

NIGERIA'S PECULIAR MARKET: A PRIME DESTINATION FOR VENTURE TECHNOLOGY AND EMERGING GROWTH COMPANIES



INTRODUCTION

In 2022, Nigeria scored 2.15 points on the Startup Ecosystem Index, positioning it 61st out of 100 countries globally and making it the second-leading startup hub in Africa¹, trailing only South Africa. Without a doubt, Nigeria is rapidly establishing itself as a vibrant center for venture technology and emerging growth companies. The country's dynamic market, youthful population, and evolving digital infrastructure present a viable opportunity for venture capitalists and entrepreneurs. This article will explore Nigeria's flourishing technology sector and startup ecosystem, emphasizing the key factors placing it as a prime destination for Venture Capital investments and emerging growth companies.



NIGERIA'S DEMOGRAPHIC ADVANTAGE

With a population exceeding 200 million and a robust annual growth rate of 2.6%², Nigeria leads the pack as Africa's most populous country and one of the fastest-growing globally. This expansive market provides a wealth of opportunities for startups and emerging growth companies to scale their products and services across diverse demographics. Notably, Nigeria has one of the world's largest youthful populations, with a median age of 17.9 years³. Approximately 70% of its populace is under 30, and 43% are under 15⁴. This youthful demographic is highly receptive to new technologies and innovations, fostering a dynamic environment where creativity thrives. Young entrepreneurs are not only consuming services but actively building startups, making Nigeria an attractive destination for investors seeking to tap into this burgeoning market.

1 Startup ecosystem index score in Nigeria 2022 Published by Statista Research Department, Dec 20, 2023

2 National Policy on Population for Sustainable Development, published on November 2021

3 Nigeria Population (2024) - Worldometer (worldometers.info)

4 Nigeria - Age structure 2022 | Statista

The country's rapid urbanization, particularly in major cities like Lagos, Abuja, and Port Harcourt, further enhances its appeal. Lagos, in particular, is the epicenter of Nigeria's startup activity, housing around 88.4% of the nation's tech startups, according to the 2022 Nigerian Startup Ecosystem Report. This concentration of startups in urban areas creates a dense market for urban-centric technologies and services. The increasing urban population drives demand for innovative solutions, providing startups with a substantial customer base to validate and scale their offerings.

Furthermore, Nigeria's leading position in the fintech sector aligns with global investment trends. In 2023, venture capital investments in fintech reached approximately \$46.3 billion worldwide⁵. Given Nigeria's prominence in the fintech landscape and its youthful yet innovative population, the country represents a significant opportunity for venture capitalists. The combination of a large, youthful population with a passion for innovation makes Nigeria a prime destination for venture technology and emerging growth companies looking to capitalize on the next wave of innovation.

NIGERIA'S ECONOMIC LANDSCAPE

Nigeria, recognized as Africa's largest economy, continues to showcase significant economic fundamentals with a notable Gross Domestic Product (GDP) expansion of 3.19% in the second quarter of 2024 compared to the previous year. The services sector is a key driver, contributing about 50% to the GDP, while agriculture accounts for around 23% and crude petroleum and natural gas constitute 11%. Particularly striking is the rapid growth of the information and communication sectors within the services domain, which now represents approximately 10% of the total output⁶. This trend highlights the increasing significance of technology and telecommunications, sectors that are outpacing traditional industries in both growth and investment appeal.

The Nigerian tech sector has become a magnet for foreign investments, attracting global tech giants and international venture capitalists. In the first eight months of 2022 alone, Nigerian startups secured approximately USD 747.9 million in funding⁷. According to the Nigerian Startup Ecosystem Report 2022 by Disrupt Africa, Nigerian startups raised a combined USD 2.07 billion between January 2015 and August 2022—surpassing all other African countries. These impressive figures underscore Nigeria's status as a premier investment destination for venture technology and emerging growth companies.

⁵ Value of global VC investment in fintech 2015-2023 Published by Statista Research Department, Feb 21, 2024

⁶ Nigeria GDP Annual Growth Rate (tradingeconomics.com)

⁷ The Nigerian Startup Ecosystem Report 2022 & Full Startup List (gumroad.com)

Efforts by the Nigerian government to diversify the economy beyond oil dependency have further bolstered the tech sector. By prioritizing technology and innovation, the government has fostered a favorable environment for tech businesses to thrive. This strategic shift has not only attracted significant investment but also facilitated the growth of a dynamic tech ecosystem.

NIGERIA'S TECH ECOSYSTEM

The Nigerian tech ecosystem has experienced impressive growth, fueled by a dynamic interplay of startups, tech hubs, multinational corporations, and supportive government policies. As of 2022, Lagos alone was home to over 425 startups, reflecting Nigeria's position as one of Africa's most established startup ecosystems. Notable successes include Interswitch, which has been a key player since 2002, and the emergence of five out of Africa's seven unicorns from Nigeria: Interswitch, Flutterwave, Opay, Andela, and Esusu. The predominance of fintech among these unicorns highlights the sector's dominance in Nigeria's startup landscape, where 173 fintech startups—representing 36% of the total—lead in activity and funding. E-commerce and retail tech follow, making up 12.1% of the startup base, with e-health and ed-tech also playing significant roles.⁸ Fast-growing sectors, such as life sciences, are experiencing significant expansion and becoming increasingly attractive to venture capitalists both globally and in Nigeria.

The diversity of Nigeria's startup culture extends beyond fintech, encompassing a broad range of sectors including e-commerce, e-health, life science and ed-tech. This diversity underscores the country's vibrant entrepreneurial spirit and its ability to address various market needs, from affordable payments and quick loans to flexible savings and investments. Fintech startups, in particular, have leveraged emerging technologies to offer innovative solutions that enhance financial inclusion and streamline services across the value chain. Looking ahead, Nigeria's tech ecosystem holds tremendous promise, driven by the rapid adoption of emerging technologies such as artificial intelligence (AI) and renewable energy. Nigerian innovators are at the cutting edge of developing AI applications tailored to local needs, transforming industries such as healthcare, finance, and agriculture through data-driven insights and optimized operations. This forward-thinking approach not only addresses current challenges but also sets the stage for future growth.

⁸ The-Nigerian-Startup-Ecosystem-Report-2022.pdf (sun-connect.org)

GOVERNMENT INITIATIVES AND REFORMS FOR STARTUPS

One of the significant initiatives by the Nigerian government to bolster the tech sector is the provision of tax incentives and grants for tech startups and venture capitalists, clearly outlined in the Startup Act⁹. Startups operating in eligible industries can benefit from several financial incentives. For instance, Labelled startups which falls within industries captured under the extant Pioneer Status Incentives (PSI) may upon application through the secretariat receive expeditious approval from the Nigerian Investment Promotion Commission (NIPC) for the grant of the tax reliefs and incentives under the PSI scheme¹⁰. The grant of this status offers a tax holiday of up to three years, extendable by an additional two years. They are also exempt from the 1% annual payroll contribution to the Industrial Training Fund if they provide in-house training during the startup label period¹¹. Additionally, costs incurred for research and development within Nigeria are fully tax-deductible¹².

Labelled startups are allowed to apply a reduced withholding tax rate of 5% on payments to non-resident companies for technical, consulting, professional, or management services¹³. The Act also mandates an annual allocation of at least 10 billion Naira to the Startup Investment Seed Fund, overseen by the National Council for Digital Innovation and Entrepreneurship. This fund supports research and development and establishes an innovation grant framework¹⁴. Startups engaged in exporting eligible products and services can access incentives and financial assistance from various export-focused funds.

For investors and venture capitalists, the Act provides notable benefits as well. Investors can claim a tax credit of 30% of their investment in a labeled startup against taxable gains. They are also exempt from a 10% Capital Gains Tax on the disposal of investments held for at least 24 months¹⁵. Furthermore, the Act streamlines investment procedures, reduces regulatory barriers, and ensures legal protections, including collaboration with the Central Bank of Nigeria (CBN) to facilitate the repatriation of investors' funds, net of taxes and obligations. These measures collectively incentivize investment in Nigeria's vibrant and diverse startup landscape.

9 2022

10 Section 24 of the Nigeria Startup Act, 2022

11 Section 25(5) of the Nigeria Startup Act, 2022

12 Section 25(3) of the Nigeria Startup Act, 2022

13 Section 25(4) of the Nigeria Startup Act, 2022

14 Section 19 of the Nigeria Startup Act, 2022

15 Section 29 of the Nigeria Startup Act, 2022

CHALLENGES IN THE NIGERIAN MARKET

Despite its compelling opportunities, investing in Nigeria presents a unique set of challenges that must be navigated. One significant hurdle is the complexity of the regulatory framework, which can be particularly daunting for startups. The process of securing licenses, ensuring compliance, and adhering to various governmental regulations could be bureaucratic. This complexity can consume considerable time, resources, and energy, potentially diverting focus from core business activities.

Additionally, the Nigerian market is marked by fierce competition, making market penetration a formidable task for new entrants. Startups must work diligently to build brand recognition and earn consumer trust in a landscape dominated by established players. Pivoting, differentiating themselves and convincing customers to switch from known brands requires strategic marketing and significant effort.

In the Nigerian market, high interest rates present a significant challenge for venture capitalists investing in startups by substantially raising the cost of borrowing and capital for these early-stage companies. This increase in borrowing costs drives up operational expenses for startups and reduces their valuations, as higher interest rates diminish the present value of future profits. Additionally, the elevated interest rates may lead investors to favor safer, more stable investments, reducing their appetite for venture capital and making it more difficult for startups to secure funding.

Infrastructural challenges further compound these difficulties. One of the most pressing issues is the inconsistent power supply, which can lead to increased operational costs as startups are often forced to invest in alternative power solutions. This infrastructural gap poses a significant challenge to maintaining efficient operations and managing overhead expenses in the dynamic Nigerian market. Despite these obstacles, the vibrant opportunities available continue to make Nigeria an attractive market.



STRATEGIES FOR OVERCOMING CHALLENGES

One effective strategy for overcoming challenges in the Nigerian market is for VCs to actively engage with local tech communities and networks. By participating in tech events, meetups, and hackathons, entrepreneurs can build valuable connections and gain insights from experienced industry professionals. These interactions offer a chance to understand local market dynamics, stay updated on trends, and collaborate with key stakeholders in the Nigerian startup ecosystem. This grassroots engagement is crucial for navigating the complexities of the market and integrating into the local tech scene.

Forming joint ventures or collaborative projects with indigenous companies presents another strategic approach. Combining local expertise with international innovation can create a powerful synergy that enhances market entry and operational efficiency. Local partners bring a deep understanding of the market, regulatory environment, and consumer preferences, which can significantly smooth the path for new entrants. Such collaborations not only provide a strategic advantage but also trigger mutual growth and resource sharing. Beyond merely establishing a presence, local partners offer invaluable knowledge about consumer behavior, business practices, and regulatory compliance. This deep understanding helps startups tailor their products and services to meet local needs effectively and navigate the complexities of the Nigerian business environment.

Pricing strategy is another crucial aspect to consider. Given Nigeria's economic diversity, flexible pricing strategies that cater to different income levels can greatly enhance market reach. By adjusting pricing structures to accommodate various consumer segments, startups can broaden their appeal and make their offerings more accessible to a larger audience. This adaptability is key to competing effectively in a diverse market.

Finally, as a VC, seeking legal counsel is essential for ensuring compliance with the complex regulatory framework in Nigeria. Staying updated with changes in policies and industry guidelines helps prevent legal pitfalls that may arise in venture investments. Legal advisers can provide guidance on navigating the regulatory landscape, thus enabling startups to focus on their core business activities while remaining compliant with local laws.

CONCLUSION

The Nigerian market is rapidly establishing itself as a prime destination for venture capitalists and emerging growth companies. With its vast market potential, expanding tech ecosystem, supportive government policies, and rising investment opportunities, Nigeria is well-positioned to emerge as a key player in the global innovation and technology landscape. For both venture capitalists seeking lucrative investment opportunities and entrepreneurs looking to scale their ventures, Nigeria offers a dynamic and promising environment for innovation and growth. The country's evolving landscape presents a unique chance to be at the forefront of technological advancement and entrepreneurial success.

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