



Startup Financing In Nigeria: Structuring Early- stage Investments Using SAFEs and Other Hybrid Instruments

INTRODUCTION

Startup financing remains one of the most critical drivers of innovation and business growth in Nigeria. According to data published by Africa: The Big Deal, African startups raised approximately US\$3.2 billion in funding in 2025, representing a 40% increase year-on-year and marking the continent's strongest funding performance since 2022.¹ Nigeria, while recording a decline in total funding compared to the previous year, remained one of Africa's four major startup markets, alongside Kenya, Egypt and South Africa, and continued to attract investor activity across sectors such as fintech, healthtech, logistics, agritech, artificial intelligence and enterprise technology.

Despite this momentum, early-stage fundraising continues to present practical and legal challenges. One of the most difficult issues is valuation. Many startups seek external funding before they have a long operating history, stable revenue, mature governance systems or clear market comparables. In those circumstances, insisting on a fully priced equity round at the outset may delay fundraising, increase transaction costs or result in a valuation that is either unattractive to investors or excessively dilutive to founders.

To address this challenge, founders and investors are increasingly utilising flexible financing structures such as Simple Agreements for Future Equity ("SAFEs"), convertible loan notes and other hybrid investment instruments. These structures allow startups to secure funding while deferring valuation discussions until a later financing round when the business has achieved greater commercial maturity.

This article examines the use of SAFEs and other hybrid financing instruments in Nigeria, their key features, legal considerations and key terms to consider when structuring early-stage investments.

¹ Africa: The Big Deal, 2025 in Review: The Big Numbers, available at: <https://thebigdeal.substack.com/p/2025ir1?r=22dzqa> accessed 5 June 2026.



UNDERSTANDING SAFEs

The SAFE was introduced by Y Combinator in 2013 as a simplified alternative to convertible debt financing.² A SAFE is essentially a contractual arrangement under which an investor provides capital to a startup in exchange for the right to receive shares in the future, usually upon the occurrence of a priced equity financing round, liquidity event or another agreed conversion trigger. Unlike a traditional equity investment, the investor does not immediately become a shareholder at the time the SAFE is signed. It also differs from a

conventional loan because it does not usually accrue interest, does not typically carry a maturity date and is not structured as a repayment obligation in the ordinary course. Its commercial appeal lies in speed, simplicity and the ability to postpone valuation discussions.

For example, an investor may invest US\$100,000 in a startup through a SAFE. Instead of agreeing on the company's valuation immediately, the parties agree that the investment will convert into shares when the startup undertakes a future priced financing round. The conversion

price may be determined by reference to a valuation cap, a discount to the next round price, or a combination of both.

In the Nigerian context, however, SAFEs should not be treated as mere template documents imported from another jurisdiction. They must be adapted to the company's constitutional documents, applicable corporate approvals, foreign investment documentation, tax treatment, securities regulation and the practical mechanics for future share issuance.

² Y Combinator, 'Announcing the SAFE, a Replacement for Convertible Notes', available at: <https://www.ycombinator.com/blog/announcing-the-safe-a-replacement-for-convertible-notes/> accessed on 5 June 2026

OTHER HYBRID FINANCING INSTRUMENTS

Although SAFEs have gained significant popularity globally, they are not the only instruments available for early-stage financing. The appropriate structure will depend on the startup's stage of development, the investor's risk appetite, the funding timeline, tax considerations, the parties' negotiation leverage and the desired level of investor protection:

Convertible Loan Notes

Convertible loan notes are the most common alternative to SAFEs. Under this structure, the investor advances funds to the startup as a loan, which subsequently converts into equity upon the occurrence of

specified events, such as a future funding round. Unlike SAFEs, convertible notes accrue interest and typically contain maturity dates, which may require repayment if conversion does not occur before maturity.

Advance Subscription Agreements

Advance Subscription Agreements ("ASAs") allow investors to provide capital to a company in anticipation of receiving shares at a future date or upon the occurrence of specified events. Similar to SAFEs, ASAs enable the parties to defer valuation discussions until a later financing round when the

company's value can be more accurately determined. However, unlike SAFEs, they are generally structured more closely to traditional equity financing transactions, as the investor's contribution is treated as an advance payment for future shares rather than as debt.

Convertible Preference Shares

Convertible preference shares are equity instruments that may convert into ordinary shares upon the occurrence of specified events, such as a future funding round or Initial Public Offering. They are

commonly used in later-stage funding rounds and often provide investors with additional rights before conversion, such as liquidation preferences, anti-dilution protection and preferential dividends.

Revenue-Based Financing

Revenue-based financing allows investors to receive returns calculated by reference to a percentage of the startup's revenue over a defined period or until an agreed return multiple is achieved. It may be attractive to founders seeking less dilutive financing, particularly where the business has predictable revenue. However, it requires careful drafting

around revenue calculation, reporting, audit rights, repayment caps, default triggers and tax treatment.

The choice between these instruments will often depend on the startup's stage of development, valuation considerations, the investor's risk appetite and the parties' commercial objectives.



LEGAL CONSIDERATIONS FOR STRUCTURING SAFES AND OTHER HYBRID INSTRUMENTS IN NIGERIA

While SAFEs and other hybrid financing instruments provide flexibility for early-stage fundraising, their implementation in Nigeria requires careful consideration of several legal implications. Founders and investors should pay particular attention to the following considerations:

Corporate authority and future share issuance

Because SAFEs and convertible instruments usually result in the future issuance of shares, the startup must confirm that its articles of association, shareholder arrangements and corporate approvals permit the intended issuance. Under the Companies and Allied Matters Act, 2020 (CAMA), the power to allot shares is vested in the company and may be delegated to directors in the case of a private company, subject to the company's articles or directions given in a general meeting. The authority to allot also

extends to rights to subscribe for, or convert securities into, shares.³

Founders should therefore confirm, before closing the investment, that the company has sufficient issued share capital or a clear mechanism to create or issue the required shares upon conversion. They should also review pre-emptive rights, restrictions in the articles, existing shareholders' agreements, investor consent rights and any class rights that may be affected by future conversion.

³ Companies and Allied Matters Act, 2020, section 149

Classification of the instrument

A central drafting question is whether the instrument is intended to operate as debt, equity, an advance subscription, or a contractual right to future equity. This classification affects repayment rights, insolvency ranking, accounting treatment, tax treatment and investor

expectations. A SAFE should clearly state that it is not a loan and does not create a repayment obligation except in limited agreed circumstances, such as a liquidity event or dissolution event, where applicable.

Foreign Investment and Capital Importation

Where investments are made by foreign investors, startups must ensure compliance with Nigeria's foreign exchange framework. Foreign capital should be channelled through an authorised dealer bank and supported by a Certificate of Capital Importation ("CCI"). The CCI is important because it supports the investor's ability to repatriate dividends, profits, capital

and investment proceeds, subject to applicable taxes and documentation requirements. This is particularly important for convertible and future-equity instruments because exit or conversion may occur long after the original inflow. Failure to address these requirements may create practical difficulties when investors seek to exit or repatriate funds in the future.

Fundraising Structure

Startups should carefully consider the fundraising structure adopted and its attendant regulatory requirements. Whether capital is raised through private placements, venture capital or private equity investments, crowdfunding platforms or other investment channels, founders should ensure the offer is

properly limited, documented and not presented in a way that could be construed as an unregistered public offer. If a platform, fund, syndicate or nominee structure is used, additional regulatory, custody, disclosure and investor-protection considerations may arise.

Tax and accounting treatment

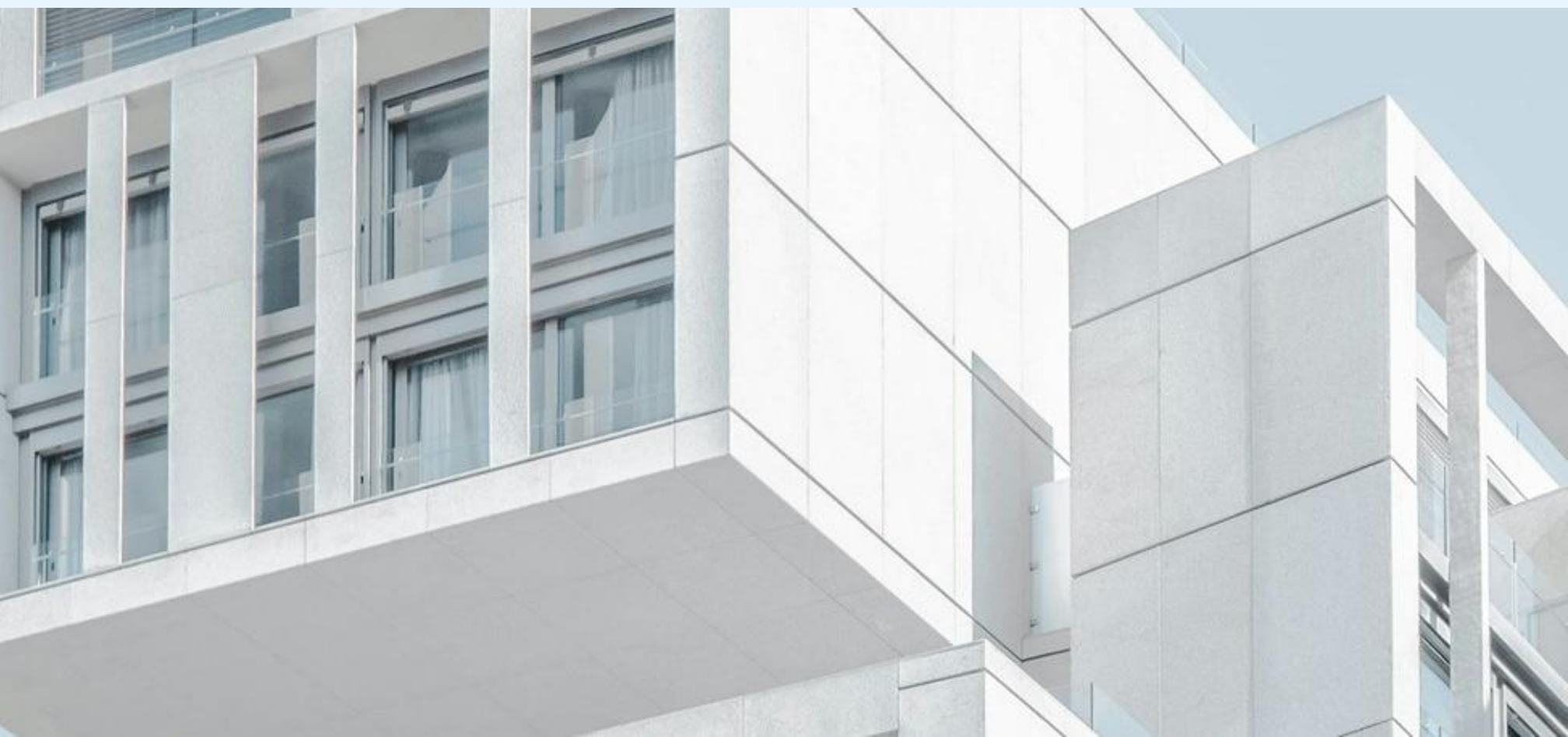
The tax and accounting treatment of SAFEs and hybrid instruments should be considered at the structuring stage. Issues may include withholding tax on interest in the case of convertible debt, stamp duties, deductibility of financing costs, tax treatment of discounts,

accounting recognition of liabilities or equity, and the tax consequences of conversion or exit. Early tax review helps prevent a commercially attractive instrument from creating unintended cost or compliance exposure.

Investor protection and governance

Although SAFE investors do not usually become shareholders immediately, they may require contractual rights before conversion, including information rights, most-favoured-nation rights, participation rights, consent rights over major

corporate actions and protection against excessive dilution. These rights should be drafted carefully so that they protect investors without paralyzing management or creating uncertainty for future financing rounds.



KEY TERMS IN STRUCTURING EARLY-STAGE INVESTMENTS

The success of a SAFE or other hybrid financing instrument often depends on how well the key commercial terms are negotiated and documented. While these instruments offer flexibility, inadequate drafting can create uncertainty regarding ownership, investor rights and exit outcomes. Accordingly, founders and investors should pay particular attention to the following provisions.

Valuation Caps and Discount Rates

Valuation caps and discount rates are among the most significant economic terms in SAFEs and similar instruments, as they determine the price at which an investor's funds will convert into

equity. These provisions should strike a balance between rewarding investors for assuming early-stage risk and minimising excessive dilution for founders.

Conversion Mechanics

The agreement should clearly define the events that trigger conversion, such as qualified financing, non-qualified financing, change of control, IPO, merger, asset sale or dissolution. It should also define the methodology for calculating the conversion

price, whether conversion is automatic or optional, the class of shares to be issued and the approvals required to complete the issuance. Clearly drafted conversion provisions help minimise disputes and provide certainty to both founders and investors.

Information and Participation Rights

Investors often seek access to periodic financial and operational information to monitor the company's performance before conversion. In addition, early-stage investors may negotiate pro-rata

participation rights that allow them to maintain their ownership percentage in future funding rounds. These rights should be clear, proportionate and subject to confidentiality obligations.

Liquidity and Exit Provisions

The agreement should address the treatment of the investment where a merger, acquisition, asset sale, initial public offering or other liquidity event occurs before conversion. Clearly defined exit provisions help ensure that the parties' expectations are aligned and reduce the likelihood of disputes at a critical

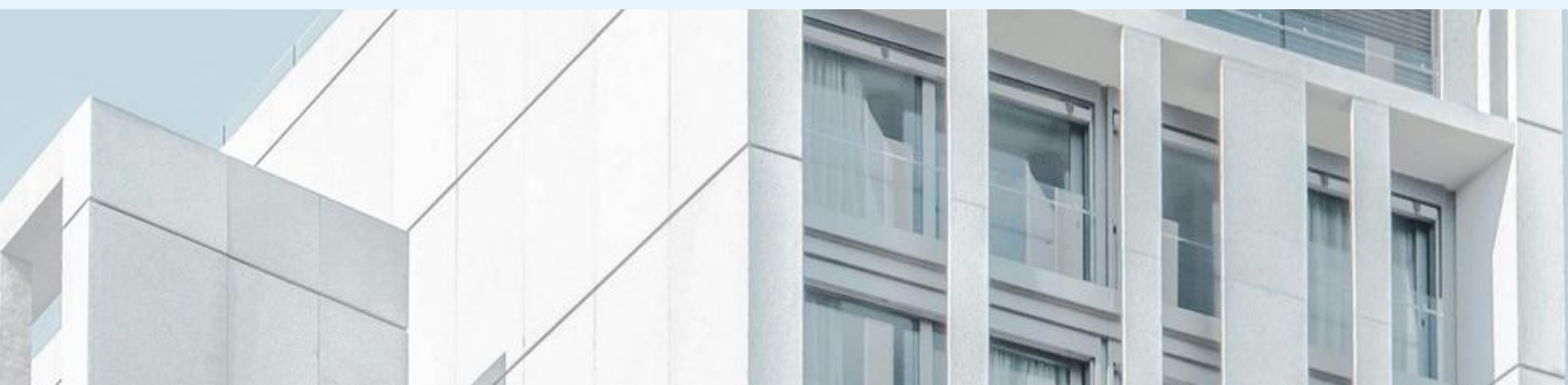
stage in the company's growth.

Careful consideration of these terms can significantly enhance the effectiveness of a financing structure, protect the interests of both founders and investors, and facilitate future fundraising activities.

Founder, cap table and anti-dilution considerations

Founders should model the effect of multiple SAFEs, convertible notes and future priced rounds on the company's capitalisation table. A poorly modelled SAFE stack can produce unexpected dilution,

create investor disputes and complicate future fundraising. Investors, in turn, should ensure that the cap table reflects all outstanding options, warrants, convertible instruments and employee incentive arrangements



Practical Recommendations



For founders, SAFEs and other hybrid instruments should be used as part of a deliberate fundraising strategy, not as a shortcut around governance. Before raising funds, founders should update the company's statutory records, review the articles and shareholders' agreement, confirm authority to issue shares, prepare a clean cap table and consider the tax, foreign exchange and regulatory implications of the investment.

For investors, due diligence should extend beyond the template instrument. Investors should review the company's corporate records, ownership history, intellectual property ownership, employment and contractor arrangements, data protection posture, licences, tax filings, material contracts and existing investor rights. The investor should also confirm that the instrument gives clear rights on conversion, exit, default and information access.

For both parties, the safest approach is to use well-drafted documentation that reflects Nigerian law and the commercial realities of the transaction. Imported templates may be useful starting points, but they should be adapted to local corporate, tax, foreign exchange and securities-law requirements.

5 Section 479 (2) CAMA 2020

6 Section 480 (2)(a) CAMA 2020

7 Section 480 (4) CAMA 2020

8 Re Atlantic Computer Systems plc [1992] Ch 505, 528, CA (Nicholls LJ).

Conclusion

As Nigeria's startup ecosystem continues to evolve, founders and investors are increasingly adopting financing structures that address the valuation challenges inherent in early-stage fundraising.

SAFEs and other hybrid financing instruments offer practical solutions by enabling startups to access capital efficiently while allowing investors to participate in future growth without requiring an immediate determination of the company's value.

However, the effectiveness of these instruments depends on careful structuring and clear documentation. When properly negotiated and implemented, SAFEs, and other hybrid instruments can provide a flexible and commercially efficient pathway for early-stage investment while supporting the continued growth of Nigeria's startup and innovation ecosystem.



About Stren & Blan Partners

Stren & Blan Partners is a leading Nigerian commercial law firm with dedicated practices in Asset Recovery, Fraud Investigation & Enforcement, and Financial Services.

Our team has extensive experience representing international clients in cross-border fraud matters and works closely with law enforcement agencies, regulatory bodies and international counsel to achieve effective recoveries.

For enquiries regarding digital fraud recovery or asset tracing in Nigeria, please contact our Asset Recovery and Fraud Investigation team.

The Authors



**Francisca
Igboanugo**

Team Lead



**Oreoluwa
Nehizena**

Senior Associate



**Ebube
Okorji**

Associate





+234 (0)702 558 0053
3 Theophilus Orji Street, Off Fola Osibo
Road, Lekki Phase 1, Lagos, Nigeria

www.strenandblan.com
contact@strenandblan.com
[in](#) [X](#) [@](#) @strenandblan