

# BEYOND EQUITY AND DEBT: UNDERSTANDING NON-DILUTIVE FUNDING IN NIGERIA

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#TMTThursdaybyDOA

Telecommunication, Media and Technology (TMT)

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## Introduction

In our previous #TMTThursday series, we examined hybrid financing options for Nigerian startups, spotlighting common instruments such as convertible notes, preference shares, and SAFE (Simple Agreement for Future Equity). This week, we continue our exploration of startup capital raise structures by focusing on non-dilutive financing instruments.

In contrast to equity financing, non-dilutive funding enables startups to access capital without relinquishing ownership or control. While debt instruments such as loans and commercial papers are technically non-dilutive, since they do not require founders to part with equity, non-dilutive funding in this context refers to capital that does not impose repayment obligations, interest, or collateral. These forms of funding are particularly useful in the early stages of a business, where equity may be costly or strategic ownership preservation is critical.

As Nigeria's venture ecosystem continues to mature, founders must become familiar with the nuances of non-dilutive instruments. In today's #TMTThursday series, we examined what non-dilutive financing entails, why it matters, and the key forms Nigerian startups should be aware of.



## What Is Non-Dilutive Funding?

Non-dilutive funding refers to capital received by a startup without requiring the issuance of shares or a reduction in ownership among existing shareholders. Unlike traditional equity investment, where investors provide funds in exchange for a stake in the company, non-dilutive capital is typically provided in the form of grants, prizes, or institutional support programs. It allows founders to raise money without altering the ownership structure of their business.

This kind of funding is particularly relevant for early-stage startups that are not yet investment-ready, as well as businesses operating in sectors with measurable social or developmental impact. It also appeals to founders who wish to preserve control during the early phases of growth, and to ventures seeking to test pilot projects, launch minimum viable products (MVPs), or enter local markets without the financial pressure associated with equity dilution or debt repayment.



## Why Non-Dilutive Funding Matters

In Nigeria, early-stage capital is often limited, and equity fundraising may not be immediately viable, particularly for businesses without significant traction or access to formal investor networks. Moreover, giving up equity too early can complicate future funding rounds, dilute long-term ownership, and constrain a founder's ability to make strategic decisions. Non-dilutive capital offers a viable alternative, enabling startups to access essential resources without altering their ownership structure. When used strategically, it can extend operational runway during product development, build early validation for business models, enable market testing with minimal financial risk, and strengthen a startup's bargaining power in future equity negotiations.



## Forms of Non-Dilutive Funding

### 1. Grants

Grants are perhaps the most recognisable form of non-dilutive funding. They are typically awarded by governments, development agencies, or philanthropic foundations to support projects that align with specific economic, environmental, or social objectives. While grants are non-repayable, they often come with reporting obligations, performance timelines, and outcome expectations. For startups working in sectors such as health, agriculture, education, or financial inclusion, grant funding can provide critical early-stage support.

### 2. Equity-Free Accelerators and Incubators

Some startup support programmes provide non-dilutive funding alongside mentorship, technical assistance, and ecosystem visibility. While many accelerators operate on an equity-based model, an increasing number, particularly those backed by public or multilateral institutions, offer equity-free capital or in-kind support. Participation in these programmes can help refine business models, improve product-market fitness, and prepare founders for future fundraising rounds.



### 3. Pitch Competitions and Innovation Challenges

These are typically short-term events where startups present their solutions to panels of judges, competing for prize money or pilot funding. While the funding amounts vary, they offer cash support, exposure, and potential partnerships. For founders with compelling solutions and a strong pitch, these competitions can provide both capital and credibility.

### 4. Corporate and CSR-Driven Innovation Funds

Large corporations, especially in the financial services, telecoms, and energy sectors, increasingly support entrepreneurship through corporate social responsibility (CSR) or innovation initiatives. These funds are usually directed at startups whose solutions align with the corporation's impact goals or future commercial interests. Support may come in the form of grant funding, infrastructure access, technical tools, or co-creation opportunities.



## Conclusion

Non-dilutive funding is not a substitute for equity investment, but it is a valuable complement, and for many Nigerian startups, a crucial starting point. It provides a practical path to capital when a business is not yet ready for institutional investment or when the cost of early dilution outweighs the benefit.

Startups that incorporate non-dilutive funding into their early-stage capital strategy are often better positioned to build traction, validate their models, and negotiate future equity on more favourable terms. It allows them to grow deliberately, maintain control, and avoid unnecessary structural complexity in their formative stages.

As Nigeria's startup ecosystem continues to mature, with growing emphasis on resilience, impact, and inclusive innovation, non-dilutive funding is poised to become an even more integral part of the financing mix. Founders would do well to embrace it not as a fallback, but as a core element of a thoughtful, stage-appropriate capital strategy.

