



FREQUENTLY ASKED QUESTIONS (FAQS) ON

# EXPLORING FINANCING STRATEGIES/OPTIONS FOR TECH STARTUPS IN NIGERIA



1

## What are sources of financing accessible to Nigerian Tech Startups?

The financial needs of a tech startup will vary according to the type and size of the business. Startups looking to raise funds could explore borrowing from friends and family, personal savings and bootstrapping, grants from incubator and accelerator programs, angel investors, venture capital investors, crowdfunding, bank loans and government grants depending on the stage of the startup.

2

## Should an early-stage startup explore equity or debt financing?

This decision largely depends on factors like the startup's business model, management team, growth potential, risk tolerance, and current financial situation. Equity financing entails selling ownership stakes in the company to investors in exchange for capital, without the obligation of repayment. On the other hand, debt financing involves borrowing money with a commitment to repay the principal amount plus interest over time. While this preserves full ownership, it comes with the responsibility of regular repayment, which could strain cash flow, especially in the early stages.

3

## How many times can a Startup raise funds?

There is no fixed limit to the number of times a startup can raise funds. The number of fundraising rounds a startup pursues depends on its growth trajectory, market conditions, and investors' appetite. Typically, startups go through multiple rounds of financing, starting from pre-seed or seed rounds, then progressing to series A, B, C, venture capital, private equity and so forth as they grow.

4

## What are the differences between pre-seed or seed round?

The key difference between pre-seed, seed, and series A, B or C financing rounds lies in the different stages of growth and development of the startup. Pre-seed financing is the earliest stage of financing for a startup, typically occurring in the ideation or concept stage before the startup has developed the prototype or generated any revenue. Seed financing is the first formal round of financing, that occurs once the company has developed a prototype, demonstrated some traction, and has a clear plan to grow its business aimed at scaling the product or service.

5

## When does a startup explore Series A, B or C?

There is no proper time. However, when a startup gains traction, shows maturity and demonstrates market viability, it moves on to Series A financing from pre series angel investment, typically provided by venture capital firms, to scale operations and expand its customer base. Series B follows suit, facilitating further expansion and market penetration, often through aggressive marketing and product development efforts. Series C marks a stage of increased maturity, with the startup focusing on global expansion, strategic acquisitions, or preparing for a public offering. Beyond Series C, subsequent rounds, such as Series D and beyond, continue to provide capital for sustained growth, with investors including a mix of venture capitalists, private equity firms, and institutional investors.

6

## What are the key legal documents required in securing angel investment or venture capital for a Nigerian tech startup?

Key documents include term sheets, which outline investment terms, Founders/Shareholders agreements that define ownership rights and voting power of founders/shareholders, subscription and transaction agreements to formalize the investor's commitment to purchase shares in the startup and the startup's obligation to issue those shares, Article of Association of the startup to clearly define the internal regulations of the startup, Non-disclosure agreement to protect confidential information during discussions with potential investors, Intellectual property assignment agreements to ensure that the startup owns all intellectual property created by its employees amongst others.

7

## How can a Nigerian tech startup legally protect its intellectual property (IP) while pitching to raise funds?

It is not uncommon for startups to lose their IP to 'sharks' when pitching to raise funds. A startup can protect its intellectual property by applying for registration of its intellectual property rights such as patents, trademarks, or copyright relevant to the startup's product/service. Also, startups should also be strategic about the information disclosed. Information to be shared should be of interest to the investors without revealing proprietary details that are not protected. Where proprietary information are to be disclosed, a non-disclosure agreement should be executed between parties.

8

## What legal requirements and restrictions typically apply to government grants for tech startups in Nigeria?

Before a startup can apply for government grants in Nigeria. There are certain legal requirements and restrictions aimed at ensuring that the funds are used effective and in alignment with the objectives if the grant program. Theses legal requirements includes CAC registration, tax registration and compliance, environmental and corporate social responsibility and sector specific regulation, amongst others in respect to the sector of the tech startup. Other regulations to comply with include those prohibiting money laundering, cybercrimes, data breaches and IP infringements. On the issue of restriction, non-transferability, project timeframe, fair practices, IP rights e.t.c

9

## **Are there any legal risks associated with participating in incubator/accelerator programs Nigerian tech startups?**

Yes, there are legal risks. Raising money is fun but startups must think about having a well worded dispute resolution mechanisms or clauses imbedded in the agreements as they might be required to ascertain terms and conditions that may be to their detriment in future. However, Intellectual Property infringements might equally be probable where the accelerator programs contract provide that any intellectual property derived from the financing of the tech start up will be deemed the property of the accelerator organizers.

6

## **What are some best practices for tech startups in Nigeria to ensure their financing agreements are legally sound and mitigate potential risks?**

Startups, please engage a lawyer to review your financing agreements before signing to ensure that: the terms and conditions of the agreement are understood, the potential risks are identified, favorable terms are negotiated, and compliance of those agreements with relevant Nigerian laws. Lastly, always conduct due diligence on potential investors to assess their reputation, track records, and financial stability among others before signing the financing agreement.

Understanding the financing structure and terms to ensure that the startup's valuation is fair and accurately reflects its current and future potential, such as; existing strategies including; a buyback options, drag along rights and tag-along rights in case of a change in ownership or liquidity event.

The tech startup must also have understudied the business sector to understand certain pertinent issues. This will help craft out specific clauses pertinent to the sector that will protect the startup's interest.

## About Stren & Blan Partners

Stren & Blan Partners is a full-service commercial Law Firm that provides legal services to diverse local and multinational corporations. We have developed a clear vision for anticipating our clients' business needs and surpassing their expectations, and we do this with an uncompromising commitment to Client service and legal excellence.

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