

BUILDING-UP POLICY FRAMEWORK FOR BUSINESS INCUBATION

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INTRODUCTION

Startups, while riskier, offer great potential for success compared to established businesses. There is a distinct difference between the two. Startups require more risk and involve entrepreneurs creating something new to make money. Access to finance is vital for startup success but ranks low in Pakistan's success factors.

Government has taken significant steps to promote entrepreneurship by establishing business incubation centers in universities and major cities. These centers have achieved an exceptional success rate of over 50%, and Plan 9 stands out with a perfect 100% success rate, which is highly uncommon. On a global scale, the failure rate for startups is high, with 9 out of 10 not meeting industry standards. Additionally, the number of successful startups in Pakistan is relatively low compared to other regions like Asia and China. The Global Entrepreneurship Index ranks Pakistan 108th out of 137 countries, indicating significant interest in entrepreneurship but relatively low pursuit and success in the field.

This study objectives focus on exploring the current state of the startup ecosystem, identifying strengths, gaps, and potentials, and proposing tailored policy measures for fostering a conducive environment for innovation and entrepreneurship in Pakistan's incubation ecosystem.

METHODOLOGY

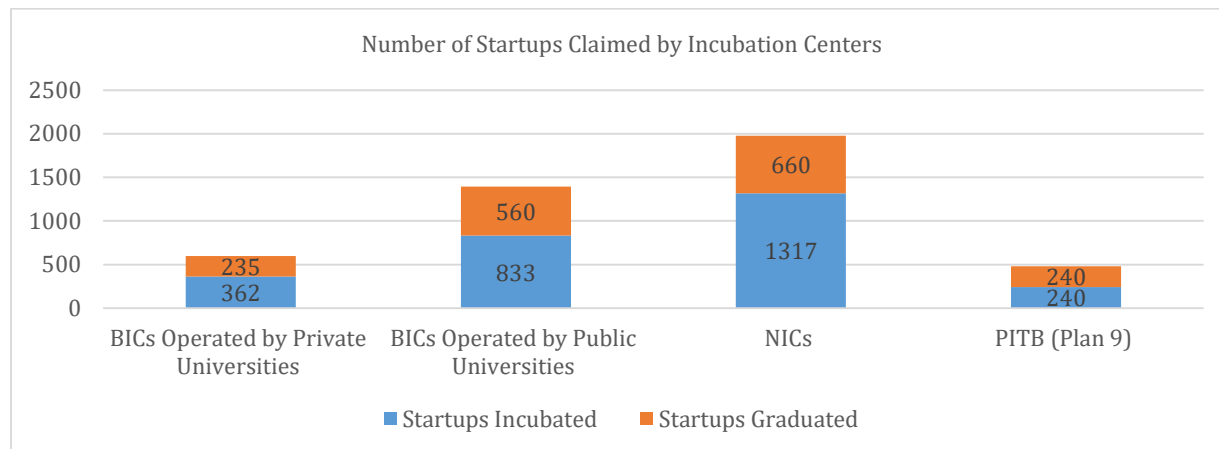
This study explores the current state of business incubation networks and centers in Pakistan, which hinder startup productivity, growth, and empowerment. Through literature review and expert opinions, the study identifies the causes of low productivity and output from incubation centers. Random sampling was used to select representative incubation centers, including 3 National Incubation Centers (NICs), Plan 9 of PITB and 19 Business Incubation Centers (BICs) affiliated with the Higher Education Commission (HEC). Data collection involved online and offline sources, physical visits, one-to-one meetings with officials, and interactions with incubates. Interviews and Focus Group Discussions (FGDs) provided qualitative data, while quantitative data underwent descriptive analysis for a comprehensive understanding.

FINDINGS AND ANALYSIS

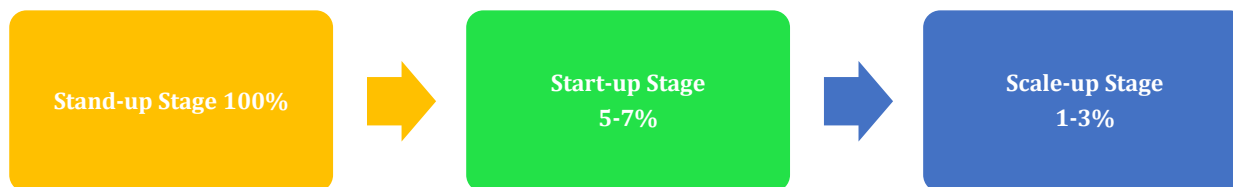
Startups Landscape

The data obtained from reports and websites submitted to sponsoring agencies indicate that BICs in public sector universities produced 560 startups, and BICs in the private sector established 235 startups. Plan 9 sponsored by PITB generated 240 startups. NICs in Islamabad, Lahore, and Peshawar reportedly produced 660 startups as shown in Figure (1), but concerns have been raised about their true nature as incubation centers, with many startups being pre-existing entities.

Figure 1: Startups Lanscape in Pakistan



Pakistan's success rates of over 50% in these centers contrast with the global average of below 10%. However, this study found that reported graduation numbers were inflated by 85-90%, revealing a significant gap between projected and actual outcomes. The confusion surrounding incubated and graduated startups was clarified as shown below, and the success rates at each stage were computed. NICs performed better in nurturing startups compared to BICs, with PITB showing the highest effectiveness in fostering successful ventures.



Startups Ecosystem in BICs

BICs in Pakistan follow a standard induction process for students and faculty only. Interested entrepreneurs apply online, providing details about themselves and their business ideas. The incubation center selects promising ideas and offers support, mentorship, resources, and networking opportunities. Once businesses are ready to stand on their own, they exit the program. The criteria for BICs are established by the Higher Education Commission (HEC) in collaboration with universities. Qualification levels accepted include university students, alumni, faculty, and staff, without specific requirements. BICs do not charge fees or require investments, only adherence to the set criterion. A comparative analysis of public and private university BICs shows that private sector universities have higher numbers of startups incubated and graduated, creating more direct and indirect jobs. Private universities spend an average of 200k-233k rupees per incubate as operational costs. Revenue generated by startups within BICs varies, with NUST leading in revenue and investment generation. All BICs have similar infrastructure and services, such as offices, meeting rooms, and support like training, financial services, IT solutions, counseling/mentorship, and funds/grants. However, HEC-established BICs differ from National Incubation Centers in that they do not offer company formation services.

Startups Ecosystem in NICs

The incubation criteria for NICs encompass various aspects such as qualification, investment fee, and conditions. National Incubation Center Islamabad has a lenient criterion, accepting individuals with

any qualification level as long as they present a business proposal or idea. The facility provides services for free if the proposal is accepted. Similar criteria apply to NIC Lahore and NIC Peshawar. These centers support startups with seed funding, mentorship, technical advice, and network access. However, critics argue that they may prioritize already established startups over new ones due to vague selection criteria.

Data from NICs indicates impressive results, with over 50% of startups transitioning successfully, creating significant employment opportunities, and attracting substantial investments. However, further examination suggests embellished figures and a possible overstatement of impact. The data also raises doubts about the accuracy of claimed graduate startups and job creations. NICs receive annual funding at least 1.5- 2million per incubatee, but the returns generated by startups seem less remarkable than expected, implying ambiguity in fund utilization and reporting. Regarding facilities, NICs have infrastructure support for co-working and offices but lack meeting rooms and cafeterias. National Incubation Center Lahore stands out for having these amenities. Services provided by NICs include training, financial assistance, mentorship, and more. However, NICs lacks IT solutions, grants, and company formation services, while NIC Lahore only offers regular training. Expanding services could lead to better results.

Startups Ecosystem in Plan 9 (PITB)

Plan9's induction process invites teams from Pakistan to relocate to Lahore for six months. No minimum educational qualification is required, focusing on novel business ideas with well-devised plans. It has launched 14 cohorts, with 240 startups valued at \$77.1 million, creating 1450 jobs. Plan9's support has attracted investments of \$6.1 million. Offering complimentary office space at Arfa Tower, uninterrupted power, and networking opportunities, Plan9 fosters growth. Consultations, training sessions, and workshops enhance startups' capabilities. The team assists with business strategies, product development, bookkeeping, sales, marketing, investments, and legal counsel, nurturing innovative ideas into prosperous businesses. Plan9 plays a pivotal role in nurturing early-stage technology enterprises with a well-orchestrated framework and an enabling environment.

Startups Ecosystem and Missing Links

In this section, we analyze BICs, NICs, and Plan 9 incubation centers compared to developed economies' startup ecosystems. Infrastructure meets standards, but training lacks depth, with inexperienced trainers. A major deficiency is the lack of indigenous literature and case studies on successful ventures in Pakistan, particularly in Urdu. Networking with industries is weak, hindering growth opportunities. Incubates lack crucial skills for obtaining loans and issuing IPOs. To address these weaknesses, strategic partnerships with industries are essential, offering mentorship and market access. Comprehensive training programs should enhance financial literacy and entrepreneurial acumen. BICs lack crucial business support like legal assistance, while NICs and Plan 9 offer limited services. Incubates lack IT experts for prototype development. Improvements are needed to boost the incubation centers' effectiveness in supporting startups as shown in Table (1).

Table 1: Comparison Between Local and Global Entrepreneurship Ecosystem

Elements	Global Ecosystem	NICs	BICs	Plan 9
Basic Infrastructure	Free Office Space	✓	✓	✓
	Free Meeting Rooms	✓	✓	✓
	Ideas Rooms and Discussion Centers	✓	✓	✓
	Free internet	✓	✓	✓
	No Utility Charges	✓	✓	✓

Training and Capacity Building	Ongoing Training Programs	✓	✓	✓
	Mentors from Professional Bodies	✓	×	×
	Mentors from Industry and Business	×	×	×
Knowledge Support System	Local case studies & Models (Literature)	×	×	×
	Specialized & Core Competencies in specific field	×	×	×
	Researches & Surveys on Local Market Dynamics	×	×	×
	Ideas contests	✓	✓	✓
Funding and Investment Opportunities	Dedicated Angels Investors and Donors	×	×	×
	Investment Available in Incubation Center	×	×	×
	Linkages with local and International Networks	×/✓	×/✓	×/✓
	Services Available for loan/IPOs and other funds	×/✓	×	×
Business Development Services	Legal Services	×/✓	×/✓	×/✓
	IT experts and technical staff for prototype development	×	×	×
	Accounting & Auditing services	×/✓	×	×/✓
	Backward and Forward Supply Chain Network	×	×	×

Note (✓= available, ×=not available and ×/✓ = partially available)

CONCLUSION

Incubation centers in Pakistan aim to boost startups by offering resources, mentorship, and access to investors. However, Pakistan's graduate entrepreneurship lags behind Asian counterparts due to limited access to finance and underwhelming progress in the entrepreneurial ecosystem. Reported startup numbers from these centers are exaggerated, raising concerns about their true purpose. Insufficient funding and a lack of experienced mentors add to the challenges. Additionally, few IPOs and no market research hinder business growth and innovation. Weak IT infrastructure, regulatory policies, and a dominant "Seth" culture further obstruct startup scaling. A conducive ecosystem is essential to unlock Pakistan's potential and empower educated graduates to lead entrepreneurship. Based on the study's findings, the following recommendations are proposed for each stakeholder:

Sponsored Agencies (HEC, Ministry, Technology Board):

- Supplement data and reports from incubation centres with independent evaluations for true performance assessment and cost-benefit analysis.
- Direct financial resources towards supporting start-ups instead of just focusing on operational aspects.
- Invest in enhancing entrepreneurs' business acumen, marketing expertise, and product development skills.
- Establish a platform featuring local and international case studies in Urdu, along with video documentaries, to provide insights to aspiring entrepreneurs.

Incubation Centers:

- Develop on-site IT support facilities exclusively for start-ups' prototype and technology-based product development.
- Offer complimentary accountancy, auditing, and legal services to reduce initial costs for start-ups.
- Concentrate efforts on a specialized field aligned with core competencies, fostering collaboration between universities and industries.
- Create a network for start-ups to access affordable raw materials and efficient distribution channels.

Government:

- Introduce enticing financial opportunities, such as zero or nominal interest rate seed funds, for start-ups with innovative products or services.
- Allocate funding based on thorough assessment and endorsement of business plans by incubation centres.
- Align BICs and PITBs in peripheral and mainstream cities to cultivate early stage start-ups (stand-ups), while NICs in major cities foster advanced level i.e. start-ups.
- Implement a strategic approach for BICs and PITB Incubation Centres to focus on early-stage entrepreneurs, while NICs nurture more advanced start-ups.
- Select entrepreneurs for NICs through an ideas competition in each BICs and IT boards incubation centres to segregate them based on their growth stage.
- This approach will accelerate entrepreneurship in Pakistan, leading to a more productive and successful entrepreneurial ecosystem.