs (Figure 6) in the corresponding period also increased subject to declining economic situation and frequent lockdowns in the country during first and second wave of COVID<sup>6</sup>. As of September 2023, the NPL ratio was 17.66% as shown in Figure 6 above. The NPL ratio has increased slightly in the past one-year subject to tight monetary policy and increasing interest rates.



**Figure 7: No. of SME Borrowers**

Source: [www.sbp.org.pk](http://www.sbp.org.pk)

In June 2023, no. of SME borrowers reached 154,229 which is the lowest number in last 5 years. The burden of interest money has increased significantly with increase in KIBOR rate that is hovering above 22%. Due to high inflation and high interest rates, many SMEs failed to repay their loans. Most of them have taken early settlements, repaid, reduced the ticket size, rescheduled or converted to government subsidized scheme such as PMYBAL where end user rate ranges from 5% to 7%. As of September 2023, SME borrowers increased to 165,080 due to PMYBAL and renewal of SAAF Scheme but overall SME Financing has decreased (Figure 3) which reflects reduced the loan size per SME.

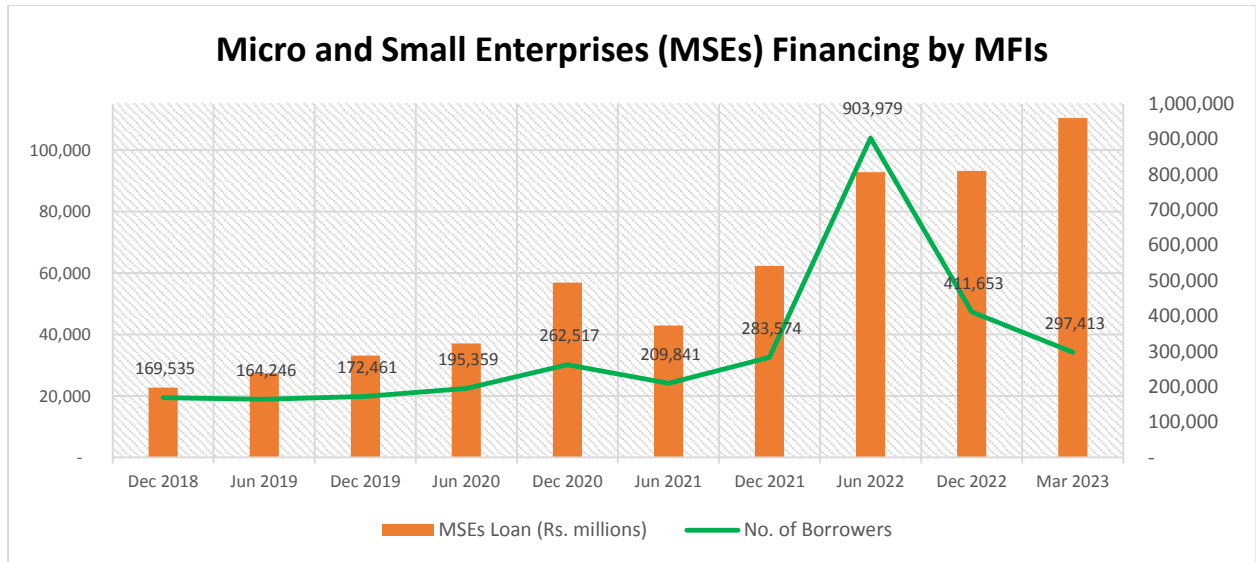
## 4.2 MICRO AND SMALL ENTERPRISE FINANCING

Microfinance is pivotal for inclusive and sustainable economic growth of the country; crucial to livelihood creation; and a key driver of grass-root-level development. The outstanding loans of the microfinance industry including individuals, group and micro/small enterprises (MSEs) crossed half trillion Pak Rupee (PKR 0.509 trillion) benchmark for the first time in the quarter ending March 2023. In terms of market share, HBL Microfinance Bank leading with 18.1% share as of March 2023 was followed by Khushhali Bank with market share of 17.5%. In terms of active borrowers, Mobilink Microfinance Bank leading with market share of 27.9% was followed by the National Rural Support Program (NRSP) with a market share of 7.8%<sup>7</sup>.

<sup>6</sup> "Money Matters, The Crisis and SMEs" by Engr. Hussain Ahmad Siddiqui published on November, 30, 2020

<sup>7</sup> "Microloans Cross Half-A-Trillion Benchmark for First Time by Kazim Alam, published on May 21, 2023

Pakistan’s MFIs serve 297,413 micro and small borrowers including a loan portfolio of PKR 110.41 billion as of March 2023. In the past few years, loan sizes have been slightly increasing, with the current average ticket size at PKR 371,231 as compared to PKR 226,608 in 2022. It is pertinent to mention that since there is no bifurcation available in data regarding the size of the enterprise and that the average ticket size remains below PKR 500,000, it can be safely assumed that majority of MSE financing is directed towards micro enterprises only.



**Figure 8: Micro & Small Enterprises Financing by MFIs**  
 Source: portal.karandaaz.com.pk

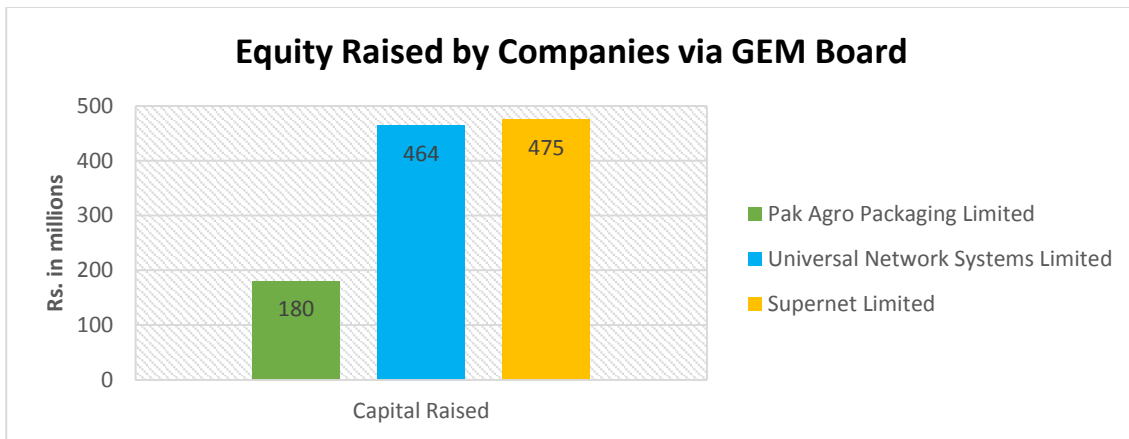
## 5 EQUITY FINANCING

### 5.1 IPO AT GEM BOARD BY PSX

The Growth Enterprise Market (GEM) Board was separately designed from Main Board of PSX to welcome high growth SMEs, green-field projects and tech startups at PSX. The GEM Board, as part of the Stock Exchange, offers startups a means to exit whenever they choose, providing flexibility and liquidity in the trading of shares. Those companies which will attain maturity in three to five years while listing on the GEM Board will move to the main board at PSX<sup>8</sup>.

According to the data portal of Pakistan Stock Exchange, at present, there are three companies listed at the GEM board namely Universal Network Systems (UNSL), a logistics firm operating under the brand name of BlueEX, Pak Agro Packaging – an agricultural textile company and Supernet Limited an ICT solution provider company. They have cumulatively raised equity worth PKR 1,119 million by offering their shares to investors at PSX as shown in figure 9 below.

<sup>8</sup> “On Listing SMEs and Other Small Companies” by Business Recorder Research published on April 13, 2022

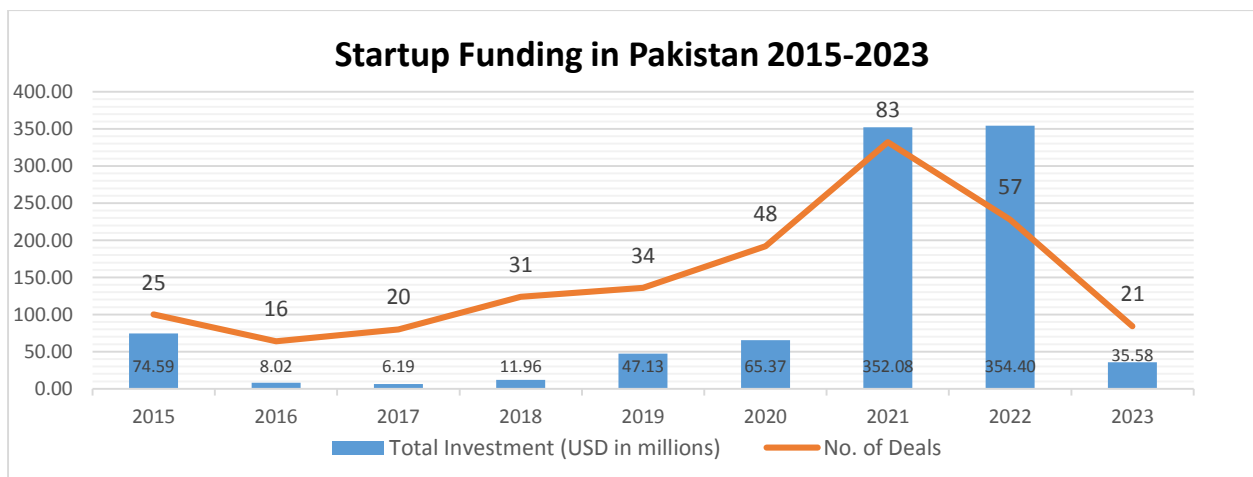


**Figure 9: Equity Raised via GEM Board**  
 Source: dps.psx.com.pk

The share value of the above three SMEs has declined over the period of last 2 years since December 2021 i.e. Pak Agro Packaging Ltd share value declined by 72.3%, Universal Network Systems Ltd by 64.6% and Supernet Ltd by 39% as per the PSX Trading Panel<sup>9</sup>. Despite the high target of PSX to list 100 growth-oriented SMEs, green-field projects and tech startups by the end of year 2022, the offtake remains low. There is a lack of awareness amongst SMEs and Startups regarding IPOs and equity financing.

## 5.2 STARTUP FUNDING

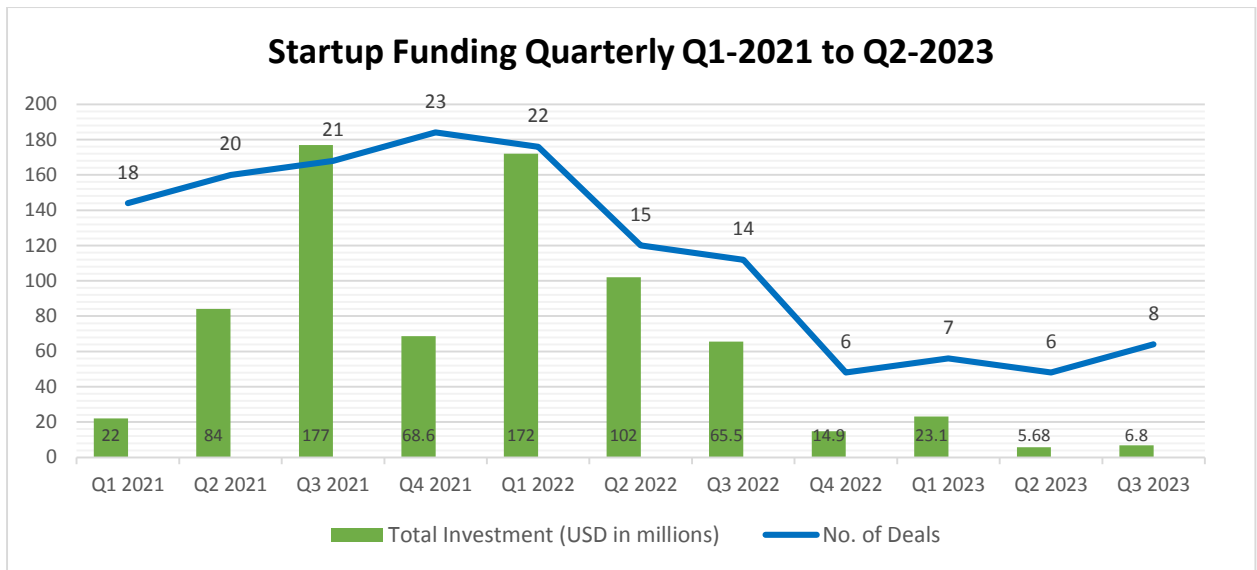
Pakistani startup ecosystem has faced a tough situation this year. The IMF projected an economic growth of just 0.5% in 2023 (versus 6% in 2022). However, not only Pakistan but the global economy also forecasted a decline from 3.5% in 2022 to 3% in 2023<sup>10</sup>. Resultantly, global startup funding in 2023 experienced a drop as compared to previous years.



**Figure 10: Startup Funding in Pakistan 2015-2023**  
 Source : insights.datadarbar.io

<sup>9</sup> Pakistan Stock Exchange (PSX) data retrieved from <https://dps.psx.com.pk/trading-panel> on Dec 13, 2023

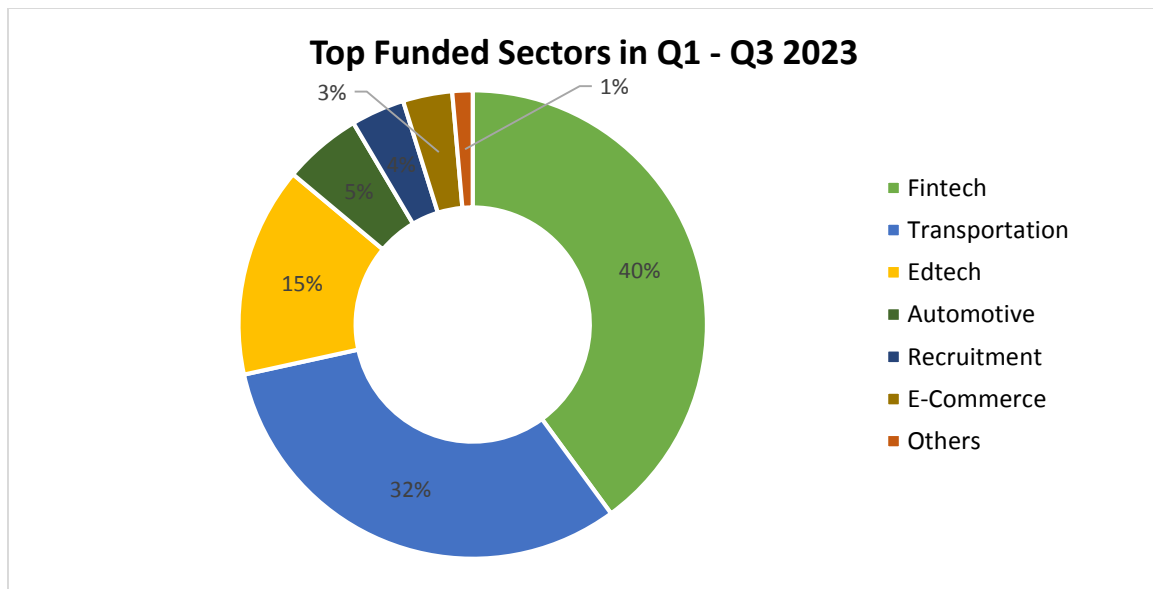
<sup>10</sup> World Economic Outlook Update 2023, published on July 10, 2023 by International Monetary Fund



**Figure 11: Startup Funding Quarterly Q1-2021 to Q3-2023**

Source: Deal flow tracker for Pakistani startups by insights2i.com

Although, Pakistani startups witnessed a healthy funding growth in the year 2022, the pace of inflows slow down and declined to approximately USD 5.68 million in Q2 ending June 2023, and USD 6.8 million in Q3 according to data compiled by different firms. Figure 12 shows yearly startup funding from 2015 to 2023 with a sharp increase in 2021 from 2020 and the same trend followed in 2022. The top funded sector in first 9 months of 2023 has been Fintech with 40% share followed by transportation and logistics with 32% share as shown in Figure 12 below:



**Figure 12: Top Funded Sectors Q1-Q2 2023**

Source: insights.datadarbar.io

Funding for startups in Q3, 2023 took a nosedive as compared from the same quarter in the previous year. Similarly, no. of deals concluded also decreased to 21 in first three quarters of



2023 as compared to 51 in the same period 2022. The first two quarters were marked by political uncertainty and nationwide digital blackouts. Disruptions such as these can have long-term effects as investors back off from uncertain markets.

## 6 DIGITAL FINANCE

---

Digital finance encompasses the utilization of emerging technologies and digital channels, including internet banking, mobile banking, electronic money models, and digital payment platforms, to meet customers' demands for conventional financial services. Digital financial services (DFS) spans a wide array of financial offerings, including payments, deposits and lending, savings, remittances, insurance, advisory services, and more. The SBP has issued in-principal approvals to the following five applicants for establishing digital banks<sup>11</sup>:

1. Easy Paisa DB (Telenor Pakistan B.V & Ali Pay Holding Ltd.)
2. Hugo Bank (Getz Bros & Co., Atlas Consolidated Pte. Ltd. and M & P Pakistan Pvt. Ltd.)
3. KT Bank (Kuda Technologies Ltd., Fatima Fertilizer Ltd. and City School Pvt. Ltd.)
4. Mashreq Bank (Mashreq Bank UAE)
5. Raqami (Kuwait Investment Authority through – PKIC and Eneritech Holding Co.).

The digital banks are expected to provide all the banking services through digital means without any need physical visits. Digital banks will promote financial inclusion through cost effective digital financial services access to unserved and underserved segments of the society.

---

<sup>11</sup> SBP's NOCs for establishing Digital Banks press release published on January 13, 2023

## 7 REFERENCES

---

1. Quarterly SME Finance Review by SBP retrieved from [sbp.org.pk](http://sbp.org.pk) as on August 21, 2023
2. Data Darbar website [insights.datadarbar.io](http://insights.datadarbar.io) as on August 21, 2023
3. Pakistan Stock Exchange (PSX) Data Portal website [dps.psx.com.pk](http://dps.psx.com.pk) as on August 21, 2023
4. Karandaz Data Portal website [portal.karandaz.com.pk](http://portal.karandaz.com.pk) as on August 21, 2023
5. Deal Flow Tracker for Pakistani Startups website [insightsi2i.com](http://insightsi2i.com) on September 14, 2023
6. World Economic Outlook Update 2023 by IMF, published on July 10, 2023