

CROWDFUNDING AS A FINANCING OPTION FOR STARTUPS IN NIGERIA



#TMTThursdaybyDOA

Introduction

In our previous #TMTThursday series, we examined non-dilutive funding options available to Nigerian startups as alternatives to traditional equity and debt financing. We discussed instruments such as grants, equity-free accelerators, pitch competitions, and corporate or CSR-driven innovation funds that provide access to capital without requiring founders to give up ownership.

In this final part of our series on startup financing options, we turn our attention to crowdfunding, a fast-emerging financing model that leverages technology and community participation to help startups raise funds from a large pool of individual contributors. Crowdfunding offers a unique opportunity for founders to access capital while retaining equity, making it an attractive option in Nigeria's evolving startup ecosystem.



What Is Crowdfunding?

Crowdfunding is a method of raising money from a large number of people, typically via online platforms, to finance a business or project. It allows startups to access capital without issuing shares or incurring significant debt obligations. For early-stage businesses, this model can provide much-needed liquidity, validate market demand, and build community engagement around their product or service.

Types of Crowdfunding Models

While all crowdfunding models share the basic premise of pooling resources from multiple contributors, they differ in structure, incentives, and regulatory implications:

- 1. Donation-Based Crowdfunding:** This model involves individuals contributing money without expecting financial returns. It is common for social causes, charitable projects, or community-driven ventures. For startups, this is rare, but it can apply to social enterprises or impact-driven initiatives.
- 2. Reward-Based Crowdfunding:** In this model, contributors provide funds in exchange for non-financial rewards, such as early access to a product or branded merchandise. While adoption in Nigeria is growing, it remains niche due to logistical challenges.



3. Debt-Based (Peer-to-Peer Lending): Under this model, contributors lend money to a business with the expectation of repayment, usually with interest. This provides a financing alternative without equity dilution but creates a contractual debt obligation for the startup.

4. Equity Crowdfunding: Unlike other non-dilutive models, equity crowdfunding involves contributors receiving an ownership stake in the business. While this is technically dilutive, it is included here because the Securities and Exchange Commission regulates it under the crowdfunding rules in Nigeria. However, our focus remains primarily on non-equity models, as equity crowdfunding introduces separate legal considerations.



Regulatory Framework for Crowdfunding in Nigeria

In Nigeria, crowdfunding activities, particularly those involving investment or lending, are regulated by the Securities and Exchange Commission (SEC). Pursuant to its mandate to oversee such activities, the SEC issued the Rules on Crowdfunding 2021 (the “Rules”), which establish a comprehensive legal framework governing crowdfunding intermediaries, issuers, and investors.

Key provisions of the Rules affecting crowdfunding in Nigeria include:

- a. Only entities registered with the SEC as Crowdfunding Intermediaries (such as portals and platforms) are permitted to facilitate crowdfunding transactions in Nigeria.
- b. Only Micro, Small, and Medium Enterprises (MSMEs) incorporated in Nigeria can raise funds through a crowdfunding portal. These MSMEs must either have a minimum of two years of operating track record or, where they have less than two years, they must have a strong technical partner with at least two years' experience or a core investor.



Key provisions of the Rules affecting crowdfunding in Nigeria include:

- c. The aggregate amount of investment instruments that a fundraiser may offer and sell within a 12-month period is subject to the following limits: ₦100,000,000 (One Hundred Million Naira) for medium enterprises, ₦70,000,000 (Seventy Million Naira) for small enterprises, and ₦50,000,000 (Fifty Million Naira) for micro enterprises.
- d. Under the Rules, crowdfunding portals are mandated to conduct due diligence on issuers and provide full disclosure of relevant information to investors to promote transparency and investor protection.
- e. The Rules provide that issuers must disclose all material facts, including business plans, financial projections, and risk factors, prior to offering securities on the platform.
- f. Intermediaries are required to maintain robust systems for investor education, anti-money laundering compliance, and complaint resolution mechanisms.



Conclusion

Crowdfunding, when approached strategically and in compliance with regulatory requirements, offers Nigerian founders a unique pathway to raise capital without compromising ownership or control. While it may not replace equity investment, it provides an alternative for early-stage businesses seeking to balance growth with autonomy.

As the ecosystem evolves and trust in digital finance deepens, we expect crowdfunding, especially regulated models, to become an increasingly important part of Nigeria's startup financing mix. Founders who understand its nuances and leverage it effectively will be better positioned to build resilient, community-driven businesses.

