NAVIGATING THE FINANCING OPTIONS IN NIGERIA

INTRODUCTION

In Nigeria’s increasingly dynamic commercial landscape, access to financing remains a decisive factor in whether a venture scales, survives, or stalls. Whether it’s a startup looking to break into a new market, an established company acquiring new assets, or a project sponsor seeking to bridge funding gaps, the choice of how to raise capital can be just as important as how much is raised.

This article explores the core financing pathways available - debt, equity, and hybrid - to guide decision-makers.

EQUITY FINANCING: OWNERSHIP FOR CAPITAL

Equity financing involves raising capital by giving away a portion of ownership in the business without the obligation of repayment. This could be to angel investors, venture capitalists, private equity firms, or strategic partners.

When is Equity Financing Ideal?

- When cash flow is uncertain or inconsistent.
- When long-term capital is needed for R&D, market entry, or technology development.
- When founders are willing to trade control for strategic investors and future growth support.

Pros

- No repayment obligations.
- Brings experienced investors and networks to the table.
- Investors share in the risk of the venture.

Cons

- Dilution of ownership and potential loss of control.
- Investor rights (e.g., board seats, veto power) may limit flexibility.

Equity financing is particularly useful where the company is still in a pre-revenue or experimental stage, or where cash outflows are expected to outweigh inflows for some time. However, founders must be prepared for the long-term implications of ownership dilution, especially in successive funding rounds.

DEBT FINANCING: BORROWED CAPITAL, RETAINED CONTROL

Debt financing refers to raising funds through borrowings that are repaid over time, usually with interest and could be secured or otherwise. This includes bank loans, private loans, bonds, and commercial paper.

When Does Debt Financing Make Sense?

Debt becomes a viable and strategic tool when the entity can demonstrate:

- Steady and predictable revenue streams.
- A clear repayment strategy without jeopardizing operations.
- An identifiable use for the funds (e.g., working capital, asset acquisition, infrastructure expansion).

Sectors like SaaS, logistics, shipping and aviation, agriculture, and manufacturing, which tend to have recurring revenue or asset-backed operations, often lend themselves well to debt arrangements.

Pros

- Retains ownership and full control.
- Interest is often tax-deductible.
- Easier to model and predict repayment obligations.

Cons

- Fixed repayment pressure, regardless of performance.
- May require collateral or personal guarantees.
- Breach of loan covenants can lead to severe penalties.

In Nigeria, companies must also consider factors such as exchange rate volatility, interest rate risks, and regulatory constraints - particularly for foreign-denominated loans or loans subject to CBN oversight.

HYBRID FINANCING: BRIDGING THE GAP BETWEEN OWNERSHIP AND OBLIGATION

Hybrid financing combines elements of debt and equity, offering greater flexibility to both investor and investee. They are increasingly common in Nigeria's venture, infrastructure, and corporate finance spaces.

Hybrid instruments allow companies to defer valuation discussions, limit early equity dilution, and tailor the financing structure to growth realities.

Tools:

1. Preference Shares

These are equity instruments with debt-like features. Preference shareholders often enjoy:

- Fixed dividends.

- Liquidation preference.
- Anti-dilution protection.
- Voting rights or veto power.

Preference shares work well for growth-stage companies looking to raise sizable capital while safeguarding operational control.

2. Convertible Notes

Structured as debt initially, convertible notes automatically convert into equity upon a qualifying event e.g. a new financing round. Until conversion, they bear interest and have a maturity date.

Typical terms include:

- Principal loan amount, an interest rate, and a maturity date of repayment or conversion to equity.
- Valuation caps (protecting early investors from dilution).
- Discount rates (offering equity at a cheaper price than future investors).
- Conversion triggers (e.g., priced rounds, IPOs, or acquisition).

These are especially helpful in time-sensitive fundraising situations where valuation is hard to agree on upfront. Convertible notes are legally enforceable under Nigerian

contract and corporate law, though some forms may attract scrutiny under SEC rules.

3. Revenue-Based Financing (RBF)

RBF allows businesses to repay capital as a fixed percentage of monthly revenues, until a pre-agreed multiple (e.g., x2) is paid.

- No equity loss.
- No fixed repayment dates.
- Scales up/down with performance.

Perfect for companies with strong sales pipelines and relatively low fixed costs - think e-commerce brands, subscription platforms, and consumer goods companies.

STRUCTURING YOUR CAPITAL INTELLIGENTLY: A LEGAL PERSPECTIVE

Capital isn't just financial - it's also legal. Equity, debt, and hybrid options each carry unique implications for control, risk, returns, and relationships. What works for one company or project may be disastrous for another.

Regardless of the type of financing, companies must:

- Clearly define investor rights and obligations: liquidation preferences, drag-along/tag-along rights, board seats, voting thresholds, etc.
- Protect intellectual property: before pitching or sharing proprietary ideas with investors, NDAs and IP assignments must be in place.
- Comply with regulation: including SEC filing requirements, foreign exchange controls, anti-money laundering (AML) rules, and sector-specific guidelines.
- Avoid perpetual traps: poorly drafted instruments or vaguely defined conversion clauses can trigger disputes or unending obligations.

Choosing the Right Instrument: Strategic Considerations

The right financing structure depends on:

Question	**Relevance**
Do you need short-term or long-term funding?	Debt may suit short-term needs; equity or hybrids for long-term growth.
Is your revenue predictable?	Predictable revenues support debt and RBF; uncertain income favours equity.

Do you want to retain control?	Debt and RBF preserve ownership; equity and some hybrid deals involve shared control.
Can you support repayment?	If not, equity or hybrid solutions offer more breathing room.

FINAL THOUGHTS: CAPITAL IS NOT JUST ABOUT MONEY - IT'S ABOUT STRUCTURE

Whether you're funding a new venture, acquiring a high-value asset, or restructuring capital, your financing framework must be legally sound, commercially aligned, and future-proof.

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