

**Prime Minister's Office  
Board of Investment**

\*\*\*\*\*

**4<sup>TH</sup> REGULATORY REFORMS PACKAGE**

**REFORMING PAKISTAN'S VENTURE CAPITAL REGULATORY FRAMEWORK  
TO UNLOCK INNOVATION-LED GROWTH.**

Venture Capital (VC) is a critical engine for economic growth, providing not just capital but also strategic expertise to high-potential startups. While Pakistan's startup ecosystem has shown promise, its VC industry remains nascent, with only 14 registered VCs managing \$36.4 million in assets. This stands in stark contrast to regional peers like India, which has cultivated a thriving ecosystem with over \$49 billion in assets and multiple unicorns.

The primary barrier to growth is an outdated and misapplied regulatory framework. Pakistan regulates VCs under complex rules designed for traditional Non-Banking Finance Companies (NBFCs) and private equity, creating unnecessary cost, complexity, and uncertainty. This Reform proposal identified the core challenges and proposes a new, dedicated regulatory pathway to position Pakistan as a competitive destination for risk capital.

**Current State & Regulatory Hurdles:**

The Securities and Exchange Commission of Pakistan (SECP) is the primary regulator, requiring VCs to register as NBFCs, a process that is lengthy, costly, and ill-suited to the high-risk, agile nature of venture investing.

**Key Regulatory Challenges:**

**Inappropriate Legal Framework:** VCs are governed under a patchwork of laws, the Companies Act 2017, NBFC Rules (2003), and Private Fund Regulations (2015), that impose unsuitable requirements like mandatory trustees, high solvency ratios, and minimum equity thresholds designed for lending institutions, not early-stage investment funds.

**Taxation Uncertainty:** The removal of tax pass-through status for private funds in 2021 created significant uncertainty. Without clear tax neutrality, funds face potential double taxation, discouraging both domestic and foreign investors.

**Restrictive Foreign Exchange Regime:** Complex State Bank of Pakistan (SBP) regulations around capital inflows, outflows, and repatriation of profits create friction for foreign-limited partners (LPs), who are essential for scaling the industry.

**Underdeveloped Exit Markets:** The Pakistan Stock Exchange (PSX) main board is the primary exit avenue, but it is costly and time-intensive for early-stage companies. Pakistan lacks a dedicated platform (like India's NSE EMERGE) for SME listings, severely limiting viable exit options for VCs.

**"One-Size-Fits-All" Approach:** The NBFC framework does not distinguish between large private equity funds and small, early-stage VC funds, imposing disproportionate compliance burdens on the latter.

### **Recommendations for a New VC Framework**

To catalyze growth, Pakistan must create a simple, transparent, and fit-for-purpose regulatory regime.

#### **Create a Dedicated Legal & Regulatory Pathway**

Exempt VC activities from the Companies Act and NBFC framework. Establish a new, distinct regulatory category under the SECP specifically for "Registered Venture Capital Funds," with rules tailored to their risk profile and operational model.

#### **Streamline Licensing and Reduce Operational Friction**

Establish a Single Digital Gateway for VC registration with statutory approval timelines.

Remove the mandatory trustee requirement and scale registration/annual fees to fund size to ensure proportionality.

Shift from heavy upfront documentation to ex-post oversight, focusing on disclosure and transparency rather than pre-approval.

#### **Expected Impact of Reforms**

Implementing these recommendations will yield significant benefits:

- **Major Cost Savings:** Eliminating unsuitable NBFC requirements could save funds an estimated PKR 88.2 million in unnecessary costs.
- **Curb Capital Flight:** A clear, competitive framework will encourage funds to domicile and deploy capital inside Pakistan rather than structuring offshore.

- Fuel the Ecosystem: By increasing access to risk capital, Pakistan can finally reward innovation, accelerate job creation, and drive long-term, sustainable economic growth.

\*\*\*\*\*

Board of Investment