

## 2024 YEAR-END REVIEW AND 2025 OUTLOOK



| NIGERIAN REGULATORY REFORMS IMPACTING PRIVATE EQUITY AND VENTURE CAPITAL | SECTORAL OPPORTUNITIES AND GROWTH HOTSPOTS | FX MARKET REFORMS | BRIDGING THE INFRASTRUCTURE DEFICIT | ENERGY TRANSITION OPPORTUNITIES: GAS AND RENEWABLES | SHIFTING INVESTMENT HORIZONS | EVOLVING EXIT STRATEGIES | NEW TAX UPDATES | M&A AS A GROWTH TOOL | REGIONAL EXPANSION STRATEGIES | SUSTAINABILITY AND ESG STRATEGIES RESHAPING INVESTMENT | PERSPECTIVES: A CONVERSATION WITH ADESUWA OKUNBOR-RHODES, ARUWA CAPITAL MANAGEMENT  
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# Foreword

We are pleased to present the **PEVCA Nigeria Legal and Regulatory Committee’s H2 2024 Year-End Review and 2025 Outlook Report**, which highlights the dynamic evolution of Nigeria’s private equity and venture capital ecosystem over the past year. Despite significant macroeconomic challenges—including inflation, currency volatility, and the removal of fuel subsidies—the industry has shown remarkable resilience and adaptability. These developments underscore both the inherent challenges and the immense potential for growth and innovation in this vibrant market.

## 2024 Highlights

The past year witnessed notable progress across key areas critical to the ecosystem’s development in Nigeria:

- **Investment Growth:** Private equity investments surged, fuelled by strategic responses that aim to shifting economic cycles and growth in high-potential sectors such as agriculture, fintech, healthcare, and technology.
- **Regulatory Reforms:** The Securities and Exchange Commission (SEC) implemented updates to the framework regulating collective investment schemes and private equity and venture capital fund regulations, enhancing transparency and investor protection. Bold economic measures, including the floating of the Naira and tax incentives, have further set the stage for a more investor-friendly landscape, even as challenges like inflation and exchange rate volatility persist.
- **Engagement with Policymakers:** The Legal and Regulatory Committee continues to work closely with the SEC to analyse and recommend changes to rules governing Collective Investment Schemes (CISs), Private Equity Funds (PEFs), and Venture Capital Funds (VCFs). Key recommendations, as reported in our **PEVCA Nigeria Legal and Regulatory Committee H1 2024 Mid-Year Review and Outlook Report** focused on simplifying regulatory burdens for smaller funds, clarifying definitions, and fostering a practical, market-aligned approach.
- **Courtesy visit to the Governor of the Central Bank of Nigeria** Representatives of the PEVCA Board paid a courtesy visit to the Central Bank of Nigeria (CBN) to meet with its Governor, Mr. Olayemi Cardoso.
- Discussions centred on the impact of exchange rate volatility on private equity, venture capital investment, and fintech sector reforms among other issues. PEVCA emphasised the need for greater investment predictability and policy support, with the Governor expressing openness to collaboration on strategies and initiatives designed to stabilise the investment environment and enhance regulatory clarity.

Mr. Cardoso outlined the CBN’s primary objectives under his leadership, focusing on stabilising the Nigerian economy amid inflationary pressures and currency volatility. He emphasised his commitment to optimising efficiency within the foreign exchange market and highlighted ongoing reforms aimed at unifying exchange rates, improving liquidity, and enhancing the financial ecosystem.

These reforms, while challenging, were presented as essential steps toward fostering economic stability and investor confidence.

PEVCA echoed these priorities, sharing insights on industry challenges and expressing alignment with policies targeting the mitigation of currency and investment risks, enhanced regulatory clarity, and reduced exposure. The Board representatives reaffirmed PEVCA’s commitment to supporting these objectives by presenting actionable proposals and collaborating with the CBN on initiatives designed to address industry-specific risks. Together, these efforts aim to create a more conducive investment environment and strengthen Nigeria’s private equity and venture capital landscape.

## Looking Ahead to 2025

This Year-End Review and Outlook brings together expert analyses of Nigeria’s private equity and venture capital landscape. Our contributors examine:

- **Investment Trends:** Insights into sector preferences, particularly in agriculture, fintech, healthcare, and technology, as well as evolving strategies for foreign exchange transactions.
- **Exit Strategies:** Discussions on IPOs, trade sales, secondary sales, and other approaches to realizing value.
- **Sustainable Finance and ESG:** The growing importance of environmental, social, and governance considerations in investment decisions.
- **Regulatory Impact:** The implications of the Central Bank of Nigeria’s foreign exchange code and electronic matching system for investors.

We are deeply grateful to our contributors, including **Adesuwa Okunbor-Rhodes of Aruwa Capital Management, Aalex, Aluko & Oyebode, Argentil Capital Partners, Banwo & Ighodalo, Detail Solicitors, Duale, Ovia and Alex-Adedipe, Ernst & Young (EY), KPMG, G. Elias & Co., Olaniwun Ajayi LLP, The New Practice (TNP), Tosin Ojo of Sahel Capital, and Udo Udoma & Belo-Osagie.** Their invaluable expertise and thought leadership have enriched this report, reflecting the depth of knowledge within Nigeria’s private equity and venture capital ecosystem.

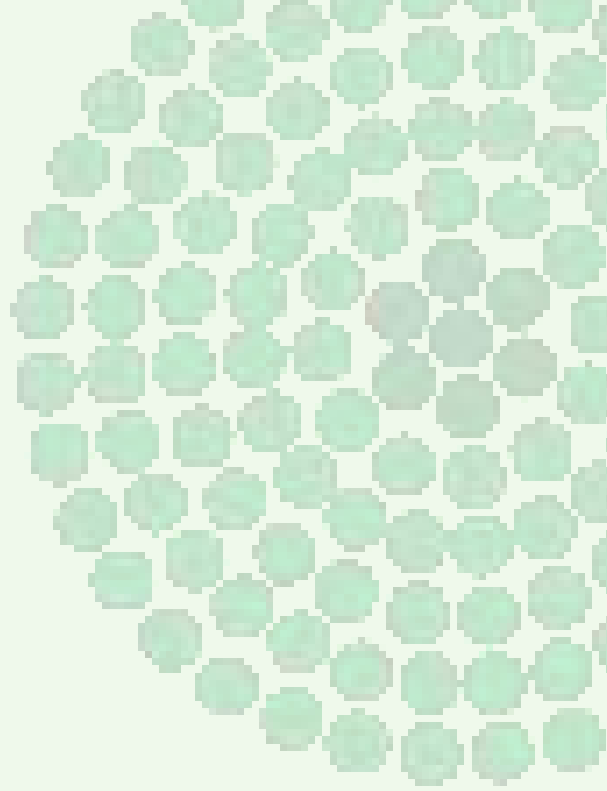
## Conclusion

As we look toward 2025, Nigeria’s private equity and venture capital market remains dynamic and full of potential. Sustained regulatory clarity and a focus on high-growth sectors will be critical in fostering investor confidence and creating a stable environment for growth. Collaborative engagement among stakeholders, paired with practical, market-aligned regulations, will help to ensure continued momentum and value creation.

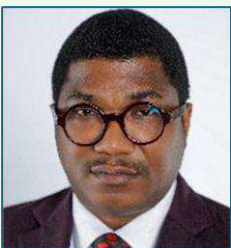
The PEVCA Legal and Regulatory Committee remains committed to proactive regulatory advocacy, working closely with policymakers and stakeholders to shape innovations and policies that enhance transparency, efficiency, and inclusivity and which will help to support PEVCA’s focus on enhancing the local business and investment ecosystem and facilitating the unlocking of opportunities that strengthen Nigeria’s investment landscape in 2025 and beyond. Very best wishes for a healthy, happy, and prosperous 2025!

**‘FOLAKE ELIAS-ADEBOWALE AND ‘DIPO OKURIBIDO**  
**For: THE PEVCA NIGERIA LEGAL AND REGULATORY COMMITTEE**

**Deloitte.**



**HIGHLIGHTS FROM THE 2024  
DELOITTE AFRICA PRIVATE  
EQUITY CONFIDENCE SURVEY  
– THE NIGERIAN PERSPECTIVE**



**Akinola  
Akinboboye**



**Adaobi  
Ejike**



**Jana  
Kobeissi**

## Background

The Deloitte Africa Private Equity Confidence Survey (PECS) is an annual publication, which presents limited and general partners' forward-looking view of private equity activities in Southern, East, West and North Africa.

The 2024 edition of Deloitte Africa PECS reflects the regional perspectives from the evolving sociopolitical and macroeconomic environment in Nigeria and the broader West African region.

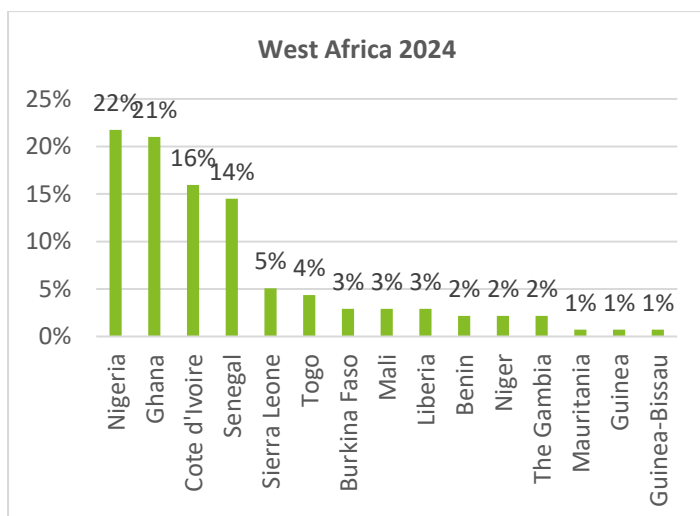
## Economic Climate

Nigeria has shown remarkable economic resilience, growing despite global pressures. In the second quarter of 2024, GDP rose by 3.19% year-on-year, marking an improvement from 2.98% in the first quarter. This was largely driven by the services sector, contributing 58.76% to GDP and expanding at 3.79%. This growth signals Nigeria's increasing diversification away from traditional oil reliance, an essential shift given global moves toward renewable energy (Deloitte Africa PECS, 2024).

However, the Nigerian economy is not without its challenges, notably the surge in inflation and foreign exchange rate instability, which have both impacted consumer spending and business operations.

Amidst these challenges, Nigeria remained a top pick by PE practitioners as an expected investment destination in West Africa, as it remains one of the industrialised economies in the region, with expectations of economic recovery over the medium term.

## Expected countries of focus in West Africa over the next 12 months

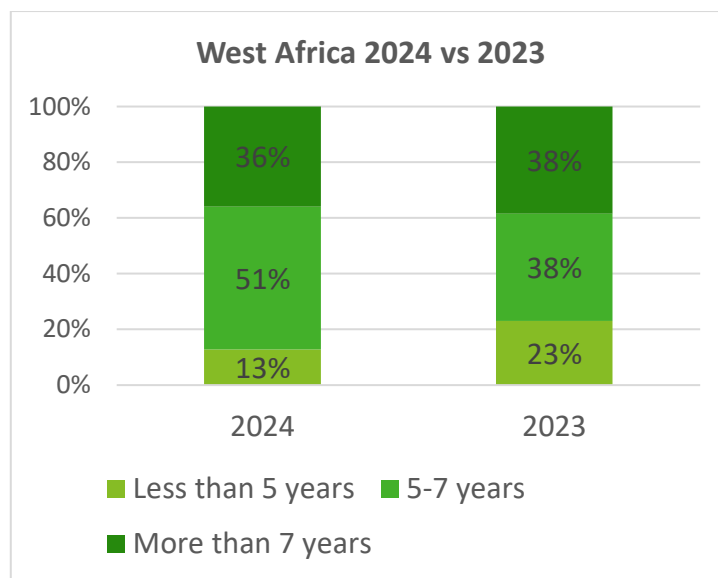


Source: Deloitte Africa analysis based on PECS 2024 results  
Note: Regional totals may not add up to 100% due to rounding

## Investment Landscape

The investment landscape in Nigeria has evolved, shaped by economic conditions and regulatory shifts. Deloitte Africa PECS indicates that investment cycles are becoming shorter, with less respondents in 2024 expecting investment lifecycle below five years, compared to 2023.

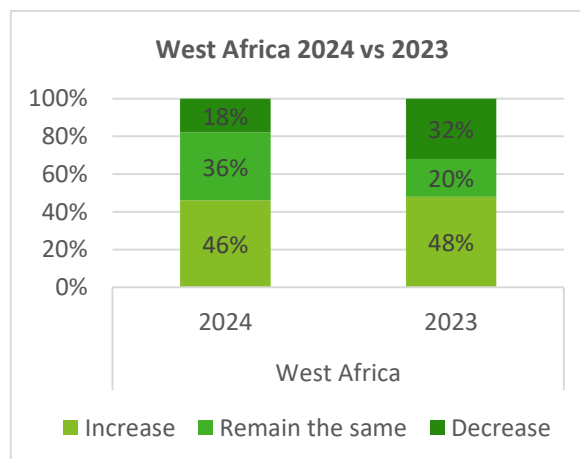
## Expected average lifecycle from initial investment to exit for investments made during the next 12 months



Source: Deloitte Africa analysis based on PECS 2024 results  
Note: Regional totals may not add up to 100% due to rounding

The preference for longer investment horizons reflects a prudent stance in light of economic uncertainties within the region, requiring longer investments period to realise returns and achieve better exit opportunities (Deloitte Africa PECS, 2024).

## Exits expected by region in the next 12 months

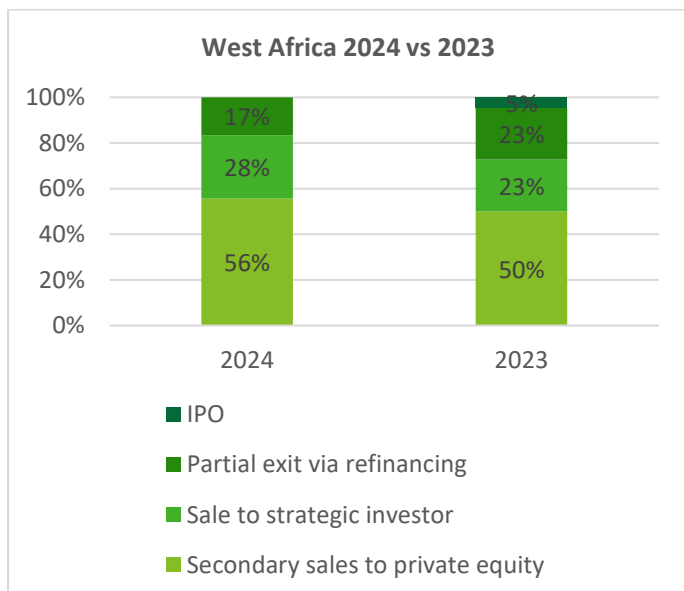


Source: Deloitte Africa analysis based on PECS 2024 results

Note: Regional totals may not add up to 100% due to rounding

More respondents expect exits to increase or remain the same over the next 12 months largely due to the economic headwinds affecting major markets like Nigeria.

### Most dominant exit routes per region over the next 12 months



Source: Deloitte Africa analysis based on PECS 2024 results  
Note: Regional totals may not add up to 100% due to rounding

The primary exit strategies in the region are secondary sales to private equity and strategic investors, accounting for 56% of all exits in 2024. These secondary sales allow investors to maintain liquidity while mitigating risks, a critical factor given the economic volatility. In comparison, IPOs and partial exits remain less favored due to the less mature public markets, highlighting an ongoing reliance on private capital channels (Statista, 2024).

Nigeria’s business environment, with ongoing regulatory reforms, provides both challenges and opportunities for deal-making. For example, recent policies to reduce oil theft and streamline business operations in the energy sector have created exit opportunities for oil-focused private equity firms. Meanwhile, the financial services sector has benefited from Nigeria’s digitalization policies, facilitating exits in fintech and digital banking, where investor interest remains robust.

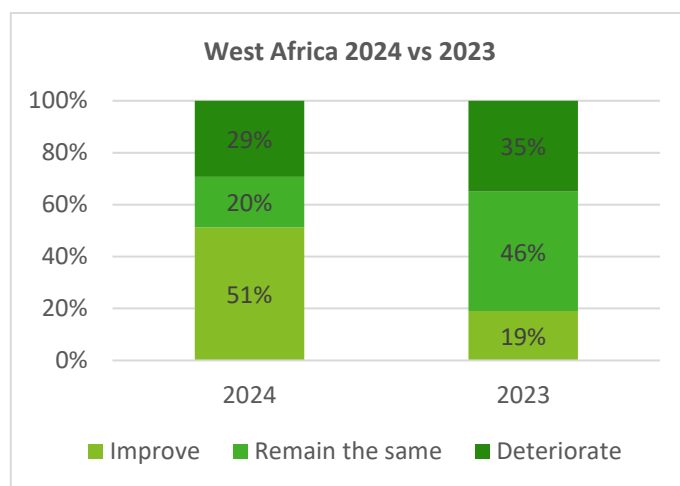
Nigeria’s evolving legal environment impacts exits as well. The introduction of the Companies and Allied Matters Act (CAMA) has streamlined corporate governance, making businesses more attractive for mergers and acquisitions. In private equity, this legislative development simplifies

processes around secondary sales, allowing smoother transitions for investors.

“The preference for secondary exits reflects the private equity sector’s emphasis on managing risk while ensuring liquidity,” observed PEVCA.

### Fundraising Environment

Fundraising in the West African region has shown optimism, as over half of the respondents expect the fundraising environment to improve. This optimism is rooted in recent economic reforms in major West African economies like Nigeria aimed at enhancing investment security. As the government tackles inflation and stabilizes currency, investor confidence is poised to improve, drawing capital into various sectors (Statista, 2024).



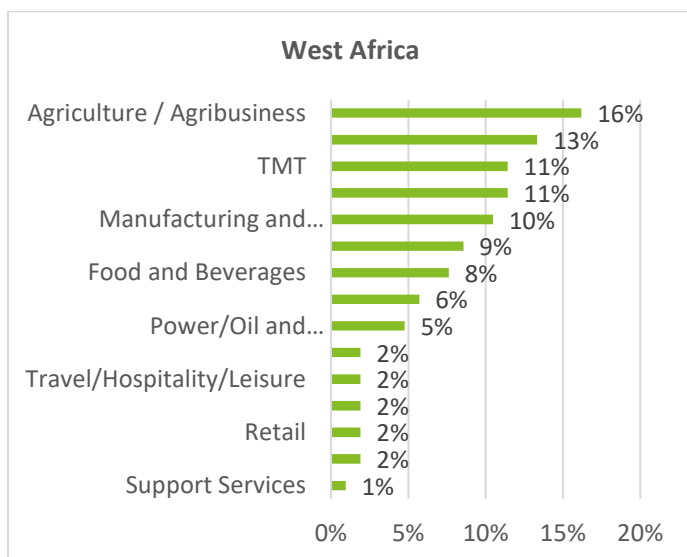
Concerted efforts of the monetary authorities to address key metrics like inflation and foreign exchange rate stability, are expected to drive an improvement in the fundraising environment for PE fund managers.

### Sector Preference

Respondents’ sectoral preferences in the region are reflective of the preferences in the major local economies like Nigeria. Nigeria’s diversified investment landscape spotlights several sectors with robust growth prospects. Each of these key sectors aligns with national economic goals, providing investors with opportunities to participate in Nigeria’s development journey.



## Sectors of interest in West Africa (ranked)



Source: Deloitte Africa analysis based on PECS 2024 results  
Note: Regional totals may not add up to 100% due to rounding

The top four represent the hot sectors preferred by respondents.

**Agriculture/Agribusiness:** Agriculture is a strategic priority in Nigeria, essential for food security and sustainability. Government initiatives aim to bolster local production and reduce dependence on imports, particularly for staple crops. Investment in agriculture not only meets domestic demand but also enables export potential, especially with the African Continental Free Trade Area (AfCFTA) presenting new markets. Private equity firms are increasingly focusing on agrotech solutions, from precision farming to supply chain optimization, to enhance productivity and profitability within this sector.

**Financial Services:** The digital transformation in Nigeria's financial services sector is redefining access to banking, insurance, and investment products. Fintech companies are thriving, leveraging mobile technology to serve Nigeria's large unbanked population. The financial inclusion drive, coupled with supportive regulatory policies, has attracted investors to digital banking, payment solutions, and insurance tech. The continued growth of mobile banking and online payments will solidify Nigeria's position as a fintech hub in Africa, with funding from venture capitalists and equity crowdfunding.

**Healthcare:** The demand for healthcare has surged post-pandemic, creating opportunities for investment in medical infrastructure and services. Nigeria's healthcare sector is rapidly expanding, with telemedicine, pharmaceuticals, and hospital facilities being major growth areas. Government incentives for local

pharmaceutical production and healthcare infrastructure development further support this sector. For instance, investments in telemedicine and health tech are closing healthcare access gaps, while pharmaceutical companies seek partnerships to reduce reliance on imported medicines.

**Technology, Media, and Telecommunications (TMT):** With increasing internet penetration and a tech-savvy population, Nigeria's TMT sector is vibrant. The rise of startups and a supportive policy environment have spurred investment in areas like e-commerce, digital entertainment, and telecommunications infrastructure. The TMT sector's potential for scale attracts venture capital, especially in e-commerce platforms and digital content delivery. Crowdfunding has also emerged as a viable capital-raising method in this space, enabling creative projects and tech startups to access funding through reward-based models, further diversifying the sector's funding base.

## Conclusion

The 2024 Deloitte Africa PECS shows an investment landscape with a shift toward longer investment cycles, dominant secondary exit strategies, cautious optimism in fundraising, and a focus on high-growth sectors. Agriculture, financial services, healthcare, and TMT sectors align with national priorities, presenting investors with profitable opportunities in line with Nigeria's strategic development goals.

As Nigeria continues to implement fiscal and monetary reforms to stabilize inflation and currency fluctuations, stakeholders gain a clearer path for making informed decisions. These insights offer essential guidance, enabling investors to strategically position themselves within Nigeria's complex and evolving economic environment.

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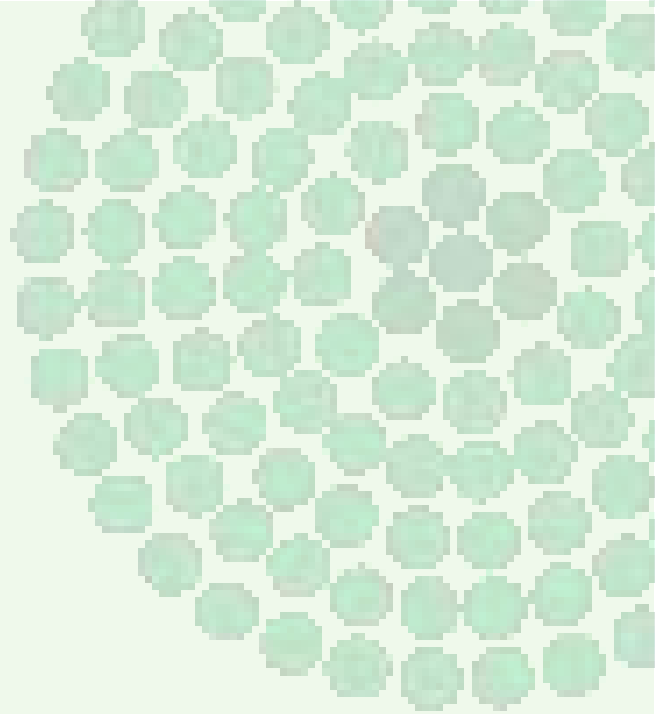
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## **PRIVATE CAPITAL IN NIGERIA: KEY DEVELOPMENTS AND PROSPECTIVE TRENDS (2024-2025)**



**Folake  
Elias  
Adebowale**



**Damilola  
Adedoyin**

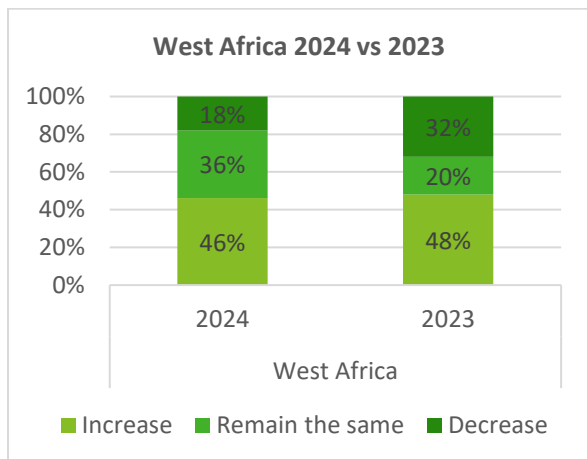


**Aanu  
Odunaike**



**Chidinma  
Anuforo**

### Exits expected by region in the next 12 months



### PRIVATE CAPITAL IN NIGERIA: KEY DEVELOPMENTS AND PROSPECTIVE TRENDS - 2024-2025

#### Overview

The Nigerian private capital landscape continued its evolution in 2024, navigating global and domestic economic challenges, regulatory reforms, and sectoral shifts that underscore its resilience and importance within Africa’s investment ecosystem. Despite pressures from inflation, Naira volatility, and structural bottlenecks, Nigeria has maintained its position as a leader in venture capital (VC) investments, particularly in high-growth sectors such as financial services and technology.

Industry reports reveal that private capital investment across Africa experienced recalibration, with total deal value reaching \$1.9 billion in the first three quarters of 2024. Large transactions exceeding \$50 million declined by 75%, while smaller, more strategically focused deals gained traction. VC activity played a critical role, with African VC funding totalling \$1.2 billion across 313 deals by Q3 2024.

However, private capital deal volumes in West Africa, including Nigeria, experienced a 30% year-over-year decline. Nevertheless, Nigeria’s strong performance in technology-driven investments and financial innovation has cemented its reputation as a key investment hub.

Key trends shaping Nigeria’s private capital ecosystem include regulatory reforms by the Central Bank of Nigeria (CBN) aimed at improving foreign exchange (FX) liquidity and financial transparency, and targeted interventions in sectors such as renewable energy, fintech, manufacturing, and agriculture. These reforms, such as compliance frameworks introduced in 2024, aim to enhance investor confidence and system stability. For example, the expansion of FinTechs like Moniepoint into traditional banking illustrates opportunities for diversification and growth within Nigeria’s maturing financial sector.

Looking ahead, private equity (PE) and VC investors are likely to adopt innovative cross-border investment strategies, such as hedging and local partnerships, to mitigate risks associated with currency volatility and capital repatriation delays. At the same time, stricter regulatory oversight is expected to bolster governance and transparency, creating a more secure investment climate. While challenges such as inflation, structural barriers, and low foreign direct investment (FDI) persist, Nigeria’s policy focus on economic diversification and investment in high-potential sectors positions it as a nuanced, but compelling, investment destination for 2025 and beyond.

### Key Economic Trends Shaping the Investment Landscape

**GDP:** In 2024, Nigeria achieved a GDP growth rate of 3.19% in Q2, increasing further to 3.46% in Q3 2024. This consistent growth trajectory reflects the resilience of the Nigerian economy, with the services sector continuing to serve as the primary driver, contributing over 53.58% to total GDP. The steady expansion underscores the strength of key sectors and the potential for sustained economic performance.

**Inflation:** Trends during the second half of 2024 showed a mix of positive developments and challenges. The National Bureau of Statistics (NBS) reported that inflation eased to 33.40% in July 2024, marking a 0.8 percentage point drop from June, with the downward trend continuing into August at 32.15%. Although inflation rose slightly in September to 32.70% and further to 33.88% in October, these fluctuations highlight ongoing supply-side constraints and currency pressures. Importantly, the ability to moderate inflation earlier in the period signals the effectiveness of targeted interventions and reforms aimed at improving economic stability. With continued focus on enhancing domestic production capacity and addressing structural inefficiencies, Nigeria remains well-positioned to achieve greater inflation control and macroeconomic stability.

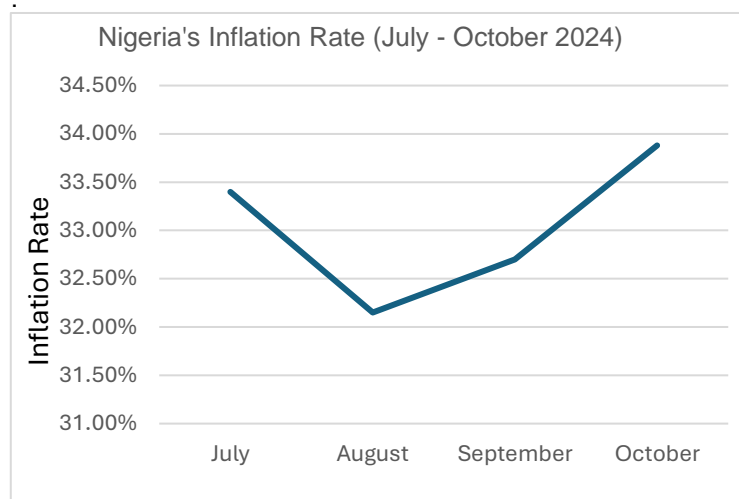
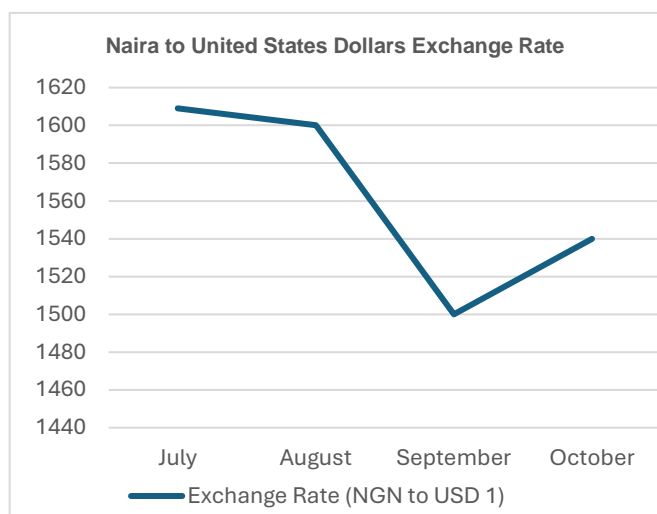


Figure 1: Inflation rate trends in Nigeria for the second half of 2024. (Data Source: National Bureau of Statistics)

**Exchange rate dynamics:** Exchange rate dynamics remain a key focus, with the Naira fluctuating between NGN1,500 and NGN1,600 to US\$1. These fluctuations reflect pressures from low FX reserves, high foreign currency demand, and external debt obligations. In H2 2024, the Central Bank of Nigeria (CBN) actively intervened in the foreign exchange market, releasing US\$122.67 million to authorized dealers to stabilise the currency and reduce market volatility. While challenges persist, the interventions underscore the CBN's commitment to ensuring stability and creating a more predictable FX environment. Importantly, there is growing optimism regarding potential Naira stabilization, bolstered by the ongoing implementation of comprehensive reforms targeting inflationary pressures and enhancing domestic production capacity.



**Figure 2: Exchange rate trends in Nigeria in the second half of 2024. (Data Source: National Bureau of Statistics)**

**FDI:** The increase in FDI to 8.29% in Q3 2024, up from 1.15% in Q2 2024, is a positive development, indicating growing interest in long-term investments despite overall declines in total capital importation. This highlights the potential impact of policy measures aimed at improving the ease of doing business and addressing macroeconomic challenges. However, the decline in total capital importation highlights the importance of continued reforms to stabilise investor confidence and attract sustained foreign investments in subsequent quarters.

In Q2 2024, Nigeria recorded total capital importation of US\$2.6 billion, with Portfolio Investment at US\$1.4 billion (54%), Other Investment at US\$1.17 billion (45%), and Foreign Direct Investment (FDI) at US\$29.8 million (1%). Lagos and Abuja led inflows, contributing over 50% each, driven by strong infrastructure and economic activity. The UK was the largest capital source, accounting for 43%, while Citibank Nigeria led institutional inflows with US\$818.46 million, according to the National Bureau of Statistics data.

By Q3 2024, total capital importation declined to US\$1.25 billion, a 52% drop from Q2 but a 91% increase

compared to Q3 2023. Portfolio Investment dominated at US\$899 million (72%), followed by Other Investment at US\$250 million (20%) and FDI at US\$104 million (8%). The rise in FDI, up from 1% in Q2, reflects growing confidence in Nigeria's long-term investment potential. Robust inflows into banking, manufacturing, and technology indicate opportunities for private equity and venture capital stakeholders to leverage Nigeria's evolving regulatory and economic landscape. Despite the decline in total capital importation, these developments signal a strengthening foundation for sustained growth through targeted reforms.

The interaction of these macroeconomic challenges with Nigeria's economic policies presents significant opportunities for long-term stability and growth. The CBN has made commendable strides by implementing exchange rate unification and introducing FX market reforms to enhance liquidity and transparency. These measures demonstrate a commitment to addressing structural issues and building a more resilient economy. On the global stage, Nigeria remains strategically positioned to leverage shifts in commodity prices, particularly oil, while navigating the challenges posed by rising interest rates in advanced economies. With sustained efforts, Nigeria's economic policies have the potential to attract renewed interest from foreign investors and bolster its standing among emerging markets.

### Key Developments and Reforms

Recent legal and regulatory developments in Nigeria are reshaping the investment environment, including for private equity and venture capital. PEVCA's Legal Committee's inaugural Mid-Year Review Report<sup>1</sup> highlighted proposed amendments to the Securities and Exchange Commission (SEC) rules included expanded definitions for PE and VC funds, including to include impact-focused funds, extended submission timelines for collective investment schemes (CIS), and increased thresholds for PE fund registration. Smaller funds below ₦5 billion were granted regulatory flexibility, easing entry barriers.

The new rules also proposed detailed reporting requirements and valuation methodologies, while enhancing investor protection through governance and conflict-of-interest policies. These changes align with global practices, targeting improving transparency and compliance while addressing operational challenges for fund managers. However, certain restrictions, such as fee caps and mandatory fund participation in businesses, could limit fund flexibility and innovation.

Complementing these reforms, economic policies like tax reforms, FX market liberalisation, and renewable energy incentives are creating new opportunities across key sectors like technology, healthcare, and energy. The removal of a 28-day offer period for infrastructure funds, coupled with a shift in fee computation from net

asset value (NAV) to assets under management) provides operational relief and reflects a pragmatic approach. Meanwhile, the National Startup Act and National Blockchain Policy support innovation and align Nigeria's tech ecosystem with global standards.

## SEC Reforms

- **SEC Releases Exposure Drafts of Proposed Amendments to Private Equity and Venture Capital Regulations:** Proposed amendments to the Securities and Exchange Commission (SEC) Rules (assessed in greater detail in PEVCA's B1 2024 Mid Year Review publication) proposed to introduce stricter governance requirements, clarified the regulatory framework for PE and VC funds, and broadened the definition of private equity to include impact-focused funds. Smaller funds below ₦5 billion were granted regulatory flexibility, easing entry barriers.

## Tax

- The **Withholding Tax (WHT) Regulations 2024** streamlined rates and expanded exemptions, reducing tax burdens for funds targeting real estate, infrastructure, and other sectors.
- **Various tax reform bills** simplified the tax structure, reduced corporate income tax rates, and introduced sector-specific incentives for priority areas like healthcare, renewable energy, and agriculture. These changes aimed to encourage long-term investments while enhancing the attractiveness of Nigeria's business environment. Other notable changes included the introduction of **Tax Account Codes (TACs)** to enhance compliance and digitalise tax administration, and new requirements for disclosing potential conflicts of interest, which promote transparency and investor confidence.
- The **FX Circular on Foreign Exchange Transactions** provided clarity on the tax treatment of realised and unrealised FX gains and losses, offering stability for portfolio companies operating amidst currency volatility.

## Banking and Finance

- **March - December 2024:** CBN recapitalisation requirements set new minimum capital thresholds for banks by March 2026 at ₦50 billion for regional banks; ₦200 billion for national banks; and ₦500 billion for international banks. Only paid-up capital and share premiums qualify as capital under the new framework, excluding retained earnings and debt instrument. As of December 2024, one bank has exceeded these requirements<sup>2</sup>

- Additionally, the introduction of the **Electronic Foreign Exchange Matching System (EFEMS)** by the Central Bank of Nigeria in 2024 aimed to streamline FX transactions and facilitate smoother repatriation of investment returns, mitigating currency risks for foreign investors.
- **CBN Circular on Foreign Exchange Manual (Memorandum 20-22):** The CBN mandated that all foreign investment divestments and repatriations must include electronic Certificates of Capital Importation (CCIs) and proof of redemption in local currency assets. This directive enhances transparency in capital movements, reduces risks of capital flight, and stabilises the investment environment.
- **CBN Circular on PoS Routing Standards:** Payment Service Providers (PSPs), Acquirers, and PTAs were required to adopt central routing through CBN-licensed PTAs for PoS transactions. The regulation aims to standardise payment processes, enhance transparency, and align Nigeria's payment systems with global standards. Entities were given 30 days to comply.
- **Exposure Draft of the Nigeria FX Code:** This draft, aligned with the FX Global Code, introduced principles for ethical behaviour, transparency, and robust governance among FX market participants. It requires market participants to conduct self-assessments and develop compliance plans by the end of 2024, fostering a more stable and predictable FX market.
- **Foreign Currency Disclosure and Repatriation Scheme:** Via a CBN Circular to All Commercial, Merchant, and Non-Interest Banks on Implementation of The Foreign Currency Disclosure, Deposit, Repatriation, and Investment Scheme 2024 (Effective November 6, 2024), the CBN implemented the 2024 guidelines for voluntary disclosure, deposit, and repatriation of foreign currencies. The scheme encourages the disclosure and deposit of foreign currencies, aiming to increase Nigeria's foreign currency reserves, enhance economic stability, and improve financial market liquidity. It promotes financial transparency and offers structured avenues for lawful investments, aligning with efforts to stabilise Nigeria's economy. It directly benefits investors by providing improved opportunities for sourcing funds and making investments in Nigeria. It also offers a structured avenue for investing disclosed funds in permissible sectors, promoting economic growth and attracting private capital.
- **CBN Circular to all Payment Service Providers (PSP) on Connectivity to Payment Terminal Service Aggregators (September 11, 2024):** While

<sup>2</sup> <https://www.accessbankplc.com/media/news/access-holdings-plc-secures-full-regulatory-approvals-of-its-recently-closed-rights-issue-of-ordina>.

this circular primarily targets payment processors, its impact extends to fintech companies and investors in the digital payments space. The mandate for centralized transaction routing through licensed PTAs aims to create a more secure and predictable environment for investment. Increased transparency and reduced operational risks can bolster investor confidence in Nigeria's digital economy.

### Islamic Finance

- In 2024, Nigeria's Islamic finance sector grew significantly, with assets reaching NGN2.5 trillion, driven by a 92.5% increase in deposits and a 60.7% rise in loans in Islamic banks. Key reforms included higher capital requirements by the Central Bank to enhance stability and efforts by the SEC to position Nigeria as a hub for Islamic capital market products, targeting 50 Sharia-compliant listings worth NGN5 trillion by 2025. Milestones included Nigeria's first non-interest commercial paper program, though private Sukuk issuances remained limited. Looking ahead, equity issuances and partnerships are expected to sustain growth, offering private equity and venture capital opportunities to invest in Sharia-compliant sectors like infrastructure, agriculture, and technology. These developments position Nigeria as a leader in Islamic finance.

### Energy and Mining

- Agreements with international partners were signed for hydrogen development, positioning Nigeria as a leader in renewable hydrogen production and unlocking green technology investments.
- Regulatory reforms in the oil sector included transparency initiatives under the Petroleum Industry Act to improve governance and attract investment.
- Exemptions and incentives for collective investment schemes and incentives are available under Nigeria's National Renewable Energy Policy. Exemptions are offered in the context of infrastructure and renewable energy projects, and such exemptions reduce operational costs and make investments more attractive to fund managers and investors.
- A bill to amend the Petroleum Industry Act 2021 has passed its first reading, introducing mandatory public disclosure of government-oil company contracts. These reforms aim to enhance transparency in the oil sector and attract foreign direct investment. The bill awaits approval from the House of Representatives and the President, with NAICOM expected to provide implementation guidelines to achieve a smooth transition.

### Solid Minerals

- In mid-2024, the Ministry of Solid Minerals announced plans to review mining license fees and the Nigerian

Mining Act 2007, aligning with broader discussions on regulatory reforms in Nigeria's solid minerals sector.

### Insurance and Reinsurance

- In **December 2024**, the Nigerian Senate passed the Nigeria Insurance Industry Reform Act, 2024, mandating significant increases in minimum capital requirements for insurers. Life insurance companies must now hold ₦10 billion (up from ₦2 billion), non-life insurers ₦15 billion (up from ₦3 billion), and reinsurance firms ₦35 billion (up from ₦10 billion). These reforms aim to strengthen underwriting capacity, reduce reliance on foreign insurers, and boost the sector's GDP contribution. A risk-based regulatory framework has also been introduced, enabling the National Insurance Commission (NAICOM) to impose additional capital requirements based on risk assessments

### 2024 YEAR IN REVIEW AND 2025 OUTLOOK: STRATEGIC PERSPECTIVES

Collectively, the trends and developments outlined here reflect Nigeria's commitment to improving transparency, regulatory compliance, and investment attractiveness across financial services, energy, and mining sectors. While these advancements foster growth and innovation, addressing policy inconsistencies and streamlining compliance costs for smaller funds could further enhance the investment climate. A balanced, sector-specific regulatory approach will maximise the potential of these reforms, ensuring broader accessibility and sustained growth, and strengthen Nigeria's position as a leading investment destination in Africa.

The 2025 outlook for private equity in Nigeria highlights the need for innovative investment strategies and operational efficiencies across promising sectors to navigate their inherent complexities and promote a conducive and resilient economic environment. In what has been a challenging economic environment, it is expected that businesses and investors and regulators alike will continue to adopt innovative and adaptive strategies to thrive, facilitate innovation, and ensure compliance, transparency, market stability, risk mitigation, and sustainability.

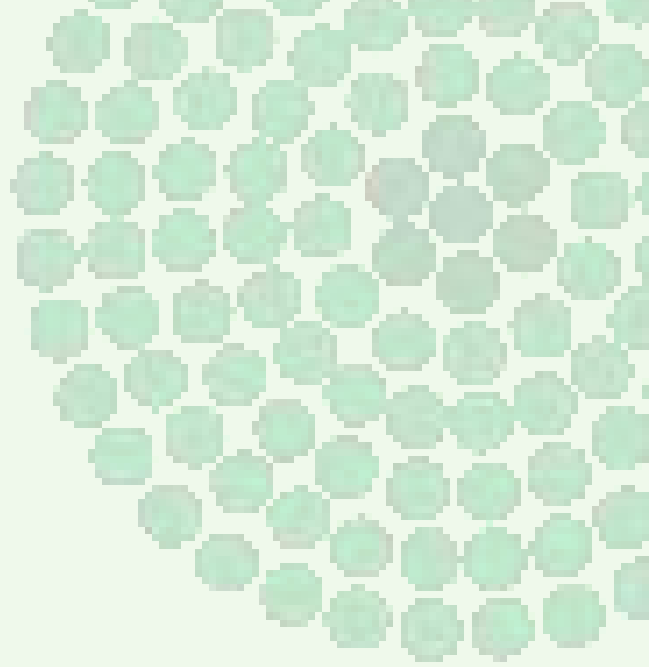
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OLANIWUN  
AJAYI



## **PRIVATE EQUITY AND VENTURE CAPITAL EXIT STRATEGIES**



**Anuoluwapo  
Balogun**



**Terry  
Akaluzia**



**Chidiebere  
Obialor**



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## INTRODUCTION

Private equity (PE) and venture capital (VC) companies/firms (together, PEVC) make equity investments in private companies with well-defined exit strategies in mind. Unlike strategic investors who typically seek to create long-term value that enhances their own operations or market position, PEVC are financial investors and are primarily driven by the potential for monetary returns – specifically maximising capital gains within a specified timeframe.

An exit strategy is a plan for converting equity ownership in a company into cash, making it a crucial aspect of PEVC investing. Without a well-defined exit strategy, PEVC face the risk of getting stuck in an investment longer than anticipated or getting forced to divest at an inopportune time, potentially resulting in reduced returns. Consequently, at the point of investment in portfolio companies, PEVC already consider their exit strategy, focusing on potential methods of divestment. These investors approach exits with precision, aligning financial and operational goals to ensure the highest possible valuation is achieved at exit.<sup>3</sup> Key factors such as timing, market conditions, and choice of exit method are carefully evaluated to optimize financial returns.<sup>4</sup>

### Why Exits are Important

Exits are a pivotal stage in PEVC investments, converting years of growth and operational achievements into tangible returns. Exits enable PEVC to recoup invested capital and distribute profits to their limited partners/investors. However, exits are more than just a means of returning money to investors: they are also defining moments that restart the capital cycle, freeing up resources for new investment opportunities.

Exits also serve as a measure of accountability, enabling limited partners in PEVC to assess the quality of their portfolio and make recalibrations if needed.<sup>5</sup> Common exit routes include initial public offerings, trade sales, management buybacks, secondary sales, and, occasionally, write-offs.<sup>6</sup>

<sup>3</sup> Green, A., Hayes, W., Seghers, L. and Zaets, E., 2018. Private Equity Exits: Enabling the Exit Process to Create Significant Value.

<sup>4</sup> Minardi, A.M.A.F., Bortoluzzo, A.B., Rosatelli, P. and Ribeiro, P.F., 2019. Market conditions and the exit rate of private equity investments in an emerging economy. *BAR-Brazilian Administration Review*, 16, p.e180070.

<sup>5</sup> Bernard S. Black & Ronald J. Gilson, Venture Capital and the Structure of Capital Markets: Banks Versus Stock Markets, 47 J. FIN. ECON. 243 (1998).

## COMMON EXIT STRATEGIES

### Initial Public Offering (IPO)

An IPO is often considered the gold-standard exit for PEVC, allowing them to unlock the full potential of their investments by listing a portfolio company on a public exchange. An IPO typically begins with substantial preparatory work, often involving financial audits, market positioning, and regulatory filings to meet stringent disclosure and transparency requirements. This process usually takes between 6 to 24 months, during which PEVC collaborate closely with legal and financial advisors, underwriters, and auditors to structure the offering, ensuring compliance with securities laws. However, high returns are a primary attraction. Going public allows investors to leverage years of operational improvements, growth, and brand building, often securing higher valuations than those typically achievable through private sales, as public markets tend to reward companies with strong growth prospects and established credibility.<sup>7</sup>

The liquidity advantage also becomes clear: as shares begin trading, investors, such as PEVC, gain the option to exit partially or gradually, allowing for flexibility in timing their returns while benefiting from potential future growth in the stock price. From the perspective of a portfolio company, market visibility and credibility are crucial benefits. A public listing enhances a company's reputation – reinforcing its long-term growth prospects.

However, the IPO route is not without its challenges. Market volatility may impact share prices, with shifts in investor confidence potentially derailing valuations at critical moments. Additionally, navigating the regulatory requirement of public markets introduces another layer of complexity – companies must meet strict reporting and compliance requirements of public markets, often requiring years of preparation. This process can be both resource-intensive, with no assurance of favourable market conditions at launch.

An illustrative case of a high-profile IPO exit is the listing of Jumia on the New York Stock Exchange in 2019.<sup>8</sup> Dubbed "Africa's Alibaba", Jumia attracted substantial VC interest, and its IPO was hailed as a landmark for African startups entering global capital markets. For its early investors, Jumia's IPO demonstrated how the process,

<sup>6</sup> Douglas J. Cumming & Jeffrey G. MacIntosh, Venture-Capital Exits in Canada and the United States, (2003).

<sup>7</sup> Li, Y., Chi, T., Lan, S. and Wang, Q., 2024. Venture capital exit after venture IPO. *Strategic Entrepreneurship Journal*.

<sup>8</sup> [Nigerian e-commerce company Jumia files for an IPO](#)

while arduous, can yield high visibility, liquidity, and valuation advantages, providing a model for PE and VC firms looking to transform local ventures into globally recognized brands.

### Trade Sale

A trade sale, often referred to as an acquisition, is a direct sale of a portfolio company to another business, typically within the same industry, that seeks strategic growth or synergies through the acquisition. Trade sales enable PEVC to exit by selling their stake to an established player that values the company for its market position or other competitive advantages. The benefits of a trade sale can be substantial. Unlike other exit strategies, a trade sale offers PEVC a cleaner, often quicker exit with immediate cash realization, sparing them the protracted timelines and regulatory scrutiny of an IPO.

Furthermore, strategic buyers are often willing to pay a premium, particularly if the acquisition provides significant synergies or fills a critical gap in their business operations. However, trade sales come with some drawbacks. A deal's success hinges on finding a well-aligned buyer who is willing to pay the desired price. Moreover, selling to a competitor may expose sensitive information during negotiations and may result in complex post-sale integrations that could disrupt employees and company culture. Yet, trade sale appears to be the preferred exit route for PEVC investors in Africa. According to the 2022 report by African Private Equity and Venture Capital Association, out of the 82 recorded PE exits in Africa, 34 were through trade sales, accounting for 42% of all exits.<sup>9</sup> A prominent example of a trade sale in the Nigerian PE landscape is the acquisition of Paystack from VCs by Stripe in 2020.<sup>10</sup> This landmark deal enabled Paystack's early investors to realize a substantial return. The transaction not only highlighted Nigeria's growing tech ecosystem but also underscored the appeal of trade sales as an effective exit route for investors seeking both liquidity and strategic alignment in high-growth sectors.

### Secondary Sale

A secondary sale is functionally equivalent to a trade sale. However, unlike trade sale, a secondary sale involves selling a portfolio company's stake to another PEVC, or some other financial buyer, rather than to a strategic buyer. Secondary sales occur typically at a point when the original investor needs liquidity. The process is often more straightforward compared to an IPO or trade sale, as the

buyer may already be familiar with the investment landscape and its value drivers.

The flexibility of secondary sales lies in the ability to customise the deal to both parties' needs, allowing for negotiation on aspects such as price, terms and timing. However, identifying the right buyer can be challenging. Since secondary sales occur within the financial market, the buyer must not only see value in the company but also be aligned with the seller's goals. This often necessitates thorough due diligence which can extend deal timelines. Moreover, secondary sales might not yield the same premiums as a trade sale or IPO, as the buyer typically expects some level of discount due to the nature of the transaction.

A most recent example of a secondary sale occurred when Cardinal Stone Capital Advisers (**CCA**), a Nigerian PE firm, sold its majority equity stake in i-Fitness, Nigeria's most prominent fitness and gym chain, to Verod Capital Management, another PE firm.

### Buyback by Founders/Management

A buyback by founders or management occurs when a portfolio company's original owners or its management team repurchases shares from investors, typically PEVC. This exit strategy allows the founders/management to regain control of the company, either fully or partially, by buying back equity stakes that were previously sold to PEVC. The transaction can be structured in various ways, but the key factor is that the buying party is typically the company's internal team, leveraging their own financial resources or a financing arrangement to repurchase from PEVC. For investors, it offers a clear and often quicker exit, unlocking value and reallocating capital. For founders, it provides an opportunity to realign the business with their vision without going public or seeking an external buyer. However, the process can strain the buying party's finances if they have to overextend themselves or face challenges securing sufficient capital. Additionally, the valuation at which shares are repurchased may not always reflect the full growth potential, leaving PEVC with a less lucrative return than they might have received through other exit routes.

### Preference Share Redemption

Under Nigeria's Companies and Allied Matters Act 2020 (**CAMA**), share redemption via redeemable preference shares<sup>11</sup> are permissible subject to authorization by the company's articles.<sup>12</sup> Typically, the portfolio company

<sup>9</sup> 2022 African Private Capital Activity Report

<sup>10</sup> Stripe acquires Nigeria's Paystack for \$200M+ to expand into the African continent

<sup>11</sup> Redeemable shares are treated as preference shares under CAMA. See 182(8) of CAMA.

<sup>12</sup> See section 147 and 182 of CAMA.

repurchases/redeems these preferred shares at a set price or under specific terms established at investment. CAMA requires that redeemable preference shares be fully paid before redemption.<sup>13</sup> Financing can be sourced from profits available for dividend distribution or by issuing new shares explicitly for redemption.<sup>14</sup> This arrangement is particularly attractive for PEVC because it provides a structured and predictable exit route without the complexities of an IPO or sale.<sup>15</sup>

Preference shares often carry fixed dividends and liquidation priority, allowing investors to recoup stable returns while mitigating illiquidity risks as the company grows. Challenges, however, arise if a company lacks sufficient cash reserves or financing, which can strain operations and hinder long-term growth. Furthermore, poorly structured redemption terms may create friction with shareholders holding ordinary shares and complicate future fundraising efforts.

The exercise of redemption right is particularly valuable in an underperforming portfolio with limited potential to generate returns for PEVC.

### **Liquidation or Write-off/Last Resort Strategy**

Liquidation or write-off is an exit strategy used when investments fail, involving the sale of assets to pay off liabilities, or the complete abandonment of the investment. In liquidation, the company's assets are sold off to settle debts, and any remaining value is distributed among shareholders. A write-off occurs when investors recognize that the investment has no recoverable value and decide to absorb the loss. This strategy results in financial losses and can damage the reputations of PEVC, especially in the eyes of limited partners. It signals that the investment failed to meet expectations, often due to operational failure, market conditions, or strategic missteps.

While liquidation or write-off can be seen as a failure, it serves as an important risk management tool, reminding investors of the inherent risks in high-growth investments. It also provides valuable lessons for future investments, emphasizing careful due diligence and strategic caution.

## **KEY CONSIDERATIONS FOR A SMOOTH EXIT**

<sup>13</sup> See Section 182(2) of CAMA.

<sup>14</sup> This dual-option approach ensures companies have flexibility and prevents erosion of critical financial reserves, to maintain the company's solvency and financial stability.

<sup>15</sup> This exist structure is seen in larger private equity deals, where the redemption mechanism is built into the financing structure to provide investors with predictable returns.

<sup>16</sup> Conversion done using the \$1 to \$1681 NAFEX rate as at 20 November, 2024. Notably, under section 29 of the Nigerian Start up Act, angel investors, and PEVC that invest in a labelled startup are entitled to an investment tax credit equivalent to 30% of the

As previously mentioned, all PEVC transactions are structured with an exit strategy in mind. Exits play crucial roles in shaping key provisions in the definitive agreements that govern the PEVC investments, such as drag along and tag along provisions, anti-dilution provisions, pre-emption rights, and other investor protection rights such as board seats or at a minimum, observer rights at board meetings.

Starting early is very crucial for successful exits. It is important that PEVC start exit discussions early. They may consider commissioning legal and financial vendor due diligence reports (**VDD Report**) on the portfolio company to aid quick due diligence by the prospective buyer. A VDD Report may highlight early on, certain legal, regulatory, financial or tax issues which the portfolio company may easily remedy prior to opening up its books to the prospective purchaser for due diligence.

Furthermore, PEVC must consider various tax, legal and regulatory factors at the point of exit.<sup>16</sup> An exit may trigger capital gains tax for the exiting PEVC especially where the disposal proceeds equals or exceeds NGN100,000,000 (circa US\$59,488).<sup>17</sup> From a regulatory standpoint, it is important to consider whether merger notifications to competition authorities in Nigeria or to the Ecowas Regional Competition Authority will be required, how long notification might take, and its impact on the overall exit timetable.

If the portfolio company operates in a regulated sector, prior consent of the relevant sector regulator may be necessary. Where the exit strategy is an IPO, extensive engagements will be required with the Securities & Exchange Commission and the Nigerian Exchange Limited or any other exchange on which the securities of the portfolio company are to be listed. Additionally, consequential filings may be required to the Nigerian Corporate Affairs Commission to record the change in the shareholding structure of portfolio companies as well as directors, change in persons of significant control, amongst other things.

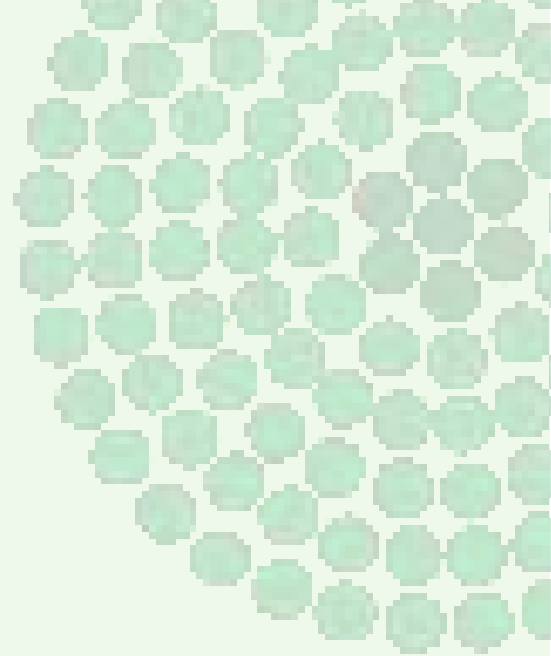
Valuation is also often a key consideration during exits and getting the right valuation methodology that balances PEVC return on investment against the prospective purchaser's desire to pay a "fair" price for the asset is often a big conversation.

investment in the labelled startup. The credit will only be applied to any investment gains subject to tax. Capital gains tax will not be charged on gains that accrue from the disposal of assets by an angel investor, venture capitalist or private equity fund if the assets have been held in Nigeria for a minimum of twenty-four months.

<sup>17</sup> There are exceptions to the requirement to pay capital gains tax, notable of which is a situation where the proceeds of disposal are reinvested in another Nigerian company in the financial year during which the disposal was made.

## **CONCLUSION**

Sooner or later, PEVC will seek to realise all or part of their investment in portfolio companies. For PEVC managers, exits can serve multiple purposes such as repaying borrowings from original investment, targeted internal rates of return, paying dividends, making a capital gain, and/or identifying new investment opportunities. For the portfolio company, PEVC exit may provide access to fresh funds, enabling further expansion. Despite legal and regulatory hassles involved in exits, exits can be less stressful if PEVC engage legal and financial advisers with deep industry experience to support them in navigating legal, regulatory and financial hurdles.



## **AFRICAN EXPANSION STRATEGIES: HOW NIGERIAN PRIVATE EQUITY AND VENTURE CAPITAL FIRMS CAN EXPAND THEIR FOOTPRINT ACROSS AFRICA**



**Aminat  
Lawal**



**Eberechukwu  
Ezike**



**Fidelis  
Adewole**



**Kuburat  
Abubakar**



**Oluwaseyi  
Oso**

## Introduction

Africa's dynamic and diverse economies present a unique opportunity for private equity ("PE") and venture capital ("VC") firms to expand their investment footprints across the continent. With its position as Africa's largest economy, Nigeria has been a leading destination for investment in sectors such as financial technology ("fintech"), telecommunications, e-commerce, health, and technology. In 2023, 603 venture capital and venture debt investment deals were recorded across Africa with an estimated value of over USD4.5 billion, out of which Nigeria accounted for 19% of the investment.<sup>18</sup> This highlights the significance of the nation in the regional market and its potential for further growth.

However, scaling operations across diverse markets requires a comprehensive understanding of the legal framework governing investments in each country as this dictates how transactions can be structured. An understanding of the business environment also includes having a grasp of the legal and regulatory frameworks as well as the regulators administering new investment destinations. In Nigeria, for example, the Companies and Allied Matters Act, 2020 ("CAMA") primarily regulates the incorporation and operations of companies. There are also regulators with oversight over several sectors depending on the business of the target companies. The Federal Competition and Consumer Protection Commission monitors mergers, including some acquisitions, to ensure that companies do not create monopolies. The Securities and Exchange Commission also regulates investments in public companies.

In this article, we will delve deeper into key strategies that can drive successful expansion for Nigerian PE and VC firms across Africa.

## Expansion Strategies for Nigerian PE and VC firms in Africa

Nigerian PE and VC firms have increasing investment opportunities across Africa's diverse markets. Expanding these opportunities must be strategic, balancing ambition with the practicalities of navigating complex markets. This requires a focus on strengthening investment portfolios,

creating sustainable partnerships, and adapting to regional dynamics and requirements.

Some notable strategies are enumerated below:

### Identifying High-Growth Sectors

A first step in expansion is identifying sectors with high potential for returns. Africa's economic growth is being driven by industries that address critical needs and offer scalability. Key sectors include technology, fintech, healthcare, and telecommunications. While there have been substantial investments in fintech, sectors such as agritech, renewable energy, and healthcare are also gaining traction.

The technology sector is at the heart of Africa's innovation landscape, with startups leading the way in fields ranging from e-commerce to artificial intelligence. For instance, Kenya's mobile payment ecosystem, driven by platforms like M-Pesa, has become a global success story, showcasing the scalability of African fintech solutions. Similarly, South Africa and Egypt are hubs for software development and tech-driven logistics innovations. For instance, in 2023, the Southern Africa region was the top Africa's investment hub, attracting 26% of the total private capital deals, with South Africa leading the front in that regard.<sup>19</sup> Nigeria's fintech ecosystem has also witnessed massive growth, with startups and investors focusing on digital payment systems, lending platforms, and mobile banking solutions.

The healthcare sector has also become a focal point for investment, particularly in response to the increased awareness of health infrastructure gaps. The COVID-19 pandemic highlighted the need for stronger healthcare systems, and this sector has seen a rise in funding for hospitals, diagnostic centers, and digital health startups in countries such as Rwanda<sup>20</sup>, Ghana<sup>21</sup>, and Morocco<sup>22</sup>.

Furthermore, Nigeria's telecommunications sector is ranked as the largest in Africa and a key player in driving the country's tech industry. According to the Nigerian Bureau of Statistics, telecoms contributed 16.36% to Nigeria's GDP in Q2 2024, making it the third-largest sector in terms of GDP impact.<sup>23</sup> Ghana, South Africa,

<sup>18</sup> The African Private Capital Association, '2023 Venture Capital Activity in Africa' <<https://www.avca.africa/data-intelligence/research-publications/2023-venture-capital-in-africa-report>> accessed 6 November 2024.

<sup>19</sup> Hannatu Asheolge (n 1).

<sup>20</sup> European Investment Bank, 'Rwanda: EUR 27 million Team Europe backing for Rwanda Biomedical Centre to strengthen pandemic resilience' (25 October 2021) <<https://www.eib.org/en/press/all/2021-348-eur-27-million-team-europe-backing-for-rwanda-biomedical-centre-to-strengthen-pandemic-resilience>> accessed 22 November 2024.

<sup>21</sup> World Bank, 'Saving Lives and Protecting People in Ghana and Boosting the Covid-19 Response' (17 March 2021) <<https://www.worldbank.org/en/results/2021/03/17/saving-lives-and-protecting-people-in-ghana-and-boosting-the-covid-19-response>> accessed 22 November 2024.

<sup>22</sup> Janel Lefort, 'Fast Relief' (European Investment Bank, 2 December 2020) <<https://www.eib.org/en/stories/morocco-health-system-covid-19>> accessed 22 November 2024.

<sup>23</sup> National Bureau of Statistic, 'Nigerian Gross Domestic Product Report Q2 2024' <<https://nigerianstat.gov.ng/download/1241549>> accessed 22 November 2024.

Botswana, and Ethiopia have also shown exponential growth in the telecommunications sector in recent years.<sup>24</sup>

By diversifying investment focus to include these burgeoning industries, Nigerian PE and VC firms can capitalize on new opportunities that align with global investment trends.

### Building Strategic Partnerships

Partnerships are a cornerstone of successful expansion in Africa. Partnering with local businesses, regulators, and government agencies can help PE and VC firms navigate hurdles that may occur. By collaborating with established local firms, Nigerian investors can gain valuable insights into regional markets, consumer behavior, and regulatory environments. This approach not only mitigates risks associated with unfamiliar markets but also facilitates smoother entry into new territories. Building relationships with local entrepreneurs can lead to mutually beneficial arrangements, enhancing the chances of successful investments.

### Strengthening Exit Pathways

Securing successful exits is fundamental to every PE and VC investment. Exit pathways include trade sales, initial public offerings (“**IPOs**”), and options, among others, all of which have their financial and legal implications. Enhancing operational capabilities of the targets through technology adoption can provide a competitive edge in the African market. Embracing technology not only increases efficiency but also enables these firms to make data-driven decisions that can lead to better valuation outcomes and facilitating more favourable exit opportunities.

### Cross-Border Investments

To enhance reach, Nigerian PE and VC may actively seek cross-border investment opportunities across Africa. By investing in regions with complementary resources or emerging sectors, Nigerian PE and VC firms can diversify their portfolios and mitigate risks associated with market volatility. For instance, investing in renewable energy projects in an African country will align with Nigeria's growing interest in sustainable investments while addressing the energy deficit in these regions.

International treaties also seek to regulate investments in their respective regions. For instance, the African Continental Free Trade Area Protocol on Investment

provides standards for member states to comply with and enact in their local laws for promotion, facilitation, and protection of investments across Africa. Similarly, the Economic Community of West African States has competition rules seeking to regulate market dominance during acquisition transactions across West Africa involving nationals of state parties.

### Legal and Regulatory Challenges

As Nigerian PE and VC firms seek to expand their footprint across Africa, they may face a unique set of challenges that vary depending on the market. Navigating these regulatory landscapes effectively is crucial for ensuring the smooth execution of cross-border investments.

Some of the regulatory challenges include:

#### Diverse Legal and Regulatory Framework

Africa's regulatory environment is fragmented, with each country having distinct laws governing business operations, investments, and acquisitions. PE and VC firms must navigate this difficulty to ensure compliance with local laws. Regulatory requirements can differ widely even within the same industry across different African countries. The advancement in technology has also led to extended regulatory oversights.

For instance, the fintech sector operates under a regulatory landscape that spans multiple authorities rather than a single governing body. Various regulators play different roles based on the specific activities and services that a fintech company provides. In Nigeria, while the Central Bank of Nigeria is the primary regulator of fintech operations, other regulators may be involved depending on the services offered, such as the Nigerian Communication Commissions for telecom-related services. This equally applies to other African countries that have their various regulators outside the general financial service regulatory. In Kenya, for instance, the Capital Markets Authority manages fintechs involved in investments and securities, while the Central Bank of Kenya handles payments and digital banking.<sup>25</sup> In South Africa, the regulatory framework is also divided among various authorities, such as the Financial Sector Conduct Authority which regulates general financial services and the National Credit Regulator overseeing money lending

<sup>24</sup> Maya Derrick, 'Top 10 Telco Providers Transforming Africa' (*Mobile Operators*, 26 July 2023) <<https://mobile-magazine.com/articles/top-10-telco-providers-transforming-africa>> accessed 22 November 2024.

<sup>25</sup> Kraido Advocates, 'Legal Regulations for Fintech Companies in Kenya: A Simplified Guide' <<https://kraidoadvocates.com/regulations-for-fintech-companies-in-kenya/>> accessed 22 November 2024.

services.<sup>26</sup> Dealing with different authorities across each clime can be challenging for PE and VC firms as they scale operations and investments across multiple jurisdictions. For instance, increased incidental costs will be incurred to obtain applicable approvals and ensure compliance.

In addition, investments in certain sectors require regulatory approval(s), particularly when foreign investors are involved. This also depends on the level of control and the type of investment sought. Obtaining these various approvals may involve a lengthy process that may deter VC and PE firms from expanding their operations outside Nigeria. To navigate the diverse legal and regulatory frameworks across Africa, Nigerian PE and VC firms may engage in prior findings or engagement with local legal experts and other consultants with deep knowledge of each country's regulatory landscape. Additionally, strategic partnerships can be formed with local businesses, thereby allowing insights into the regulatory environment.

### Economic Instability

Recent and rapid fluctuations in the value of the Nigerian currency, the Naira, may pose a challenge for Nigerian VC and PE firms looking to expand in Africa. For instance, in the last 2 years, the foreign exchange value of the Nigerian currency when compared with United States Dollars had devalued at a rate above 300%.<sup>27</sup> Given that many African economies are closely tied to the United States Dollars, changes in value can lead to increased costs, reduced access to capital, and heightened financial volatility. To hedge against these currency risks, PE and VC firms can utilize derivatives structuring such as options, futures, and swaps which allow firms to lock in exchange rates or protect against future changes in the value of currencies.

### Exit Challenges

Exit option is crucial and may present a hurdle for PE and VC firms due to considerations including the target company's actual and projected performance, economic state of the country of investment, and legal compliance and approvals. PE investments have witnessed lower exits lately. In 2023 there were only 43 exits across Africa as against 82 number of exits recorded in 2022.<sup>28</sup>

Nigerian PE and VC firms can carefully prepare for exit plans by ensuring a level of control of the businesses they invest in and carefully exploring the prospects of available exit options. For instance, an IPO results in listing on an

exchange and makes the shares of a company become available to the public based on its market capitalization.

### Conclusion

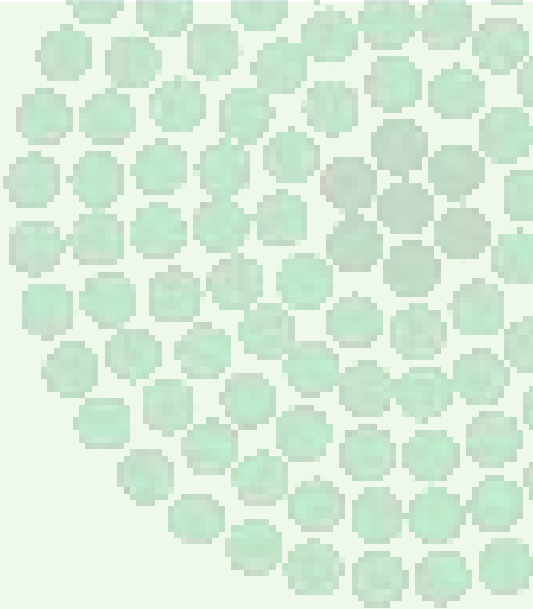
Africa's diverse and burgeoning sectors present numerous opportunities for Nigerian PE and VC firms seeking expansion into other sectors in Nigeria and across Africa. Understanding the regulatory requirements for each sector and the prospective country of investment is essential for successful market entry. By leveraging on some of these identified strategies, understanding the legal and regulatory frameworks, and identifying potential challenges, Nigerian PE and VC firms can enhance the expansion of their investment portfolio across Africa.

<sup>26</sup> David Geral, Bright Tibane and Kirsten Kern, 'FinTech in South Africa: Overview' <[https://www.bowmanslaw.com/wp-content/uploads/2019/11/FinTech\\_in\\_South\\_Africa\\_overview\\_2019.pdf](https://www.bowmanslaw.com/wp-content/uploads/2019/11/FinTech_in_South_Africa_overview_2019.pdf)> accessed 22 November 2024.

<sup>27</sup> Dataphyte, 'Currency Woes: The Naira's Nadir' (18 October 2024) <<https://dataphyte.com/latest-reports/currency-woes-the-nairas-nadir/>> accessed November 29, 2024.

<sup>28</sup> African Private Capital Association, '2023 African Private Capital Activity Report' <<https://www.avca.africa/media/hvtdpiei/avca23-20-apca-annual-report-public.pdf>> accessed 25 November 2024.





**GROWTH THROUGH MERGERS AND ACQUISITIONS:  
STRATEGIES FOR PRIVATE EQUITY  
AND VENTURE CAPITAL FIRMS TO  
ACHIEVE GROWTH THROUGH  
MERGERS AND ACQUISITIONS**



**Adeniyi  
Duale**



**Chukwuebuka  
Okoli-Akirika**



**Mildred  
Eze**

Mergers and Acquisitions (M&A) have long been integral to the strategies of businesses seeking rapid growth and expansion, diversification, and competitive advantage. In today's fast-paced globalized business environment, M&A represents a powerful tool for companies to optimise, synergise and [vertically] integrate to achieve growth – revenue and presence, transform their operations, and adapt to changing market dynamics. This is particularly true for private equity and venture capital firms, which actively seek opportunities to utilise M&A as a means to drive value creation within their portfolios.

For private equity firms (“**PE Firms**”), M&A as a growth tool, allows them to acquire stakes in companies, often through strategic partnerships or investments in businesses. By consolidating industries, expanding market share, and implementing operational improvements, PE firms can unlock significant value. Furthermore, M&A offers a clear exit route, enabling PE firms to realize substantial returns by selling or merging their portfolio companies. In 2024, it was reported that Sango Capital acquired a majority of the limited partner's interest in Synergy Private Equity Fund. In markets like Nigeria, where infrastructure gaps and market fragmentation exist, M&A serves as an effective way to quickly scale operations and tap into growth opportunities without having to build businesses from the ground up.

Furthermore, venture capital firms (“**VC Firms**”) leverage M&A to accelerate the growth of early- stage companies. Through the instrumentality of M&A, VC portfolio entities by acquiring or merging with companies that offer complementary technologies, customer bases, or market access, can significantly boost the scalability of their portfolio companies. In sectors like technology, fintech, and health tech, M&A presents an opportunity for startups to rapidly grow and compete with larger, more established players.

### Key Strategies for Private Equity and Venture Capital Firms to Achieve Growth Through M&A

To engender significant growth and enhance returns, PE and VC Firms now embrace transformational strategies, including but not limited to M&A, to expand [geographical and customer] market reach, access new technologies, and optimize their exit strategies, though the approaches vary depending on the maturity of their target businesses, prevailing market conditions and other macroeconomic factors.

<sup>29</sup> McKinsey & Co “How private equity funds can use M&A to create outsize returns” <https://www.mckinsey.com/capabilities/m-and-a/our-insights/how-private-equity-funds-can-use-m-and-a-to-create-outsize-returns/>

Below are key strategies employed by PE and VC firms to achieve growth through M&A:

### Strategic Acquisition of Underperforming Assets

Through M&A, PE firms acquire struggling companies, inject capital, and implement operational improvements to turn them around. This approach is common in sectors like retail or manufacturing where businesses face inefficiencies. While VC firms typically focus on early-stage investments, M&A can also play a role in helping startups scale quickly and expand. If a VC firm identifies a company with potential but needing better management or capital, M&A offers a way to accelerate growth and enhance scalability.

### Add-on Acquisitions

An add-on acquisition can best be described as a strategy where a PE firm purchases or acquires a smaller company to merge it with an existing business (more often a portfolio business). The goal of an add-on acquisition is usually to complement the acquirer's business model and create value for investors. McKinsey & Co. reported that add-on deals have become a more prominent strategy for PE funds globally over the past decade<sup>29</sup>. McKinsey & Co. further reported that between 2017 to 2023, the totality of PE add-on-deal activity has seen between US\$92 billion to US\$195 billion invested in add-on investment drives, and PE add-on-deal activity consisting, on average, 64.6% of PE deal count<sup>30</sup>.

Through add-on investments, PE and VC firms can unlock synergistical opportunities across revenue – through add-on investments in new markets to achieve economies of scope; cost – through add-on investments in competitors to achieve economies of scale; and capital – through add-on investments in competitors with a view to consolidating logistics and inventory.

### Roll-up Acquisitions

In fragmented industries, PE firms often use M&A to acquire and consolidate smaller players in the same line of business to create a dominant market leader – a platform entity. This strategy is often referred to as a “roll-up” acquisition or “platform” strategy. This strategy is particularly effective in sectors where there are multiple players with minimal market share, offering similar products and/or services. By platforming smaller

[funds-can-use-m-and-a-to-create-outsize-returns/#/](#) accessed on 20<sup>th</sup> November 2024.

<sup>30</sup> Ibid

companies, PE firms can create economies of scale, diversify, enhance bargaining and market power, access new markets and technologies, and improve operational efficiency. In roll up acquisition, the acquired and eventually merged entities usually lose their individual identity and assumes the identity of the platform.

Most markets tend to be dominated by large companies, or in some instances, by a single large corporate entity which cannot be challenged by smaller independent firms. In such a case a roll-up merger can be utilized to combine several smaller competitors into a larger company that competes on equal terms. In a roll-up, redundancies inherent to combining so many companies are eliminated, productivity is raised, and higher profits can be generated due to greater efficiency.

This strategy has been applied by PE firms in Nigeria. For instance, Verod Capital Limited acquired multiple life insurance businesses and platformed same to birth Tangerine Life Insurance Company Limited.

### **Tuck-in Acquisitions**

Similar to the bolt-on acquisition (discussed below), a tuck-in acquisition is a corporate strategy generally utilised to acquire target companies with resources that would be valuable to the acquiring entity. This involves the complete absorption of a target corporate entity by a larger corporate entity and integrating same into the larger corporate entity. In a tuck-in acquisition, the smaller company does not maintain any of its own original systems or structure post-acquisition.

For example, Company ABC is a large company that processes leather. Company XYZ is a smaller company that also processes leather. In fact, Company XYZ is so skilled at processing leather they have revolutionised leather processing in such a way that makes them more durable for a cheaper price. Company XYZ also owns the technology that automates its processes in record time. In a tuck-in acquisition, ABC company comes along and purchases Company XYZ and fully absorbs Company XYZ, while integrating XYZ's technology into its own systems.

While tuck-in and bolt-on acquisitions are similar in that both processes involve a larger company acquiring a smaller company that offers some strategic value, there exist material differences between the two acquisition strategies. Whereas, in a tuck-in acquisition, the "tucked-in" entity does not maintain any of its own original systems or structure after the acquisition, a bolt-on acquisition often allows the target business to operate independently, as a subsidiary of the acquirer.

### **Bolt-on Acquisitions**

Bolt-on acquisition is a form of acquisition where an existing corporate entity acquires another corporate entity to complement its core business and gain strategic value. The inherent upsides to bolt-on acquisitions lie in its ability to create and unlock value quickly and efficiently within a specific market. Also, bolt-on acquisitions arm the emerging group entity with immediate access to new products, services, customers, economies of scale, economies of scope and new geographical and product markets. By acquiring complementary businesses, companies can gain a competitive advantage and increase their market share.

Furthermore, bolt-on acquisitions, mostly involving established and mostly profitable businesses, ensure that the emerging group can reduce the risk of failure and increase its chances of success. Furthermore, bolt-on acquisitions are usually easier to integrate, as the acquired companies typically already have similar business models and cultures.

There are quite a number of successful examples of bolt-on acquisitions. A good example is Facebook's acquisition of Instagram. Instagram, a photo-sharing app, was not a direct competitor to Facebook, but it complemented Facebook's core business by providing it with access to a new market and a popular mobile platform. Also, a technology firm that specializes in data analytics might acquire a startup that provides artificial intelligence (AI) insights. This would allow the larger company to add AI capabilities to its existing offering.

### **Market and Product extensions M&As**

A market extension M&A is, simply, a business combination between companies that offer similar products or services but in different [geographic] markets. On the other hand, product extension M&A is a business combination between two companies that sell related products in the same market. Through the instrumentality of a market or product extension M&A, the acquiring entity (or the resulting entity from a merger) increases its market reach, gains economies of scope and customer base by combining their resources, customer bases, and market knowledge.

### **Challenges and Considerations for Utilising M&A Strategies as a Tool for Growth**

Navigating the complexities of the above M&A strategies, particularly in Nigeria, involves managing several

challenges including integration issues, regulatory hurdles, and market risks.

Seamless integration is arguably the utmost aspiration of merging entities during the course of an M&A transaction. However, post-M&A integration challenges is unsurprisingly possible. Such challenges may range from an operational integration standpoint – different business models and operating circumstances, significant difference in operational management, and regulatory requirements. Additionally, cultural integration poses a challenge where merging entities have significantly different cultures and management styles, and integration is not properly managed or ironed out. Moreover, technological integration can be difficult in sectors like fintech and telecom, where varying IT platforms and internet infrastructure require significant investments in both time and capital. Particularly, roll-up and tuck-in acquisitions can be complex and challenging, as integrating different companies, operations and cultures can be difficult, and the value of the acquired companies may not always be fully realized. To mitigate integration issues and challenges, merging companies need to have a clear strategy and a good understanding of the industry dynamics to successfully implement an acquisition strategy. The merger of AOL and Time Warner serves as a cautionary example of how cultural misalignment can undermine even the most promising mergers. Despite the strategic potential, the integration faltered largely due to the stark contrast in corporate cultures.

Regulatory hurdles can also complicate M&A transactions, particularly with respect to competition laws. Within the context of M&A growth strategies discussed above, there remains a risk that the competition authority in Nigeria – the Federal Competition and Consumer Protection Commission (the “**FCCPC**”), may not approve such corporate acquisitions, especially considering that some of the strategies, depending on the market share and size of the combining entities may result in market concentration. Furthermore, the FCCPC may approve such combinations conditionally. Such conditions may include the divestment of interest of the PE or VC firms in other complementary businesses.

Furthermore, there may exist legal and statutory limitations and restrictions to the combination of business entities, mostly in such combinations resulting in a platform or an emerging single entity. Such legal and statutory limitations make it impossible to employ some M&A growth strategies which may result in a single entity.

In addition, market peculiarities such as macroeconomic circumstances, foreign exchange volatility and inflation

may impact the use of M&A growth strategies. Political and regulatory instability also pose risks, as policy changes can impact the viability of acquisitions.

## RECOMMENDATION AND CONCLUSION

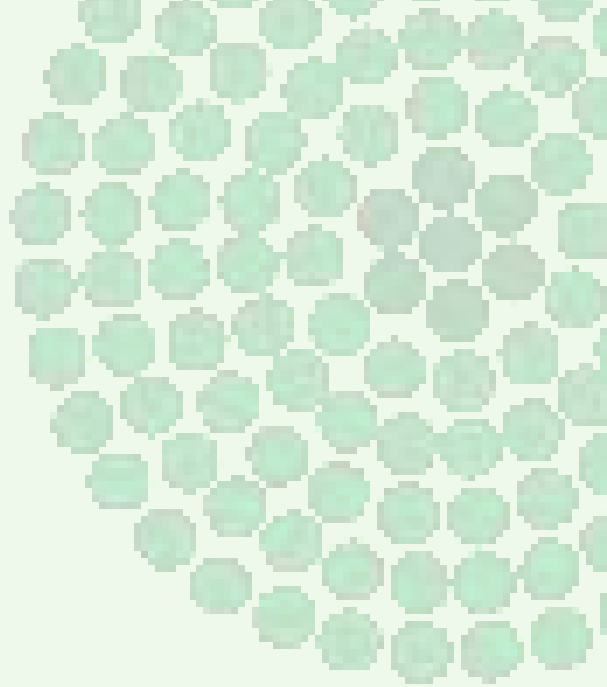
To effectively leverage M&A for growth, PE and VC firms operating in Nigeria must adopt a multifaceted strategy tailored to the market's unique dynamics. Prioritizing relationships and support from advisory firms is critical. These relationships facilitate smoother regulatory compliance, provide valuable market insights, and enhance deal-making. Collaborating with firms with sector-specific expertise is essential, especially in high-growth sectors like financial services, healthcare, and oil and gas, where local knowledge helps navigate Nigeria's complex regulatory environment.

A successful M&A strategy hinges on effective post-merger integration (PMI). PMI requires meticulous planning and execution to align organizational cultures, optimize operations, and retain key talent. Establishing a dedicated integration team with clear leadership responsibilities ensures efficient realization of synergies and operational alignment.

M&A offers a powerful avenue for PE and VC firms to achieve accelerated growth, scale operations, and create value in Nigeria's emerging markets. By focusing on operational alignment effective M&A strategies, rigorous risk management, and seamless integration, firms can unlock long-term value and position themselves competitively in Nigeria's evolving business landscape.



**BANWO & IGHODALO**



## **NAVIGATING THE EVOLVING LANDSCAPE OF PRIVATE EQUITY EXITS IN NIGERIA**



**Ayodele-Adeyemi  
Faboya**



**Tobi  
Asechemie**

Successful exits are crucial for private equity (PE) investors to recoup investments and for companies to achieve growth milestones. An exit marks the culmination of the investment process and is crucial for realizing the value invested in a portfolio company. Exits not only generate financial returns for investors in a PE fund but also validates the investment strategy and expertise of the fund manager.



However, achieving optimal exits can be challenging, particularly in emerging markets like Africa. A 2021 African Private Equity and Venture Capital Association (AVCA) survey revealed that 76% of Limited Partners (LPs) considered the limited exit opportunities a significant obstacle to investing in African private funds. This challenge, alongside other factors such as foreign exchange instability, Naira devaluation, and regulatory complexities have gendered a rise in private debt deal values signaling a growing investor preference towards secure investments in the ongoing market volatility.

Investors in Nigeria have a range of exit options at their disposal, each with its own set of legal and practical considerations. Exit options such as Initial Public Offerings (IPOs) and strategic/ secondary sale to third parties (financial investors or strategic buyers) are the common modes of exit globally. While Initial Public Offerings (IPOs) are considered a lucrative exit strategy globally, they are not a prevalent exit route in the Nigerian market. This is largely due to stringent regulatory requirements for listing, and the procedure for seeking relevant approvals from various regulatory bodies, including the Securities and Exchange Commission (SEC). Strategic sale by PE funds to third parties on the other hand has also faced its own challenges with factors like currency devaluation, inflation, high interest rates, and geopolitical uncertainty. These issues create an unfavorable environment for deal-making, making it harder to find buyers willing to pay a premium for the Company's assets at the pre-determined/desired timing of exit.



It is therefore crucial for PE funds and investors to explore alternative and creative ways of exiting their investments; and we have analysed some of these options below:

### (i) **Continuation Funds**

A continuation fund is a type of secondary transaction where a private equity fund manager (general partners or GPs) creates a new fund<sup>31</sup> to acquire one or more portfolio companies from an existing fund they manage. This transaction offers several benefits for both the GP and the investors in the fund (limited partners or LPs). Continuation funds allow GPs to hold onto high-performing portfolio companies for a longer period and avoid suboptimal exits due to market conditions or fund term constraints. It allows the GPs maintain control over the assets of the Company while providing liquidity options to existing LPs who may wish to exit. New investors also benefit from partnering with a GP who has a proven track record and deep understanding of the acquired assets.



While continuation fund transactions have many benefits, there are also potential legal and

<sup>31</sup> Whilst this is typical, there are also other continuation fund structures whereby a GP facilitates the sale by the LPs of their interests in the fund to new investors at

the pre-determined time for exit, to allow the LPs exit and the GP retain the assets in the portfolio company, albeit with new investors.

commercial challenges that must be considered and addressed. One major concern is conflicts of interest which often arise from the fact that the GP has interests in both sides of the continuation fund transaction—on the sell-side of the transaction as the GP of the selling fund and on the buy-side of the transaction as the GP of the continuation fund. This raises concerns about the fairness of the asset's valuation and the GP's motivations for the transaction

This may be addressed by: (i) independent valuation of the portfolio company; (ii) ensuring that the transaction is done at arms-length with transparency and ensuring that this is also reflected in the relevant transaction documents; and (iii) ensuring robust governance mechanisms are in place to protect investor interests.

### **(ii) General Partner led Secondaries**

These are a variation of continuation funds, whereby the portfolio is sold to an existing fund managed by the GP or its affiliate.

### **(iii) Management Buy-Outs**

Management Buy-Outs (MBOs) are not novel as an exit option for PE Funds. Whilst they have been less common than strategic/ secondary sales (perhaps due to the financial implications for management); a number of exits across the continent have been implemented via MBOs over the last decade<sup>32</sup>. However, as purchasing power of management continues to drop, GPs seeking to exit via this route will need to be more creative about structuring such buy-outs. This may include credit/ financing support to the purchasers.

### **(iv) Redeemable Preference Shares**

Redeemable preference shares are a type of equity investment that come with a redemption feature, allowing the investor to require the company to repurchase the shares at a predetermined price and time. This redemption feature provides PE investors with a structured exit mechanism, allowing them to recoup their investment and realize returns. It also offers a way for the PE investor to at least recover their initial capital in cases where the portfolio company's performance has been below

expectations and there is limited potential for achieving high investment multiples through other exit routes.

The redemption of redeemable preference shares in Nigeria is governed by the Companies and Allied Matters Act, 2020 (CAMA). CAMA stipulates that the shares, to be redeemed must be fully paid, and the redemption must be funded either from the company's distributable profits or through the issuance of new shares specifically for the purpose of redemption.

The mechanics for redemption should be carefully negotiated at the time of the initial investment to ensure a fair return for the investor. Terms regarding the redemption process such as the timing, pricing mechanism, and any conditions precedent, should be meticulously documented in the investment agreement. Please note that the returns from redeeming preference shares, even at a premium, might be significantly lower than those achievable through successful trade sales, strategic/ secondary acquisitions, or IPOs, particularly for high-growth companies. The success of exits via redemption of redeemable preference shares is also restricted to businesses with sufficient distributable reserves (typically mature companies), or which are able to attract replacement/ substitute equity.

### **(v) Recapitalisation**

Whilst not strictly speaking an exit mechanism, recapitalisation could provide PE investors with an alternative way to realize returns on their investments.

Recapitalisation involves reorganising a company's capital structure (usually by exchanging debt for equity/ vice versa) in order to generate liquidity. It may be achieved through refinancing existing debt, issuing new debt or securities, etc. Recapitalisation allows the investee company to return capital to its investors whilst retaining operational control, and could offer specific advantages such as tax efficiency.

The private equity landscape is evolving, and traditional exit strategies are no longer sufficient. As the industry continues to grow and mature, PE funds must adapt and innovate to achieve successful exits. By embracing

<sup>32</sup> The management team of Interswitch Limited, a Nigerian-based payment processing company, acquired a minority stake in the company through an MBO; the management team of Oando Energy Resources, a Nigerian-based energy company, acquired the company from its parent

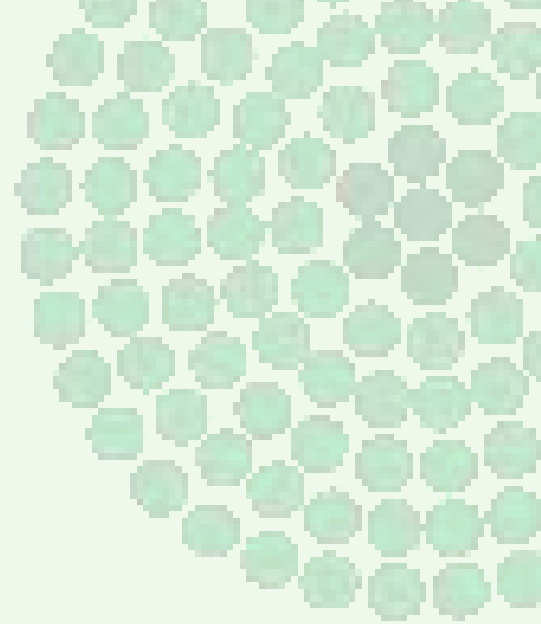
company, Oando PLC, in a N198 billion (approximately \$520 million) deal; the management team of STD, a Senegalese-based agribusiness company, acquired a majority stake in the company from its parent company, STD Holding.

alternative exit strategies, such as continuation funds, recapitalizations, and management buy-outs, PE funds can unlock value, reduce risk, and create new opportunities for growth. Innovative exit approaches not only benefit PE funds but also contribute to the development of vibrant and sustainable ecosystems. By supporting local businesses, promoting entrepreneurship, and fostering economic growth, PE funds can generate positive social impact while delivering high returns.

As the PE industry continues to evolve, it is essential for funds to stay ahead of the curve, and we can expect to see even more innovative exit strategies emerge. PE funds that adapt and innovate will be well-positioned to thrive in this new landscape.

**DISCLAIMER:** This article is intended to provide a general guide to the subject matter and does not by itself constitute legal advice to readers. Specialist advice should be sought about readers' specific circumstances.





# **SUSTAINABLE INVESTING: THE GROWING IMPORTANCE OF ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) CONSIDERATIONS IN PRIVATE EQUITY AND VENTURE CAPITAL INVESTMENTS**



**Ola  
Toba**

## Introduction

In recent years, the landscape of private equity (PE) and venture capital (VC) has undergone a significant transformation, driven by the growing importance of environmental, social, and governance (ESG) considerations.

This shift is not merely a trend but a fundamental change in how investments are evaluated, managed, and perceived.

### The rise of ESG in private equity and venture capital

Private equity and venture capital firms play a pivotal role in shaping the future of industries by channelling investments into businesses with high growth potential. Historically, the primary focus of PE and VC investments has been on financial returns. However, the increasing awareness of global challenges such as climate change, social inequality, and corporate governance scandals has led to a broader perspective on value creation. Investors are now recognizing that sustainable practices can drive long-term financial performance and mitigate risks.

Environmental considerations encompass a wide range of factors, including climate change, resource efficiency, and biodiversity. Social aspects cover issues such as labor practices, community engagement and human rights. Governance involves the structures and processes for decision-making, accountability and transparency. Together, these ESG factors provide a comprehensive framework for assessing the sustainability and ethical impact of investments.

### The business case for ESG integration

The integration of ESG considerations into investment strategies is not just about ethical responsibility; it is also a strategic approach to achieving superior financial performance. According to studies, companies with strong ESG performance tend to outperform their peers in the long run. This is because sustainable practices can lead to cost savings, enhanced brand reputation and improved operational efficiency.

For PE firms, incorporating ESG criteria enhances due diligence processes, identifies potential risks, and uncovers opportunities for value creation. By investing in companies that prioritize sustainability, PE firms can drive positive change while generating attractive returns for their investors. VC investors are also increasingly looking at ESG factors as a way to future-proof their portfolios. Startups and early-stage companies that embed sustainability into their business models are more likely to

attract top talent, secure partnerships, and gain market share. Moreover, as regulatory pressures and consumer preferences shift towards sustainability, these companies are better positioned to thrive in the evolving market landscape.

### Comprehensive risk management

The integration of ESG factors into the investment process provides a more comprehensive approach to risk management. ESG considerations enable investors to identify and evaluate a broader spectrum of risks that may not be immediately apparent through conventional financial analysis. This includes environmental risks like climate change, social risks such as labor practices, and governance risks including corporate ethics. Companies with strong ESG practices are often better at mitigating these risks, leading to more stable and sustainable long-term performance.

### Long-term value creation

ESG-focused companies are more likely to achieve sustainable growth by addressing environmental and social challenges, which can lead to long-term value creation. Additionally, companies with robust ESG practices are often more resilient to market fluctuations and external shocks, contributing to more consistent returns over time.

### Enhanced financial performance

Numerous studies have shown a positive correlation between strong ESG performance and financial returns. Companies with high ESG ratings often outperform their peers in the markets they operate in, granting them a social license to operate and reducing the risk of social conflicts. In terms of stock performance and profitability. Furthermore, implementing ESG practices can lead to cost savings through energy efficiency, waste reduction, and improved resource management.

### Regulatory compliance and avoidance of fines

The regulatory landscape is increasingly favoring ESG practices. Companies that proactively adopt ESG measures are better positioned to comply with regulations and avoid fines or sanctions. By staying ahead of regulatory changes, companies can future-proof their operations and reduce the risk of regulatory penalties.

### Investor demand and market trends

There is a growing demand from investors for ESG-

compliant investments. Institutional and individual investors are increasingly prioritizing ESG factors in their investment decisions.

ESG investing is becoming mainstream, with a significant increase in ESG-focused funds and investment products, driving further integration of ESG into the investment process.

### Reputation and brand value

Companies with strong ESG practices often enjoy a better reputation and brand value, leading to increased customer loyalty, attracting top talent, and stronger relationships with stakeholders. ESG practices help companies build trust and credibility with the communities they operate in, granting them a social license to operate and reducing the risk of social conflicts.

### Innovation and competitive advantage

ESG considerations can drive innovation by encouraging companies to develop sustainable products and services, adopt new technologies, and improve operational efficiencies. Companies that excel in ESG practices often gain a competitive edge in the market, attracting investors, customers, and partners who value sustainability.

### ESG as a differentiator

In a competitive investment environment, ESG considerations can serve as a key differentiator. Investors are increasingly demanding transparency and accountability from the companies they invest in. By demonstrating a commitment to ESG principles, PE and VC firms can build trust with their stakeholders and enhance their reputation. Furthermore, ESG integration can open up new avenues for fundraising. Institutional investors, such as pension funds, are placing greater emphasis on sustainable investing. By aligning their strategies with ESG criteria, PE and VC firms can attract capital from these sources and expand their investor base.

### Challenges and opportunities

Integrating ESG principles into private equity and venture capital investment strategies is increasingly essential for firms aiming to remain competitive and drive long-term value. However, the journey toward effective ESG integration presents unique challenges that require careful attention, planning, and adaptability.

One of the primary challenges is the lack of standardized

ESG frameworks and metrics. PE VC firms often struggle to measure and report ESG performance due to inconsistencies across industries and regions. This absence of universally accepted guidelines makes it difficult to compare ESG outcomes or set benchmarks, leaving firms to navigate a patchwork of reporting requirements. Initiatives such as the Sustainability Accounting Standards Board (SASB) are working towards creating more consistent and comparable ESG reporting standards. Another significant hurdle is data availability and quality. Verifying the credibility of ESG data can be resource-intensive, further complicating integration efforts. Reliable and comprehensive ESG data is often scarce, and when available, it may be inconsistent or outdated. This lack of high-quality data hampers the ability of PE and VC firms to make informed investment decisions.

Cultural resistance within firms and portfolio companies can also impede progress. Some businesses, particularly those accustomed to traditional performance metrics, view ESG as a compliance burden rather than an opportunity for value creation. Overcoming this mindset requires sustained education and leadership commitment to embed ESG into the firm's strategic vision. Many firms have long-standing practices and mindsets that prioritize short-term financial gains over long-term sustainability. Shifting these entrenched attitudes and fostering a culture that values ESG considerations can be a slow and challenging process. Financial considerations pose additional challenges.

While ESG investments often deliver long-term benefits, the upfront costs of transitioning to sustainable practices, such as adopting renewable energy or overhauling supply chains, can be prohibitive. Smaller portfolio companies and startups, in particular, may lack the resources to implement comprehensive ESG strategies. However, the long-term benefits, such as enhanced reputation, risk mitigation, and access to capital, can outweigh these initial expenses. Additionally, the perception that ESG considerations may compromise financial returns is increasingly being debunked by empirical evidence. In fact, ESG integration can enhance risk management and lead to more resilient investment portfolios.

Lastly, balancing the "E," "S," and "G" components poses its own set of difficulties. Firms may excel in environmental initiatives while lagging in social and governance areas, or vice versa. Achieving a holistic approach requires constant trade-offs and prioritization, which can create internal and external tensions.

Despite these challenges, ESG integration is critical for sustainable growth. PE and VC firms that proactively

address these obstacles are better positioned to build resilience, enhance stakeholder trust, and drive long-term success.

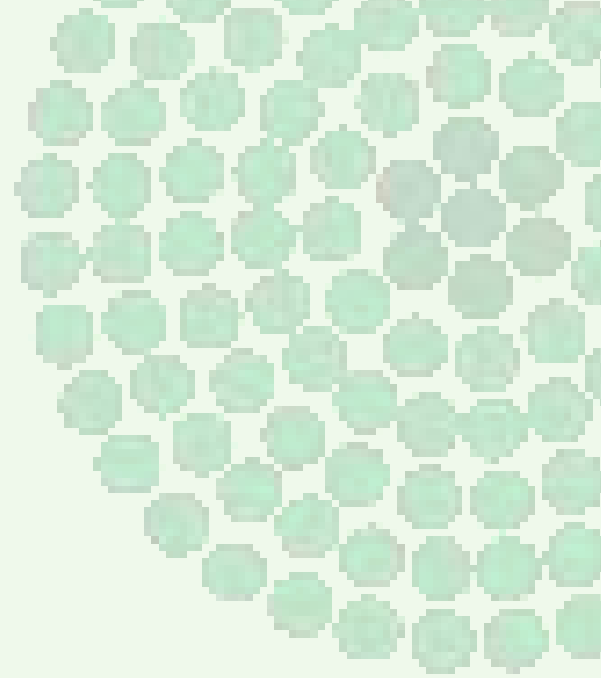
The role of ESG in PE and VC is no longer just a “nice to have”, it’s becoming a game-changer. As climate change accelerates, social inequalities persist, and resources grow scarcer, PE and VC firms are being called upon to do more than fuel growth. They’re now seen as critical players in driving sustainable innovation and global development.

The pressure to act responsibly is coming from all directions. Investors are looking beyond financial returns, demanding to know how their money is shaping the world. Regulators are tightening the screws with more rigorous ESG compliance requirements. And consumers, especially younger generations, are backing businesses that show genuine care for people and the planet. For PE and VC firms, this means success isn’t just about maximizing returns anymore; it’s about building value that lasts while addressing the world’s most pressing challenges.

What’s exciting is the sheer potential ESG brings to the table. PE firms are helping portfolio companies rethink their operations, cutting waste, adopting clean technologies, and building resilience for the future. VC investors are hunting for groundbreaking startups tackling everything from renewable energy and sustainable agriculture to ethical AI and inclusive Fintech. These aren’t just feel-good stories; they’re driving real business innovation and unlocking new markets.

Collaboration is also playing a key role in this transformation. Partnerships across industries and regions are creating collective solutions to global problems. The message is clear: no one can go it alone.

The future of PE and VC is more than financial success, it’s about proving that profit and purpose can thrive together. Firms ready to embrace ESG today will not just weather the changes ahead, they’ll lead them, shaping a world where businesses grow sustainably.



## **SUSTAINABLE FINANCE IN NIGERIA: A CASE FOR ITS DEVELOPMENT**



**Bukola  
Bankole**



**Ololade  
Agboola**

In a world beset by environmental, social, and economic challenges, it has become increasingly necessary for a realignment of common goals; one of these is the sustainability of the earth.

The financial sector holds enormous power in funding and bringing awareness to issues of sustainability, whether by allowing for research and development of alternative energy sources or supporting businesses geared towards sustainable development.

Sustainable finance represents a significant opportunity for financial institutions and government to reposition business models in line with customer expectations, evolving economic risks & challenges, and environmental, social and governance (ESG) standards driven by politics and society.

What we are trying to do here is to make a case for sustainable finance in Nigeria, taking into consideration our special needs as a people and as a country, exploring the opportunities the concept presents, and suggesting frameworks that will best suit our nation.

## Framework

Government support and a conducive regulatory framework are critical for the success of sustainable finance in Nigeria.

As an effort to developing a framework to guide sustainable finance, the Financial Services Regulation Coordinating Committee (FSRCC) developed the Nigerian Sustainable Finance Principles (NSFP). The NSFP focuses on the role financial services stakeholders play in facilitating economic prosperity and ensuring environmental sustainability and social development. These principles have been adopted by key regulators in the financial market including the Securities and Exchange Commission, Central Bank of Nigeria, and the Nigerian Exchange Group.

Nigeria's most prominent sustainable finance instruments have been green bonds and most recently, social bonds.

## The Future of Sustainable Finance

Sustainable finance has emerged as a powerful tool driving change in the global finance landscape. In an era when the world has united to combat common global problems like climate change, carbon emissions, waste management, and the green economy, one can only imagine that major investments in the coming years will be directed toward sustainable development. This will be both profitable for

investors and beneficial for the larger populace.

A key factor for consideration is a collaborative development of varied sustainable finance instruments leveraging on technology. The universe of sustainable digital finance solutions covers a broad spectrum of technologies including mobile payment platforms, crowdfunding, the internet of things (IoT) and big data. Examples of digital products that have been held to make sustainable finance even easier include Scandinavian start-up Trine, which links private sources of capital to distributed solar energy systems through sustainable loans in Africa.

Linked to this is the development of a localised ESG strategy. Financial institutions need to see past the ESG label and get to the deep issues of E, S and G metrics. Potentially, this would involve analysing ESG factors alongside financial metrics, to assess risks and potential returns and transparent reporting and disclosure practices in Nigeria. This will ensure the players are constantly monitored for the implementation of sustainable finance principles. These practices are central to sustainable finance.

## Sustainable Investment Opportunities

The inexhaustive list below can be said to present sustainable investment opportunities in Nigeria:

- a. **Clean Energy Systems:** The power sector in Nigeria presents significant opportunities due to high demand, driven by population growth and energy shortages. The potential for clean energy solutions is enhanced by falling technology costs and advancements in energy storage.
- b. **Sustainable Cities:** Sustainable urban development is crucial for addressing sustainability challenges. Cities face strain from rapid urbanization, but investments in areas like energy, transport, water, sanitation, housing, education, healthcare, and waste management can yield sustainable returns.
- c. **Agriculture and Sustainable Land Use:** Sustainable land use practices are gaining importance due to changing demographics, consumption patterns, and climate conditions. The agriculture sector can benefit from domestic production of currently imported crops and provide employment opportunities, particularly for women.
- d. **Healthcare and Education:** Nigeria's changing demographic trends, with a growing urban

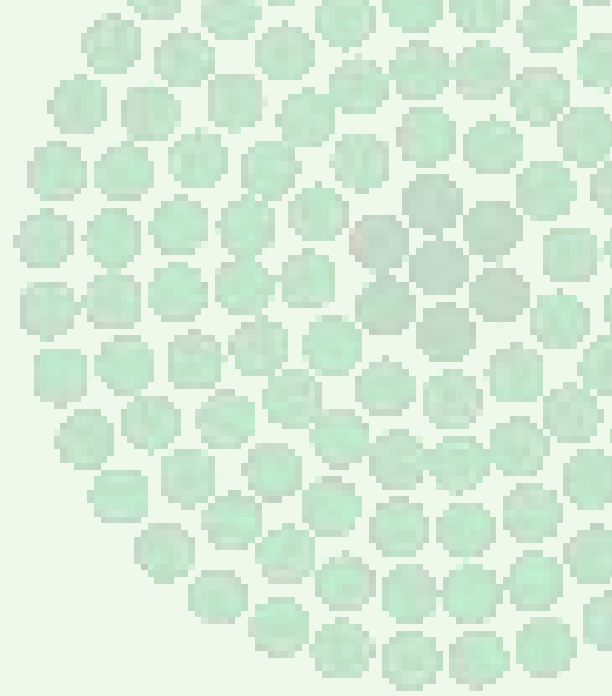
population, present opportunities in the healthcare and education sectors. Investment possibilities include improving tertiary healthcare infrastructure and data collection.

- e. **Transport:** Beyond urban transport, upgrading the railway network and efficient air and seaports are seen as opportunities for driving sustainability outcomes. Investments in sustainable infrastructure can have a positive economic impact.
- f. **Circular Economy:** Circular economy business models, focusing on resource efficiency, offer potential across various sectors in Nigeria. Such models aim to extend the use of resources and reduce waste.

Nigeria is at the forefront of moving to a sustainable future; however, current flows of sustainable finance in Nigeria, as in most countries globally, remain inadequate to capitalize on this opportunity. Our economy depends heavily on fossil fuels and as such, complete diversification of the economy is needed through adequate infrastructure, planned and executed without harming the environment.

Sustainable finance can help stimulate the growth of high-potential industries including renewable energy, transport, waste management and critical measures addressing climate adaptation and agriculture.

In the pursuit of fostering and promoting participation in the financing of a sustainable Nigerian economy, the government, regulators, and private stakeholders should develop relevant definitions and technically robust taxonomies for sustainable assets and financial products in Nigeria in response to the myriad of investment opportunities in Nigeria.



## **INVESTMENT STRUCTURING FOR TAX EFFICIENCY IN NIGERIA: STRATEGIES TO OPTIMIZE TAX OUTCOMES AND MITIGATE RISKS**



**Ajibola  
Olomola**



**Dayo  
Adeniji**



**Benedicta  
Onyeodi**



## **Introduction**

Investment and taxation are closely interlinked because tax considerations outline the investment outcome. In addition, understanding the relevant tax implications of an investment maximizes its benefits to the investor by offering opportunities that minimize risks.

Over the years, the taxation landscape in Nigeria has changed significantly, and further reforms are expected as the government pursues its drive for increased fiscal revenues. Within this evolving tax framework, opportunities exist for investors to structure their investments efficiently, leveraging available tax incentives and reliefs.

This article examines strategies for structuring investments to optimize tax outcomes across the entry, holding, and exit phases of investments.

## **Entry Phase**

### *Selecting the right Investment Strategies*

The right investment can help optimize returns while minimizing tax exposure in Nigeria. Therefore, investors should identify suitable asset classes and adopt structures that align with their financial goals and tax strategies. An equity investment involves the purchase of shares or ownership interests in companies. Under certain conditions, these may be considered tax-efficient investments. For instance, dividends from equity may be entitled to reduced withholding tax rates under the Double Taxation Agreements (DTAs) with countries such as China and South Africa<sup>33</sup>. Also, capital gains arising from the disposal of shares in Nigeria are exempt from CGT, provided the aggregate of consideration received from the disposal of assets does not exceed ₦100 million in a year, or where the consideration on disposal is reinvested in the acquisition of shares in the same year of assessment. Debt investments, on the other hand, generate returns through interest payments. These can also be tax-efficient, provided they are structured appropriately.

Furthermore, investment mechanisms such as Real Estate Investment Trusts (REITs) and Special Purpose Vehicles (SPVs) offer tax advantages. For example, REITs enjoy exemptions on dividend and rental income, provided they distribute at least 75% of their earnings annually, as stipulated by the Finance Act

2019. SPVs, on the other hand, serve as flexible tools for isolating and managing investments while enabling strategic tax planning, such as optimizing withholding tax or capital gains exposure.

Also, leveraging tax incentives such as Pioneer Status (which offers tax holidays in eligible sectors) or setting up operations in Free Trade Zones can further enhance tax efficiency. By carefully evaluating these options and structuring investments accordingly, investors can maximize returns, mitigate risks, and navigate Nigeria's complex tax landscape effectively.

## **Double Taxation Treaties (DTTs)**

Foreign investors seeking periodic returns through dividends or interest must consider the availability of Double Taxation Treaties (DTTs) between Nigeria and their home country. In Nigeria, withholding taxes (WHT) on investment returns are typically 10%, but some DTTs provide reduced rates. These treaties also prevent double taxation on the same income in both Nigeria and the investor's home country. Nigeria has DTTs with countries such as Belgium, Canada, China, Czech Republic, South Africa, France, Spain, Singapore, and Sweden, among others<sup>34</sup>.

DTTs offer robust provisions for tax efficiency, making it beneficial for foreign investors to stage their investments through vehicles in jurisdictions that have treaties with Nigeria. This strategic approach minimizes tax burdens and optimizes returns by leveraging the favourable tax rates and provisions in these treaties, ensuring a more efficient and cost-effective investment process.

## **Utilizing Special Purpose Vehicles (SPVs)**

In structuring investments for tax efficiency in Nigeria, Special Purpose Vehicles (SPVs) are often used to ring-fence financial and tax risks. SPVs, as standalone entities created for specific projects or investments, allow investors to isolate financial risks associated with a particular venture from the parent company's operations. This structure protects the parent company's financial health while enabling strategic tax planning. SPVs are particularly useful in cross-border investments, as they provide access to jurisdictions with favourable tax regimes. By ring-fencing investments, SPVs help limit exposure to liabilities and risks beyond the scope of the specific project or

<sup>33</sup> [FIRS terminates uniform WHT rate for residents of treaty countries](#)

<sup>34</sup> [FIRS - Tax treaties](#)

business activity, making them a key tool for effective risk management.

### **Debt vs. Equity Investment**

The choice between investing through debt or equity carries distinct tax implications that are critical to consider during the initial phase of an investment. Debt financing may be more advantageous due to the tax savings associated with the deductibility of interest payments. Additionally, foreign investors providing loans can benefit from tax exemptions on interest income if they grant a moratorium period, during which the borrower is not obligated to make interest payments. These exemptions, as outlined in the third schedule of the Company Income Tax Act (as amended), can range from 10% to 70%, depending on the loan's repayment terms, including the moratorium.

Despite these advantages, inadequate planning of debt structures can lead to financial distress, potentially jeopardizing the investment. Therefore, adopting a balanced capital structure that strategically combines debt and equity is essential for mitigating financial risks while optimizing tax outcomes.

### **Holding Phase**

At the holding phase of investment, in addition to optimizing tax outcomes, ongoing compliance with relevant tax obligations becomes paramount. Non-compliance with tax obligations can lead to penalties, reputational damage, and operational disruptions.

Key compliance measures include registering with relevant tax authorities and obtaining a Tax Identification Number (TIN), timely payment of taxes, filing tax returns, and maintaining comprehensive records of financial transactions, such as invoices, receipts, and tax payment proofs. Investors may also enhance compliance by leveraging available tax digital tools and systems. As an upgrade to the existing TaxProMax system being utilized by the tax authority, the Federal Inland Revenue Service aims to introduce Tax Account Codes (TACs) from 1 January 2025 to streamline the filing and review of tax returns. TACs are unique codes assigned to items in financial statements, enabling systematic categorization of revenues, costs, assets, and liabilities for efficient tax administration<sup>35</sup>.

An investor may enjoy various tax incentives such as

Pioneer Status Incentives (PSI) and other sector-specific incentives accessed at the entry phase of investment during the holding phase. For PSI, companies in eligible sectors such as agriculture, manufacturing, and mining, among others, can enjoy up to three years of corporate income tax (CIT) exemption, which may be subject to a renewal period of an additional two years. Investors in gas projects are entitled to a Gas Tax Credit for a maximum of 10 years<sup>36</sup>. Investors may leverage the service of qualified tax experts to ensure ongoing compliance at the holding phase of investments and to navigate changes in the tax laws, especially amidst the ongoing tax reforms.

### **Exit Phase**

The exit phase is a critical stage in an investment lifecycle, as it involves the realization of an investment that has been nurtured over the years. The tax implications associated with transactions during this phase can significantly impact the returns investors realize. As such, proper planning and strategic use of tax benefits are crucial for minimizing tax exposure while ensuring compliance with relevant tax and regulatory requirements.

### **Capital Gains Tax (CGT) Considerations at Exit**

A primary tax consideration for investors at the exit phase is the Capital Gains Tax (CGT), which is charged at 10% on the disposal of chargeable assets, including shares. Investors can mitigate CGT liability on the disposal of shares by reinvesting the proceeds into another Nigerian company within 12 months, thus deferring the tax obligation.

Additionally, following the disposal of investments, investors may repatriate funds to their home country. However, this repatriation may attract additional taxes in the investor's home country if no Double Taxation Treaty (DTT) exists between Nigeria and the investor's home country. Ensuring tax efficiency during repatriation is, therefore, a key consideration for cross-border investors.

### **Foreign Exchange (FX) Risks and Challenges at Exit**

Beyond taxes, a significant concern for foreign investors at the exit phase is the management of foreign exchange (FX) risks and the bottlenecks associated with the repatriation of funds from Nigeria.

<sup>35</sup> [Digitizing Tax Administration In Nigeria With The Introduction Of Tax Account Codes](#)

<sup>36</sup> [Oil and Gas Companies \(Tax Incentives, Exemption, Remission, etc.\) Order, 2024](#)

The FX regime, as regulated by the Central Bank of Nigeria, has faced significant challenges in ensuring smooth repatriation processes, particularly in recent years, evidenced by the scarcity of FX and substantial FX losses recorded by companies. These challenges require proactive planning. Investors should consider hedging techniques or financial instruments, such as forward contracts or options to lock in favourable exchange rates and mitigate the impact of currency fluctuations.

Practical inefficiencies in the FX market, including restrictions on dollar availability and cumbersome administrative procedures, further exacerbate these risks. While the Nigerian foreign investment regime, through the issuance of Certificates of Capital Importation (CCIs), provides a framework for repatriation, accessing FX remains challenging. Investors are often forced to leave funds in naira for extended periods, exposing them to devaluation risks.

The introduction of the Electronic Foreign Exchange Matching System (EFEMS)<sup>37</sup>, effective 1 December 2024, by the Central Bank of Nigeria (CBN), aims to address these challenges. This system is expected to promote the real-time reflection of FX transactions and improve the alignment of foreign exchange deals, minimizing discrepancies in the FX market. Although EFEMS may not fully eliminate currency volatility, it is likely to create a more efficient and predictable FX environment, contributing to greater confidence among foreign investors. By providing enhanced transparency and improving access to foreign currency, EFEMS will make it easier for investors to repatriate funds, helping mitigate risks associated with currency devaluation. In combination with ongoing regulatory reforms, the system could ease and stabilize the repatriation process, offering foreign investors a more efficient and smooth mechanism for moving funds in and out of Nigeria.

### **Liquidation and Cessation of Business**

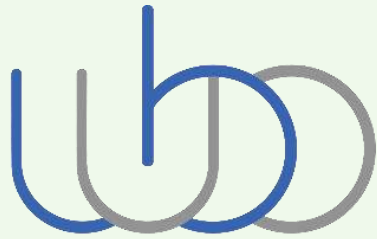
In the event of liquidation, investors are required to notify the Federal Inland Revenue Service (FIRS), pay any outstanding taxes, and file cessation returns. During this phase, the FIRS may conduct a cessation audit to verify that all tax obligations have been met. Maintaining proper documentation, such as invoices, tax remittances, and financial statements, can minimize the risk of tax exposure and strengthen the company's position during audits or regulatory reviews. Investors may also engage experienced tax

advisors to navigate potential audits and resolve disputes effectively. In case of disagreements, Alternative Dispute Resolution (ADR) methods, such as mediation and arbitration, may offer quicker resolutions than traditional legal processes.

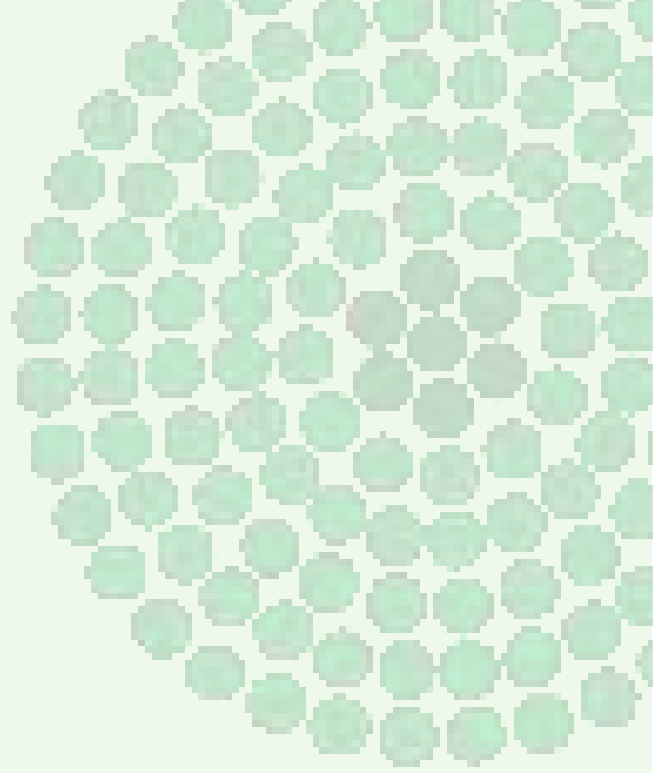
### **Conclusion**

Tax-efficient investment structuring is essential for maximizing returns from investments carried on in Nigeria. By carefully structuring of the entry, holding, and exit phases of investments, investors may leverage available tax incentives, reliefs and optimal investment structures. In the entry phase, evaluating tax exemptions, double taxation treaties, and amongst others lays a strong foundation for tax efficiency. During the holding phase, maintaining ongoing compliance with tax obligations while utilizing technology and engaging tax experts will assist investors in streamlining tax administration. At the exit phase, strategic planning around capital gains tax, repatriation, and foreign exchange risks is critical to protecting returns. By considering these areas, investors may effectively navigate Nigeria's tax system, mitigate potential risks, and ensure sustainable success and growth throughout the life cycle of their investments.

<sup>37</sup> [CBN introduces electronic matching system for FX transactions](#)



**UDO UDOMA &  
BELO-OSAGIE**



## **TAX CONSIDERATIONS FOR PRIVATE EQUITY INVESTMENTS IN NIGERIA: UNLOCKING OPPORTUNITIES AND INSIGHTS**



**Lolade  
Ososami**



**Solomon  
Adegboyo**



**Tochukwu  
Nwankwo**

## Introduction

Private equity (“PE”) in Nigeria continues to thrive, with the country solidifying its position as one of Africa’s leading destinations for investment. Despite economic challenges, including inflation, exchange rate volatility, and the removal of fuel subsidies, the sector demonstrated remarkable resilience in 2024. The first quarter alone saw a 321.8% surge in PE investments, underscoring its role as a critical driver of alternative funding for start-ups and established businesses alike.

For foreign private equity funds (“PEFs”), which predominantly structure transactions through acquisitions of shares or other securities in Nigerian companies, understanding the local tax landscape is critical. While Nigerian laws guarantee the repatriation of investment returns for foreign investors, the tax framework imposes obligations such as withholding taxes (“WHT”) on dividends and interest. Additionally, the volatile foreign exchange (“FX”) environment presents unique challenges, particularly regarding the tax treatment of FX gains and losses, which directly impacts profitability and compliance.

This article explores key tax considerations for PE investments in Nigeria, offering actionable insights into navigating the evolving tax landscape. It examines recent reforms, including the 2024 Withholding Tax Regulations, the FIRS Circular on FX transactions, and proposed legislative changes for 2025. For fund managers and advisors, this analysis highlights opportunities for deal structuring, compliance strategies, and optimising investment returns.

## Managing FX Gains and Losses

With many portfolio companies massively impacted by Nigeria’s FX volatility and crisis following the liberalisation of the market in 2023, increased attention has been drawn to the tax treatment of FX transactions.

The Federal Inland Revenue Service (“FIRS”) Circular issued on June 24, 2024, titled “Tax Treatment of Foreign Exchange Transactions,” (the “Circular”) provides clarity on how FX gains and losses are taxed in Nigeria. It addresses a key concern for PEFs managing the FX liquidity of portfolio companies, especially considering Nigeria’s volatile FX environment.

**a. Unrealised FX Gains and Losses:** The Circular stipulates that unrealised FX gains and losses—arising from the revaluation of foreign currency items for accounting purposes—have no tax implications. The Nigerian Naira has been facing severe devaluation

pressures, which exposes PEFs to losses when converting Naira to foreign currencies like USD or EUR.

The Circular’s clarification of the tax treatment of unrealised FX gains and losses offers stability for PE investors, as fluctuations in FX rates without actual cash transactions do not affect the tax position and obligation of portfolio companies.

**b. Realised FX Gains and Losses:** Conversely, realised FX gains and losses, which result from actual cash transactions, do have direct tax implications. Realised FX gains are taxable under the Companies Income Tax (CIT) framework, while realised FX losses are deductible as expenses, affecting portfolio company’s operational cost and profitability. Hence, portfolio companies are to ensure that realised gains and losses are appropriately treated in arriving at their assessable profits.

For example, a PE firm invests \$10 million in a portfolio company in Nigeria in 2020 at an exchange rate of NGN360/USD. In 2024, the portfolio company declares a dividend of NGN1 billion, with the PE firm entitled to NGN400 million. By this time, the exchange rate has depreciated to NGN750/USD.

The depreciation of the Naira has reduced the dollar value of the dividends, thereby eroding the PE firms’ returns. However, the realised FX loss would be deductible under CIT, providing some relief to the company.

**c. Monetary Items and Hedging:** Gains and losses on monetary items (e.g., foreign-denominated receivables) are treated as realised differences, either taxable or deductible, for income tax purposes. For hedging, the tax treatment depends on the underlying item and is deferred until the hedge is realised. This underscores the importance of structuring hedging strategies carefully to manage FX risk and tax exposure effectively.

PE investors may use different hedging transactions, such as forwards, put and call options, and swaps, to mitigate or manage the risk of exchange rate fluctuations. Any foreign exchange difference arising from the hedging transactions will not be treated as taxable or deductible until the hedged transaction is settled.

**d. Documentation and Compliance:** The Circular emphasises robust documentation, with portfolio

companies required to keep detailed records of all foreign currency transactions, stating the dates, amounts, counterparty(ies) or applicable exchange rates. Companies must segregate FX gains and losses by business lines and applicable tax regimes while ensuring accurate reconciliations in tax filings. This places an obligation on PEFs to ensure that portfolio companies maintain adequate records of all FX transactions. While the Circular did not specify the format of the documentation and returns required, each portfolio company should ensure it maintains adequate documentation in the event of a tax audit or investigation.

## Managing Withholding Tax Compliance

The Withholding Tax (WHT) Regulations 2024 (the "Regulations") seek to simplify the administration of WHT, promote ease of compliance, unify deduction rules under various tax laws, and introduce new rates and exemptions.

**a. Streamlined Rates and Expanded Obligations:** The Regulations provide reduced WHT rates for specific services, such as management fees for corporate residents (reduced to 5%). This is a welcome development for private equity fund managers during the investment period. A lower WHT rate does not only reduce the tax burden of fund managers, but it also increases their net income and frees up resources for reinvestment into operational efficiency or deal sourcing, which can enhance overall fund performance.

The Regulation maintains existing rates of 10% for dividends and interest payments to residents and non-residents. While the rates remain the same for both dividends and interest payments, there are other relevant considerations that PE fund managers must consider in choosing a fund structure. For instance, interest on foreign loans attracts a tax exemption of up to 70% provided it meets the requirement for the loan repayment period (including a moratorium) and grace period as stipulated in the Third Schedule to Companies Income Tax Act ("CITA"). On the other hand, equity investment also presents itself as a tax-efficient source of investment because of the various tax exemptions and incentives for equity investments ranging from tax holidays, pioneer status incentive, accelerated capital allowances, gas utilisation incentives, incentives for venture capital companies, etc.

Foreign PEFs must also ensure compliance with new tax identification number ("TIN") requirements, as

payees without a TIN face double WHT deductions. While this promotes transparency in tax reporting and regulatory oversight, foreign PEFs may face additional administrative tasks, such as engaging local tax advisors or representatives for registration and navigating Nigerian tax laws to comply with local WHT rules. For funds unfamiliar with Nigerian regulations, these steps can increase operational complexity.

**b. Strategic Considerations:** The harmonisation of WHT rates reduces uncertainties, administrative complexity, and compliance costs, thereby, benefiting PEFs. It also reduces regulatory risks, as a uniform tax rate minimises errors, disputes, and potential penalties during tax audits.

The harmonisation of WHT rates can enable foreign PEFs to optimise their tax position by leveraging Nigeria's extensive double tax treaties, which may provide lower WHT rates on dividends and interest payments.

Notably, directors' fees for residents and non-residents now attract a WHT rate of 15% and 20% respectively, except where reduced by a double tax treaty. This directly increases the cost of board operations. For resident directors, a 15% deduction on their fees reduces their net income, potentially necessitating higher gross compensation to attract and retain skilled and competent directors. For non resident directors, the higher 20% rate makes it more expensive to appoint foreign directors, which can impact PEFs that rely on international expertise.

A foreign PEF appointing a Nigerian director should evaluate treaty benefits to reduce the 20% WHT on directors' fees. Fund managers should also assess whether specific services provided by portfolio companies qualify for reduced WHT rates.

**c. Exempted transactions:** The Regulations list thirteen types of transactions exempted from WHT deduction. This reduces certain tax burdens, which can enhance operational efficiency and improve returns on investment for PEFs. For instance, out-of-pocket exemption ensures reimbursable expenses are not subject to WHT, thereby reducing cash flow disruption.

Furthermore, PEFs targeting energy infrastructure or related industries may benefit from the exemption for the supply of energy products (e.g., Liquefied Petroleum Gas (LPG), Compressed Natural Gas (CNG), Petroleum Motor Spirits (PMS), Automotive Gas Oil

(AGO)). This could make investments in renewable energy and oil and gas more attractive to private equity investors.

The exemption of any distribution or dividend payment to a Real Estate Investment Trust (REIT) from WHT makes the real estate sector more tax-efficient. It enhances the appeal of REIT investments as the elimination of tax on dividends increases net returns.

- d. Implementation and commencement:** The effective date of the Regulations is 30 September 2024, while implementation will take effect from 1 January 2025. The Regulations empower relevant tax authorities, with the approval of the Minister of Finance, to issue guidelines for the effective implementation of the Regulations as well as prescribe the modalities permitting early application from 1 July 2024. Pursuant to this, the FIRS issued a public notice on 3 October 2024 stating that the Regulations will take effect from 1 January 2025 and that the Companies Income Tax (Rates, etc., of Tax Deducted at Source (Withholding Tax)) Regulations, 1997 remains in force up until 31 December 2024.

The distinction between the effective date and implementation date has notable implications for PEFs in Nigeria. It provides PEFs and their portfolio companies with additional time to understand the new regulations and their impact on their investments, update their tax and financial systems, and seek professional guidance on how to structure transactions and leverage the provisions of the Regulations.

The gap between the two dates could also influence the timing of PE transactions. For instance, PEFs may expedite deals or payments before 1 January 2025 to avoid the impact of higher WHT rates, and conversely, PEFs may delay certain deals to take advantage of the exemptions or reduced rates that will apply under the Regulations. The gap may, however, create ambiguity for transactions straddling 2024 and 2025, requiring active engagement with tax advisors on how to navigate the transition seamlessly.

### Outlook for 2025: Preparing for Change

On 3 October 2024, President Bola Ahmed Tinubu transmitted the Tax Reform Bills to the National Assembly for passage into law. The Tax Reform Bills, comprising the Nigeria Tax Bill, Nigeria Revenue Service (Establishment)

Bill, Nigeria Tax Administration Bill and Joint Revenue Board (Establishment Bill), aims to provide a unified fiscal legislation governing taxation in Nigeria in order to facilitate improved tax compliance by taxpayers.

The Tax Reform Bills aim to reshape Nigeria's tax framework, creating both challenges and opportunities for PE investors and PEFs.

- a. **Simplified tax structure:** The Nigeria Tax Bill ("NTB") outlines all taxes in the country that are currently administered by different laws and consolidates them into a single simplified law, thereby reducing administrative burdens. This simplification could ease compliance costs for PEFs and portfolio companies, making operations more efficient and encouraging further investments. For instance, a PE firm managing multiple portfolio companies could save time and resources on compliance, reallocating them to growth-focused activities.
- b. **Corporate income tax (CIT) reduction and harmonisation of deductions:** Section 56 of the NTB gradually reduces the CIT rate from 30% to 27.5% and 25% in 2025 and 2026 years of assessment, respectively. Lower tax rates increase the after-tax returns for portfolio companies, making Nigeria more attractive for PE investors.

Furthermore, the NTB seeks to harmonise all the special deductions on companies' profit<sup>38</sup> into a single development levy that is expected to progressively decline from a rate of 4% in 2025 and 2026 assessment years to 2% in 2030. The harmonisation does not only simplify tax compliance for PEFs and portfolio companies, but the progressive decline in the levy also incentivizes long-term investments by PE firms, as reduced rates in later years enhance overall profitability. For instance, a PE firm planning a 5-year investment horizon for a renewable energy project could realise higher returns by benefitting from the reduced levy in the latter part of the period.

- c. **Expanded benefits for small and medium enterprises ("SMEs"):** The NTB redefines small company to mean a company that earns gross turnover of N50m or less per annum with total fixed assets not exceeding N250m. This allows a higher number of startups and early-stage companies (often key targets for PE funding) to qualify for exemption from various taxes including CIT, development levy,

<sup>38</sup> These are currently Tertiary Education Tax, National Agency for Science and Engineering Infrastructure Levy, National Information

Technology Development Fund Levy, and Nigerian Education Loan Fund.

and VAT. Such exemptions can boost the profitability and growth prospects of these companies. For instance, a PE firm investing in a tech startup could benefit from the reduced tax burden, enabling the company to reinvest more capital into scaling operations.

**d. Sector-specific tax incentives and opportunities:**

The NTB sets out priority sectors such as infrastructure, healthcare, mining and quarrying, renewable energy, amongst many others, which enjoy a wide range of tax incentives. Furthermore, the NTB imposes zero VAT on exports and essential goods like basic food items, medical services, and equipment which could promote investment in these sectors. PE funds focusing on these industries could leverage these incentives to enhance after-tax returns. For instance, a PE firm could acquire and scale a local agribusiness focused on food exports, leveraging tax savings to improve margins and competitiveness in global markets. Structuring deals to qualify for these incentives would require proactive tax planning and engagement with local advisors.

**e. Exemption from tax on disposal of shares:** The NTB exempts gains accruing on the disposal of shares in any Nigerian company from tax where the aggregate disposal proceeds are less than NGN150m and the chargeable gain does not exceed NGN10m in any 12 consecutive months, or the shares are transferred between an Approved Borrower and a Lender in a regulated Securities lending transaction.

PE firms often invest in companies with plans to exit through share disposal. This exemption reduces the tax on gains for smaller deals. However, larger investments and exits exceeding the threshold will be subject to tax, possibly prompting firms to consider holding periods or alternative tax planning mechanisms to minimise tax exposure.

**Actionable Insights for PE Investors: Mitigating Risks and Unlocking Opportunities**

**Navigating FX Challenges:** The FX Circular highlights the importance of FX risk management. PE funds should implement robust hedging strategies and ensure compliance with documentation requirements to avoid penalties. Leveraging realised FX losses on revenue transactions can also provide tax relief for portfolio companies.

**Adapting to WHT Regulations:** The 2024 WHT Regulations underscore the need for foreign PEFs to

register for TINs and review their tax compliance frameworks. Fund managers should engage with tax advisors to optimize WHT positions, especially in treaty jurisdictions.

**Aligning with Legislative Reforms:** PE funds must stay ahead of proposed reforms by identifying sectors poised for growth under the new incentives. This includes aligning investment strategies with priority industries such as technology and healthcare to maximise returns.

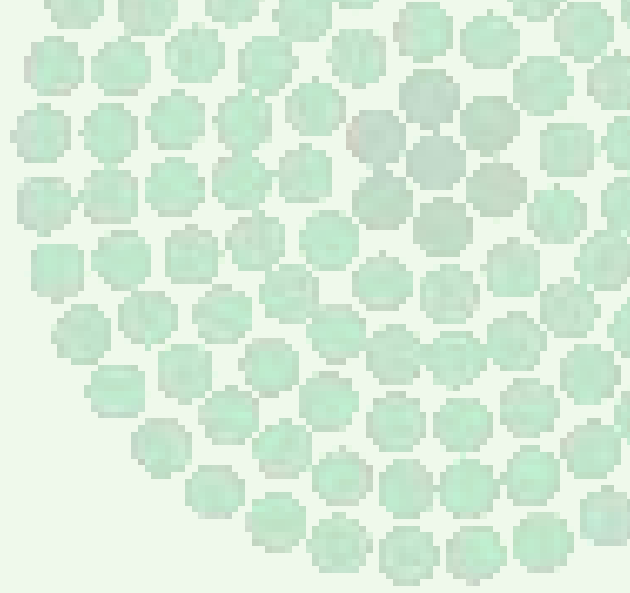
**Conclusion**

Nigeria's evolving tax system presents both challenges and opportunities for Private Equity investors. The 2024 WHT Regulations and the FX Circular provide greater clarity on compliance requirements but also demand careful planning to navigate complexities. Looking ahead, proposed legislative reforms for 2025 offer a window of opportunity for PE funds to align with incentivized sectors and optimise their tax positions.

For foreign PEFs, success will depend on proactive engagement with tax advisors, strategic deal structuring, and robust compliance frameworks. By leveraging the insights outlined in this article, PE investors can not only mitigate risks but also unlock significant value in Nigeria's dynamic investment environment.

For more information or tailored advice, contact the Tax and Private Equity teams at [Udo Udoma & Belo-Osagie](#)





## **SUSTAINABLE INVESTING IN PE AND VC: HOW ESG CONSIDERATIONS SHAPE THE FUTURE OF INVESTMENT**



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## Introduction

Sustainable investing integrates environmental, social, and governance (ESG) factors into investment strategies alongside traditional financial criteria. The Global Sustainable Investment Alliance (GSIA)<sup>39</sup> and European Sustainable Investment Forum (Eurosif)<sup>40</sup> define it as an approach that incorporates ESG considerations to achieve long-term returns while influencing corporate behaviour and benefiting society. Across definitions, there is an emphasis on integrating ESG principles into decisions related to security selection, portfolio management and research.

The core of sustainable investing lies in three pillars:

- **Environmental:** Addressing a company’s ecological footprint, including climate change, pollution, and biodiversity management.
- **Social:** Evaluating a company’s impact on its stakeholders and community.
- **Governance:** Promoting ethical leadership and robust governance to ensure transparency and accountability.

For Nigeria, sustainable investing is particularly relevant as the country tackles climate change, social inequality, and governance challenges. By directing capital toward ESG-aligned businesses, investors can drive economic growth while addressing renewable energy adoption, poverty alleviation, and corporate accountability, offering both financial returns and societal progress.

<sup>39</sup> Global Sustainable Investment Alliance, *Global Sustainable Investment Review 2018* (2019) [http://www.gsi-alliance.org/wp-content/uploads/2019/06/GSIR\\_Review2018F.pdf](http://www.gsi-alliance.org/wp-content/uploads/2019/06/GSIR_Review2018F.pdf) accessed 24 November 2024.

<sup>40</sup> Eurosif, *European SRI Study 2018* (October 2018) <https://www.eurosif.org/wp-content/uploads/2021/10/European-SRI-2018-Study.pdf> accessed 22 November 2024.

<sup>41</sup> Capital Group, *ESG Global Study 2024* (2024) <https://www.capitalgroup.com/eacg/esg/en/esg/capital-group-esg-global-study-2024.html> accessed 24 November 2024

<sup>42</sup> Funds Society, ‘The Future of Sustainability: 85% of Investment Professionals Take into Account ESG Factors’ (7 December 2024) <https://www.fundssociety.com/en/news/business/the-future-of-sustainability-85-of-investment-professionals-take-into-account-esg-factors-2/> accessed 22 November 2024.

<sup>43</sup> European Union, *Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the Establishment of a Framework to Facilitate Sustainable*

## The Rising Demand for ESG in Private Equity and Venture Capital

Over the past decade, ESG considerations have become central to investment strategies, moving from a “nice-to-have” to a “must-have”. By mid-2024, nearly 90% of global investors incorporated ESG criteria into their decision-making,<sup>41</sup> compared to 85% in 2020.<sup>42</sup>

This shift is fuelled by a number of factors including regulatory frameworks like the Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the Establishment of a Framework to Facilitate Sustainable Investment (EU Taxonomy Regulation)<sup>43</sup> and the Nigerian Securities and Exchange Commission’s (SEC) Guidelines on Sustainable Financial Principles, 2021,<sup>44</sup> which encourage ESG transparency and accountability.

Millennials and Gen Z, who prioritise sustainability and ethical investment, are also key drivers of this trend. Institutional investors such as pension funds and sovereign wealth funds are responding to these preferences, driving capital toward ESG-compliant assets.<sup>45</sup> Leading firms like Kohlberg Kravis Roberts & Co. L.P (KKR) and Blackstone Inc. have embraced this evolution, with KKR’s \$1.3 billion Global Social Impact Fund targeting businesses addressing social and environmental challenges,<sup>46</sup> while Blackstone has committed to cutting emissions in new acquisitions by 15%.<sup>47</sup>

In Nigeria, ESG integration is gaining momentum, though it is still in its formative stages. Regulatory bodies like the

*Investment* [2020] OJ L198/13 <http://data.europa.eu/eli/reg/2020/852/oj> accessed 22 November 2024.

<sup>44</sup> Nigerian Securities and Exchange Commission, *Guidelines on Sustainable Financial Principles for the Nigerian Capital Market* (May 2021) [https://www.sec.gov.ng/wp-content/uploads/2021/05/SEC-Guidelines-on-Sustainable-Financial-Principles-for-the-Capital-Market\\_Final.pdf](https://www.sec.gov.ng/wp-content/uploads/2021/05/SEC-Guidelines-on-Sustainable-Financial-Principles-for-the-Capital-Market_Final.pdf) accessed 24 November 2024.

<sup>45</sup> Pensions & Investments, ‘ESG Moves Up on Sovereign Wealth Funds’ Priority List’ (13 February 2023) <https://www.pionline.com/sovereign-wealth-funds/esg-moves-sovereign-wealth-funds-priority-list> accessed 22 November 2024.

<sup>46</sup> Kohlberg Kravis Roberts & Co. L.P, *Global Impact Fund Disclosure Statement 2023* (2023) <https://www.kkr.com/content/dam/kkr/disclosures/kkr-global-impact-fund-disclosure-statement-2023.pdf> accessed 22 November 2024.

<sup>47</sup> Blackstone Inc., *2023 TCFD Report* (June 2024) <https://www.blackstone.com/wp-content/uploads/sites/2/2024/06/2023-BX-TCFD-Report.pdf> accessed 22 November 2024.

Nigerian SEC and the Nigerian Exchange are advocating for sustainability through the implementation of guidelines on ESG reporting.<sup>48</sup> In March 2024, the Adoption Readiness Working Group (ARWG) for Sustainability Reporting, established by the Financial Reporting Council of Nigeria (FRC) developed a Roadmap Report for the Adoption of IFRS Sustainability Disclosure Standards in Nigeria.<sup>49</sup> The Nigerian government on its part, has also shown active support for sustainable investing, evident from the endorsement of the Nigerian Wholesale Impact Investment Fund (WIIF) in May 2023, accompanied by a commitment to provide 50% seed capital.<sup>50</sup> Local PE and VC firms are also increasingly incorporating ESG considerations into their investment strategies, often requiring portfolio companies to align with global ESG standards.

### The Business Case for ESG in PE and VC

The financial rationale for ESG integration is increasingly evident. Studies show that companies with strong ESG metrics outperform their peers, with annual returns exceeding market averages by up to 3%.<sup>51</sup> For PEs and VCs, this translates to stronger portfolio valuations, more successful exits, and greater appeal to sustainability-focused institutional backers.

In addition to boosting performance, ESG integration enhances risk management. Companies addressing environmental and social challenges proactively avoid penalties, regulatory scrutiny, and reputational harm. Governance practices reduce the risk of leadership crises and operational disruptions, offering a dual advantage in

managing volatile markets and regulatory uncertainty. This is reflected in investor sentiment, with 87% of PE professionals reporting that ESG considerations reduce investment risks.<sup>52</sup>

ESG-driven companies consistently attract and retain top talent, with employees in purpose-driven organizations reporting higher engagement and satisfaction.<sup>53</sup> These firms also gain access to competitive funding sources such as green bonds and sustainability-linked loans, which offer financial advantages.<sup>54</sup> Companies emphasizing social responsibility enjoy stronger customer loyalty, building long-term brand equity and market differentiation<sup>55</sup>. Together, these benefits demonstrate that ESG integration is both a financial and reputational asset.

For some investors, ESG integration is not merely about adhering to ethical standards; it is a strategy for achieving sustainable, long-term growth. By embedding ESG principles into their operations, PE and VC firms create value that extends beyond financial returns.

### Key ESG Trends in PE and VC

ESG factors are reshaping investment priorities in PE and VC. Globally and in Nigeria, several key trends illustrate how ESG principles are influencing investment strategies and driving innovation.

One prominent trend is the growing focus on climate action. Globally, PE and VC firms are increasingly channelling capital into renewable energy projects, energy efficiency technologies, and carbon reduction initiatives. In

<sup>48</sup> Securities and Exchange Commission, *Guidelines on Sustainable Financial Principles for the Nigerian Capital Market* (2021); The Nigerian Exchange, *Sustainability Disclosure Guidelines* (2018) <https://www.incsr.org/wp-content/uploads/2018/12/Sustainability-Disclosure-Guidelines.pdf> accessed 22 November 2024

<sup>49</sup> Financial Reporting Council of Nigeria, *Sustainability Roadmap* (March 2024) <https://frcnigeria.gov.ng/wp-content/uploads/2024/07/FINAL-COPY-OF-SUSTAINABILITY-ROADMAP1.pdf> accessed 22 November 2024.

<sup>50</sup> Nike Popoola, 'FG to Provide 50% Capital to Facilitate \$1bn Investment Fund' *Punch* (Lagos, 20 November 2024) <https://punchng.com/fg-to-provide-50-capital-to-facilitate-1bn-investment-fund/> accessed 22 November 2024.

<sup>51</sup> **Kroll**, 'Kroll Study Shows Stronger Investment Returns in Companies With High ESG Ratings' (13 September 2023) <https://www.kroll.com/en/about-us/news/kroll-study-shows-stronger-investment-returns-companies-high-esg-ratings> accessed 22 November 2024.

<sup>52</sup> Ernst & Young, 'ESG in Private Equity: Marketing Tool or Value Driver?' (EY, 20 September 2022) [https://www.ey.com/en\\_lu/insights/private-equity/esg-in-private-equity-marketing-tool-or-value-driver#:~:text=Investors%2C%20asset%20managers%20and,on%20people%20and%20the%20environment](https://www.ey.com/en_lu/insights/private-equity/esg-in-private-equity-marketing-tool-or-value-driver#:~:text=Investors%2C%20asset%20managers%20and,on%20people%20and%20the%20environment) accessed 22 November 2024.

[private-equity-marketing-tool-or-value-driver#:~:text=Investors%2C%20asset%20managers%20and,on%20people%20and%20the%20environment](https://www.ey.com/en_lu/insights/private-equity/esg-in-private-equity-marketing-tool-or-value-driver#:~:text=Investors%2C%20asset%20managers%20and,on%20people%20and%20the%20environment) accessed 22 November 2024.

<sup>53</sup> Seeds for Sustainability, 'ESG as a Key Factor for Attracting and Retaining Talent' (29 October 2024) <https://seeds-for-sustainability.com/en/esg-als-schlussel-faktor-zur-gewinnung-und-bindung-von-talenten/#:~:text=According%20to%20the%20Harvard%20Business,sense%20of%20belonging%20among%20employees> accessed 3 December 2024.

<sup>54</sup> CFA Institute, 'How Banks and Green Finance Are Helping Address Climate Change' (28 February 2024) <https://www.cfainstitute.org/insights/articles/how-banks-and-green-finance-are-helping-address-climate-change> accessed 3 December 2024.

<sup>55</sup> McKinsey & Company, 'Consumers Care About Sustainability and Back It Up with Their Wallets' (6 February 2023) <https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/consumers-care-about-sustainability-and-back-it-up-with-their-wallets> accessed 3 December 2024.

Nigeria and across Africa, renewable energy investments are addressing significant energy deficits while reducing dependence on fossil fuels. For example, the development of solar mini-grids in the Niger Delta<sup>56</sup>, funded in part by PE-backed ventures, provides scalable and sustainable solutions to underserved communities. Similarly, companies like M-KOPA,<sup>57</sup> which delivers solar home systems to off-grid households in East Africa, demonstrate how VC-backed initiatives can align environmental sustainability with financial returns.

On the social front, Diversity, Equity, and Inclusion (DEI) have become central to ESG strategies. Globally, the post-pandemic era has heightened awareness around social justice, workplace equity, and community engagement. PE and VC firms increasingly require portfolio companies to implement DEI policies, address gender pay gaps, and enhance employee welfare. In Nigeria, where gender and youth inclusion remain critical issues, the rise of fintech and agritech startups has created opportunities for investors to demand inclusive hiring practices and equitable workplace policies. These efforts are gradually shaping a more diverse and socially responsible corporate landscape.

Governance remains a cornerstone of ESG integration, as robust governance frameworks mitigate risks and instil confidence among stakeholders. PE and VC firms are now mandating enhanced transparency from portfolio companies, with requirements for regular ESG reporting and compliance with global standards like the Global Reporting Initiative (GRI)<sup>58</sup>. In Nigeria, adherence to the Code of Corporate Governance<sup>59</sup> serves as a benchmark for best practices. For firms operating in regulated sectors, such as financial services and energy, compliance with industry-specific governance codes is a critical factor in ensuring accountability and sustainability.

Another significant trend is the rise of impact investing, where capital is allocated to businesses achieving measurable societal or environmental benefits alongside financial returns. PE and VC firms are increasingly targeting

sectors like agritech, healthtech, and cleantech, where ESG considerations are integral to business models. For instance, Helios Investment Partners, one of the largest Africa-focused PE firms, secured Africa's first ESG-linked capital facility for its Fund IV, enabling the fund to align its investments with ESG goals while accessing a unique financial structure tied to these objectives.<sup>60</sup> Similarly, VC-backed companies like Zipline,<sup>61</sup> which uses drones to deliver medical supplies in Rwanda, highlight how technology can solve critical healthcare challenges while adhering to ESG principles.

These trends reveal how ESG integration is reshaping sectoral preferences, driving innovation, and aligning investment strategies with sustainability goals.

### Challenges in ESG Implementation

Despite its potential, ESG integration faces significant hurdles, particularly in frontier markets like Nigeria.

One major challenge is the lack of standardised metrics and reporting frameworks. While global initiatives such as the GRI and Sustainability Accounting Standards Board (SASB)<sup>62</sup> provide guidance, inconsistencies remain. Nigerian firms, in particular, struggle with limited access to ESG data and reporting tools, undermining comparability and investor confidence.

Balancing ESG goals with financial performance presents another obstacle. For instance, the upfront costs of renewable energy technologies or sustainable agricultural practices can deter firms seeking short-term returns. In capital-constrained markets like Nigeria, this trade-off is especially pronounced.

Regulatory gaps further complicate ESG adoption. While Nigeria's SEC has introduced sustainability guidelines, enforcement remains inconsistent. Political instability and inadequate infrastructure exacerbate these challenges, making it difficult for firms to implement meaningful ESG strategies.

<sup>56</sup> All On, 'All On, GEAPP Commits \$11 Million to Support 25 Mini-Grid Projects in Nigeria' (9 June 2023) <https://www.all-on.com/media/media-releases/all-on-geapp-commits-11-million-dollar-to-support-25-mini-grid-projects-in-nigeria.html> accessed 22 November 2024.

<sup>57</sup> Triodos Investment Management, 'M-Kopa Solar' <https://www.triodos-im.com/articles/projects/m-kopa-solar> accessed 22 November 2024.

<sup>58</sup> Global Reporting Initiative, *About GRI* <https://www.globalreporting.org/about-gri/> accessed 22 November 2024.

<sup>59</sup> Financial Reporting Council of Nigeria, *Nigerian Code of Corporate Governance 2018* (FCRN 2018)

<sup>60</sup> *Business Day*, 'Helios Secures Africa's First ESG-Linked Capital Facility for Fund IV' (26 January 2022) <https://businessday.ng/companies/article/helios-secures-africas-first-esg-linked-capital-facility-for-fund-iv/> accessed 3 December 2024.

<sup>61</sup> MIT Technology Review, 'Blood from the Sky: Zipline's Ambitious Medical Drone Delivery in Africa' (8 June 2017) <https://www.technologyreview.com/2017/06/08/151339/blood-from-the-sky-ziplines-ambitious-medical-drone-delivery-in-africa/> accessed 24 November 2024.

<sup>62</sup> IFRS Foundation, 'SASB and Other ESG Frameworks' (SASB, 28 July 2022) <https://sasb.ifrs.org/about/sasb-and-other-esg-frameworks/> accessed 24 November 2024.

The issue of greenwashing — where companies exaggerate or falsify ESG claims — poses additional risks. Without robust verification mechanisms, investors may inadvertently support firms that fail to deliver genuine impact. Strengthened regulations and greater transparency are essential to addressing this concern.

### Regulatory Landscape

The regulatory environment for ESG is evolving rapidly, shaping investment practices worldwide. In the EU, the Taxonomy Regulation<sup>63</sup> and the Sustainable Finance Disclosure Regulations (SFDR)<sup>64</sup> provide clear criteria for sustainability, mandating disclosures that align with climate goals. These frameworks enable investors to assess ESG compliance with greater confidence.

In the United States (US), the US Securities and Exchange Commission (US SEC) is moving toward mandatory ESG disclosures, reflecting growing recognition of the materiality of ESG factors.<sup>65</sup> Similarly, Asian markets like Hong Kong are implementing disclosure requirements to enhance corporate accountability.<sup>66</sup>

Nigeria is taking steps to align with global standards. Initiatives such as the adoption of IFRS Sustainability Disclosure Standards and the Nigerian SEC’s guidelines on sustainable finance demonstrate progress, though enforcement challenges persist. As regulatory frameworks mature, Nigerian firms must strengthen ESG compliance to remain competitive in the global market.

### ESG Integration in Investment Processes

Integrating ESG into PE and VC investment processes involves rigorous due diligence, structured agreements, and ongoing monitoring.

<sup>63</sup> European Union (n 5).

<sup>64</sup> European Union, *Regulation (EU) 2019/2088 of the European Parliament and of the Council on Sustainability-Related Disclosures in the Financial Services Sector* [2019] OJ L317/1 <http://data.europa.eu/eli/reg/2019/2088/oj> accessed 22 November 2024.

<sup>65</sup> US Securities and Exchange Commission, ‘SEC Announces New Rules for Cybersecurity Disclosure’ (Press Release 2024-31, 6 March 2024) <https://www.sec.gov/newsroom/press-releases/2024-31> accessed 22 November 2024.

DataTracks, ‘ESG Reporting in the US’ (DataTracks Blog, 21 May 2024) <https://www.datatracks.com/us/blog/esg-reporting-in-the-us/> accessed 22 November 2024.

During due diligence, investors assess environmental risks, social practices, and governance structures to identify both opportunities and challenges. For example, Nigerian companies adhering to local governance codes are more likely to attract international capital due to their transparency and accountability.

Post-investment, ESG considerations are embedded into portfolio structuring. Shareholder agreements may include milestones for achieving sustainability goals, such as carbon neutrality or board diversity. Monitoring frameworks like SASB and GRI enables investors to track progress and ensure accountability.

Transparent reporting is vital for building trust with stakeholders. Standardised frameworks not only enhance comparability but also demonstrate the tangible impact of ESG-focused investments, reinforcing the business case for sustainability.

### Success Stories

Examples from Nigeria and across Africa illustrate the transformative potential of ESG investments.

Babban Gona<sup>67</sup>, an award-winning high-impact social enterprise in Nigeria co-owned by the smallholder farmers it supports, drives success through strong risk management and partnerships with organisations like Nestlé, USAID, and the Rockefeller Foundation. With its farmers’ ability to produce high-quality maize, Babban Gona enabled Nigeria’s first forward contracts for maize in the poultry industry, allowing large buyers to make advance purchases. This achievement has directly benefited over 280,000 people, providing them with healthier food, including maize that is low in aflatoxin and bio-fortified.<sup>68</sup>

In the energy sector, SolarAfrica<sup>69</sup> exemplifies how renewable energy projects can align profitability with

<sup>66</sup> Deloitte, *Climate Disclosure for Hong Kong-Listed Companies* (25 April 2024) <https://www2.deloitte.com/content/dam/Deloitte/cn/Documents/audit/deloitte-cn-audit-climate-disclosure-for-hk-listed-companies-en-240425.pdf> accessed 22 November 2024.

<sup>67</sup> Babban Gona, ‘Who We Are’ (Babban Gona, 2024) <https://babbangona.com/who-we-are/> accessed 3 December 2024.

<sup>68</sup> Skoll Foundation, ‘Babban Gona’ <https://skoll.org/organization/babban-gona/> accessed 3 December 2024.

<sup>69</sup> Crown, ‘SolarAfrica Unveils Virtual Power Solution for Local Businesses’ (22 October 2024)

environmental sustainability. By providing affordable solar solutions to underserved regions, the company is reducing carbon emissions and fostering local economic development.

Andela,<sup>70</sup> a Nigerian tech company, demonstrates the importance of DEI in ESG strategies. By addressing the skills gap in Africa's tech ecosystem, Andela has created opportunities for underrepresented talent while delivering strong returns for its investors.

These success stories underscore the value of ESG integration in creating both societal impact and financial returns, reinforcing the case for sustainable investing in PE and VC.

### Future Outlook

The future of ESG integration in PE and VC will be driven by technological advancements, shifting demographics, and increasing regulatory demands. Emerging technologies such as AI and data analytics are set to improve ESG monitoring by providing real-time, accurate insights, reducing inconsistencies, and enhancing transparency—particularly critical for frontier markets like Nigeria.

Millennials and Gen Z are reshaping investment priorities, demanding sustainable and socially responsible investments. This generational shift is accelerating the adoption of ESG-focused funds, especially in regions like Nigeria, where younger populations dominate.

Regulatory developments, including Nigeria's SEC sustainability guidelines are making ESG compliance essential for attracting investment. Firms failing to align with these standards risk losing capital and relevance in the evolving financial landscape.

While challenges remain in Nigeria, such as weak enforcement and limited ESG expertise, strengthening local regulations and fostering partnerships with global investors will be key to bridging these gaps and maintaining competitiveness.

As regulatory frameworks strengthen, ESG compliance will become non-negotiable. Nigeria will have to align with global standards to attract capital and remain competitive in an increasingly sustainability-conscious financial ecosystem.

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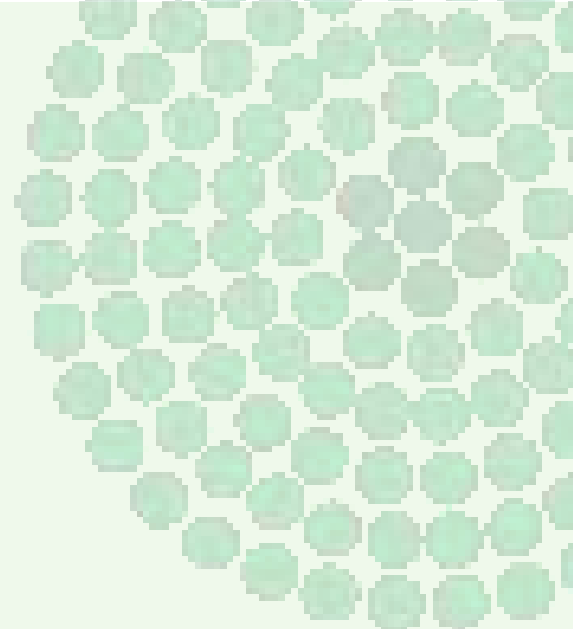
<https://www.crown.co.za/sparks-electrical-news/energy-efficiency/30506-solarafrika-unveils-virtual-power-solution-for-local-businesses> accessed 22 November 2024.

### Conclusion

ESG integration is redefining private equity and venture capital, aligning financial performance with broader societal and environmental goals. In Nigeria, where challenges like energy poverty and governance inefficiencies persist, sustainable investing offers a path to resilience and growth.

By embracing ESG principles, investors can create long-term value, address critical development challenges, and shape a more inclusive financial landscape. The continued collaboration of regulators, investors, fund managers and portfolio companies is essential to achieving this vision and ensuring that ESG becomes a cornerstone of modern investment strategy.

<sup>70</sup> Andela, 'How Andela Transformed Tech Hiring in 10 Years' (21 May 2024) <https://www.andela.com/blog-posts/how-andela-transformed-tech-hiring-in-10-years> accessed 22 November 2024.



**INFRASTRUCTURE INVESTING:  
OPPORTUNITIES AND CHALLENGES IN NIGERIA'S  
INFRASTRUCTURE SECTOR, INCLUDING ENERGY,  
TRANSPORTATION, AND REAL ESTATE. WITH A  
FOCUS ON CURRENT LEGAL AND REGULATORY  
ISSUES (INCLUDING EXISTING AND DRAFT  
REGULATIONS) THAT AFFECT PRIVATE EQUITY,  
VENTURE CAPITAL, STARTUPS, AND  
INVESTMENT ACTIVITIES IN NIGERIA**



**Blessing  
Adukwu**



**Dipo  
Onabanjo**



**Olaolu  
Adekoya**



**Peace  
Bosah**

## Introduction

Infrastructure is the backbone of any economy, acting as the engine that drives economic growth and development. From transportation networks and energy systems to communication technologies, real estate development, and water supply, robust infrastructure provides the essential foundation upon which industries thrive, commerce flourishes, and societies progress. Infrastructure systems are crucial for a nation's productivity, job creation, and living standards. However, infrastructure deficits can impede economic activity, exacerbate inequalities, and hinder a nation's competitiveness in a globalised economy. Thus, prioritising sustainable and resilient infrastructure development is not merely a policy objective—but a strategic imperative for long-term prosperity.

Nigeria has a massive infrastructure deficit of 30% of GDP, which falls short of the international benchmark of 70% by the World Bank. With a population growing 2.5% yearly and a total expected population of 400 million people by 2050, the country's infrastructure will likely be overwhelmed.<sup>71</sup> The World Bank estimates that Nigeria requires a staggering US\$3 trillion in infrastructure investments, with annual spending of US\$100–US\$150 billion over the next 30 years to bridge its infrastructure gap. To address this, the Nigerian government has initiated a 30-year National Integrated Infrastructure Master Plan (NIIMP) to elevate infrastructure stock to 70% of GDP by 2043. Recently, the Nigerian Senate approved US\$22 billion in external loans under this plan, allocating 11% to housing and 25% to transportation<sup>72</sup>—key steps towards tackling the nation's infrastructure deficit. Given the scale of the funding required, government resources alone are insufficient, highlighting significant opportunities for private capital investment.

This article explores Nigeria's infrastructure sector, focusing on opportunities for private investment and the legal and regulatory frameworks supporting it. It also examines the sector's challenges and emphasises how effective policies and private sector engagement can drive sustainable infrastructure development.

## Overview of the Nigeria Energy Sector and the Opportunities it Presents

Energy is the lifeblood of modern economies, driving business activities and socio-economic progress. Yet, Nigeria faces a persistent energy crisis, with 45% of its

population, over 90 million people, lacking access to the electricity grid. Even for those connected, unreliable power supply forces 80% to depend on costly and polluting alternatives like petrol and diesel generators, costing households and businesses over US\$5 billion annually in fuel expenses<sup>73</sup>. Stark inequalities in electricity access compound this challenge: 84% connectivity in urban areas versus just 26% in rural regions. Although Nigeria generates about 13,000 MW of electricity, its ageing infrastructure transmits less than 5,000 MW to a population of over 200 million, deepening economic hardships<sup>74</sup>. Many Nigerians rely on unsustainable energy sources such as diesel, kerosene, and firewood, leading to adverse health impacts and increased carbon emissions. To address these challenges, natural gas has been identified as a transition fuel, offering a cleaner and more reliable alternative to oil and coal. Nigeria boasts of Africa's largest proven gas reserves (208.8 trillion cubic feet) and ranks 10th globally in proven gas reserves. However, gas contributes only 26% of domestic energy production and 22.2% of supply<sup>75</sup>, underscoring the untapped potential for investment in gas infrastructure and power generation.

In 2021, Nigeria's former President, Muhammadu Buhari launched the Decade of Gas, a US\$20 billion initiative to expand domestic gas utilisation, infrastructure, exports, and foreign investment. This programme is projected to attract US\$14 billion in foreign direct investment, generate US\$12 billion in government revenue, and create 2 million jobs. Key projects under the initiative aim to transform Nigeria into a leading gas-powered economy, and they include:

- Nigeria LNG Train 7 project: focused on expanding Nigeria's liquefied natural gas production capacity by developing the Nigeria LNG Terminal at Bonny Island.
- The Ajaokuta-Kaduna-Kano Pipeline (AKK) Project: A critical pipeline project intended to transport gas from the southern region to the northern states for industrial use.
- Nigeria-Morocco Gas Pipeline (NMGP): A planned pipeline to deliver Nigerian gas to North Africa and Europe.
- Nigeria's Gas Flare Commercialization Programme (NGFCP) 2022: a planned initiative intended to mop up 30% of the existing flares in Nigeria, accounting for 250 million standard cubic feet of natural gas.
- Gas-to-Power Projects: intended to expand domestic power generation capacity through gas-fired plants.

<sup>71</sup> [International Trade Administration](https://www.trade.gov/country-commercial-guides/nigeria-construction-sector)

<sup>72</sup> <https://www.trade.gov/country-commercial-guides/nigeria-construction-sector>

<sup>73</sup> <https://ng.andersen.com/maximizing-nigerias-renewable-energy-potentials-for-sustainable-growth-and-development/>

<sup>74</sup> [Renewable Energy Association of Nigeria](https://www.renewableenergyassociation.org/)

<sup>75</sup> <https://www.iea.org/countries/nigeria/energy-mix>



In 2023, President Bola Ahmed Tinubu launched the Presidential Compressed Natural Gas Initiative (PCNGI) to accelerate the adoption of compressed natural gas (CNG). As part of this initiative, ₦250 billion (~US\$250 million) was allocated through the Central Bank of Nigeria (CBN) as an intervention fund to finance CNG projects. This initiative has spurred infrastructure development and policy reforms under the Petroleum Industry Act (PIA).<sup>76</sup>

Renewable energy also plays a significant role in Nigeria's energy mix, contributing approximately 47% of the total supply, with biomass and waste dominating at 43%, primarily for heating and cooking. However, the biomass subsector remains highly informal, with issues such as fuel stacking and uncertain usage patterns, especially in rural areas<sup>77</sup>. As the global energy transition progresses, modern renewables such as solar, wind, and mini-grids are gaining importance, accounting for 5.3% of Nigeria's energy consumption. This market holds vast potential, with a projected US\$10 billion in solar and mini-grid investments by 2030.<sup>78</sup> The Nigerian Electrification Act 2023, signed by President Tinubu, further advances renewable energy adoption through feed-in tariffs, local content incentives, and tax breaks to encourage domestic participation.<sup>79</sup> The Act supports diverse clean energy sources, including hydrogen, coal-based renewables, and wind, fostering a sustainable energy future.<sup>80</sup> Additionally, it empowers states to establish state-owned utilities or "Successor Companies," which can attract long-term investments through innovative structures. These utilities can set up dedicated distribution and supply companies functioning as Special Purpose Vehicles (SPVs), enabling states to mobilise capital from public resources and private investors via primary and secondary markets. In alignment with Nigeria's National Renewable Energy and Energy Efficiency Policy (NREEEP), which targets a 30% renewable energy contribution by 2030, the federal government offers provisions such as tax holidays, import duty waivers, and capital allowances to encourage investment in renewable energy. The IRENA renewables report reveals that renewable energy sources could meet nearly 60% of Nigeria's energy demand by 2050. This shift can reduce the country's oil demand by 65% and natural gas demand by 40%. By 2030, renewables could account for 47% of total energy demand, increasing to 57% by 2040—a significant milestone for a country with limited prior investment in renewable energy.

## Overview of Opportunities in the Transportation and Real Estate Sector

Transportation underpins social-economic interactions. Without it, economic activities would mostly be halted. One apparent issue in many developing countries, including Nigeria, is the inadequacy of transport infrastructure. This issue is echoed across Africa, where the trade and logistics sector faces pressing difficulties spanning roads, railways, airports, and seaports. According to the Africa Finance Corporation (AFC), while there has been significant growth in the ports sector, evidenced by increased cargo and container handling capacities in a competitive "ports race," the broader logistics value chain remains fragmented and underdeveloped. Road networks, though vital, are often limited, unevenly distributed, and of poor quality, hampering efficient transportation. Similarly, railways face chronic underinvestment, low utilisation rates, and outdated technology, diminishing their efficiency and restricting their ability to enhance connectivity.

The systemic issues in Nigeria's transportation sector underscore the urgent need for comprehensive infrastructure upgrades to harness its economic potential. Road transport is Nigeria's predominant mode of transport, accounting for about 90% of freight and passenger mobility and over 95% of non-oil goods conveyed to and from Nigerian seaports. According to the National Integrated Master Plan, 40% of federal roads are in poor condition and require significant rehabilitation, while 30% are in fair condition and need regular maintenance. Approximately 27% are in good condition, needing only routine upkeep, and the remaining 3% are unpaved trunk roads that must be upgraded to enhance connectivity. In 2022, Nigeria faced a transportation deficit estimated at US\$2.43 billion due to inadequate transportation systems. The scale of this deficit is such that government funding alone is insufficient, necessitating reliance on international financing and private investment. The Economic Recovery and Growth Plan (ERGP) emphasises the importance of public-private partnerships in addressing these challenges. In 2023 and early 2024, the transportation sector experienced noble events, from the constitutional amendment that positively impacted railway transportation to the commission and construction of major road networks. This development includes:

- The commissioned 13-km metro line first phase of the Lagos Blue Rail Line (Marina-Mile 2)
- The removal of "railways" from the Exclusive Legislative List to the Concurrent Legislative List is expected to create a conducive environment for

<sup>76</sup> TALP - Mid-year report on the Nigerian gas industry & investment projections for 2024 & Beyond – Volume 2

<sup>77</sup> Renewable Energy Roadmap Nigeria

<sup>78</sup> <https://businessday.ng/news/article/6-investment-strategies-that-are-paying-off-big-in-nigeria-in-2024/>

<sup>79</sup> PwC's Annual Power & Utilities Roundtable (14th edition)

<sup>80</sup> PwC's Annual Power & Utilities Roundtable (14th edition)

private investments in rail and transport infrastructure.

- The Federal Executive Council approval of the development of port projects in Delta (Burutu port project), Ondo (Multi-Purpose port in Ilaje) and Lagos
- The creation of the infrastructure support fund to invest in road transportation<sup>81</sup>.
- Lagos-Calabar Coastal Railway Project
- Ibom Deep Sea Port Project, Akwa Ibom
- Abuja-Itakpe-Warri Rail Line Project
- Ogun State Intercity Railway Line
- Approval of funds for the construction of the Second Niger Bridge

Following these projects, the sector is projected to grow by 4.4% between 2024 and 2033<sup>82</sup>. Additionally, the removal of fuel subsidies is expected to improve government revenues and support faster transport infrastructure construction industry growth. These increasing government initiatives and support coupled with Nigeria's expansive coastline and strategic location as a regional trade hub offer opportunities for transport logistics investment.

The housing deficit is one of the major challenges Nigerians face, driven by issues such as the lack of structure in the sector, high agency costs, and limited flexible payment options. In 2021, the World Bank estimated Nigeria's housing deficit at 15.56 million units, while in 2023, however, the Nigerian government placed the figure at 28 million units. This gap is fuelled by rapid urbanisation, population growth, and limited affordable housing options, creating a strong demand for real estate development. These figures also highlight the urgent need for interventions in the Nigerian housing sector. The Minister of Housing and Urban Development, Arc. Ahmed Musa Dangiwa has formally requested an annual allocation of N500 billion (US\$ 295m) from the Senate to address the housing deficit across the country under the Renewed Hope Estates and Cities program. He emphasised the mismatch between budgetary provisions and the nation's housing needs, highlighting that N5.5 trillion (US\$ 3 billion) per annum is required to achieve the annual increase in housing stock of 550,000 units over the next decade, noting that the requested N500 billion (US\$ 295 million) represents less than 10% of the needed amount each year. He noted that in the 2023 Supplementary budget, they got N100bn (~US\$ 59 million). He further stated that in 2024, the ministry only received approval for about N80bn (US\$ 5 million), a far cry from what is needed to make a difference.

The real estate sector is positioned for strong future growth, with a projected growth of 3.9% between 2024 and 2033<sup>83</sup>, as the sector is projected to see increased investment in public and residential buildings. In February 2024, the Africa Finance Corporation (AFC) announced plans to invest US\$ 40.0 million in the construction of the African Medical Centre of Excellence (AMCE) in Abuja, Nigeria. This 500-bed medical facility, a collaboration between Afreximbank and the UK-based King's College Hospital, will be developed in four phases, with AFC leading the Phase I works, which include a 170-bed specialist hospital. The AMCE facility will be operational in the first quarter of 2025. The sector has also seen interest from private investors, including the African Development Bank, which approved a US\$80.0 million loan for constructing a Knowledge Zone (EKZ) in Ekiti state, Nigeria.

### Conclusion

Nigeria's infrastructure sector is poised for robust growth, strongly emphasising clean energy adoption driven by decarbonisation and net-zero goals. Global energy demand is expected to rise by 32% and Africa's by 50% by 2050. Despite challenges like high capital costs and Naira volatility, we foresee increased reliance on PPP models, such as the Infrastructure Support Fund, to enhance efficiency, ensure timely project delivery, and enable better allocation of government resources. With the Naira's volatility impacting foreign currency financing, local currency project financing and Naira bond issuance are expected to gain traction. Local financiers will also increase offering off-balance sheet solutions, moving beyond traditional corporate lending.

Additionally, the government's proactive stance, evidenced by tax incentives and regulatory sandboxes, signals an expanding and investor-friendly market. The transportation and real estate sectors also present significant opportunities for private investment, driven by population growth and urbanisation. However, long-term investment perspectives will be essential for success.

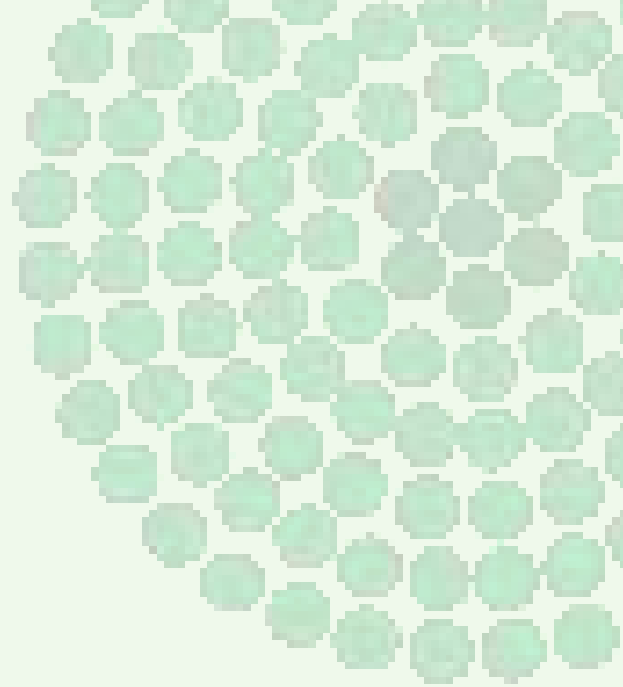
Private investors can capitalise on these opportunities by partnering with local firms, leveraging financial tools to mitigate currency risks, and engaging policymakers to shape supportive regulations. Adopting ESG principles will also be critical for attracting impact-driven capital (particularly among Development finance institutions (DFIs) and sovereign wealth organisations) and ensuring sustainable development. Nigeria's infrastructure sector offers vast potential. A focus on collaboration, innovation,

<sup>81</sup> Olaniwun Ajayi- Infrastructure-Sector-Wrap-Up-Report

<sup>82</sup> Fitch Solution

<sup>83</sup> Fitch Solutions

and sustainability can unlock transformative growth, cementing the country's position as a premier destination for infrastructure investment in Africa.



## **AN OVERVIEW OF THE CBN FX CODE AND CIRCULAR ON THE ELECTRONIC FOREIGN EXCHANGE MATCHING SYSTEM**



**Joseph  
Eimunjeze**



**Itoro  
Uwemedimo Etim**



**Fortune  
Ihator**

## Introduction

The Central Bank of Nigeria (“CBN”) has consistently expressed its policy drive to deepen the Nigerian autonomous foreign exchange market (“FX Market”), and to promote transparency and the efficient functioning of the FX Market. In this regard, the CBN released two circulars on 2<sup>nd</sup> October, 2024, announcing policy changes aimed at strengthening and providing guidance for participants in the FX Market. The CBN, through the circular titled “Nigeria Foreign Exchange Code Book: Draft Exposure” (“FX Code Circular”) released a draft of the Nigeria Foreign Exchange Code (the “FX Code”). Although the FX Code is still indicated to be a draft, it appears the CBN has commenced its implementation. This is because the CBN has, in its subsequent guidelines regarding the operations of the FX Market, mandated participants in the FX Market to comply with the FX Code in conducting transactions in the FX Market. The FX Code seeks to enhance transparency, integrity, and improve the efficiency of the wholesale FX market by setting clear guidelines for market participants to adopt.

In addition, the CBN issued a circular titled “Introduction of the Electronic Foreign Exchange Matching System (“EFEMS”) in the Interbank Foreign Exchange Market” (the “EFEMS Circular”) to introduce an electronic matching system, which will serve as the platform for conducting all FX transactions in the FX Market. This was followed by the release of Frequently Asked Questions (“FAQs”) on 21<sup>st</sup> October, 2024 to provide clarity on the implementation of the EFEMS.

These initiatives come off the back of recent measures introduced by the CBN to enhance operations in the FX Market, including the unification of the various pre-existing FX windows in Nigeria into a single window, which is currently the FX Market for all official dealings in FX in Nigeria. Please refer to our publication on the unification circular in June, 2023 using this [link](#) for context.

This publication provides insights on the measures introduced by the CBN in the EFEMS Circular and the FX Code, their potential impact on FX Market activities, and the broader implications for the Nigerian economy.

### Highlight of the EFEMS Circular

The EFEMS Circular introduced the EFEMS to align with the provision of Principle 43 of the FX Code relating to automated trade confirmation matching systems for market participants. The implementation of the EFEMS commenced on 1<sup>st</sup> December, 2024 following a two-week test run in November, 2024. Authorised dealers are

required to conduct all FX transactions in the FX Market on the EFEMS, including trades with clients. This development is expected to reduce speculative activities and eliminate market distortions in the FX Market and enable the CBN to exercise regulatory oversight over and to effectively regulate the FX Market.

The EFEMS is meant to provide real-time pricing and visibility of buy/sell orders, reduce opacity in the FX Market and enhance market oversight, and allow for better regulation and monitoring of FX activities. Authorised dealers in the FX Market are required to transition from Refinitiv FXT (which was the operational FX trading platform in Nigeria) and use the EFEMS to place buy and sell orders in real-time. In that case, the system will automatically match corresponding orders based on predetermined operating rules. Refinitiv FXT and any other existing platforms may still serve as supplementary tools for conversational dealings.

Authorised dealers are mandated to comply with the Nigerian FX guidelines and regulations and ensure that relevant documentation, training, and systems integrations are in place for the implementation of the EFEMS.

### Highlights of the FX Code

The FX Code aims to foster a robust, liquid, competitive, and transparent FX market for market participants, which are banks licensed by the CBN and operating within the wholesale FX market in Nigeria (including their personnel) (“Market Participants”). The FX Code is modelled after global best practices of the FX Global Code introduced in May 2017, which has been adopted in over 51 countries.

The FX Code is structured around six core principles covering ethics, governance, execution, information sharing, risk management and compliance, and confirmation and settlement processes. It sets clear expectations for Market Participants to operate in a professional and transparent manner, upholding the integrity of the FX Market.

Market Participants are required to conduct periodic self-assessments and submit quarterly compliance reports to the Financial Markets Department of the CBN within 14 days after the end of each calendar quarter, with the first report due by 31<sup>st</sup> December, 2024. Market Participants are also required to submit to the CBN a detailed compliance implementation plan approved by the board of such Market Participant by 31<sup>st</sup> December, 2024.

The key aspects of the core principles introduced by the FX Code are discussed below.

### **(a) Ethics**

Under this leading principle, Market Participants are mandated to have internal mechanisms to ensure that both the Market Participants and their personnel conduct their respective affairs in an ethical, professional, and experienced manner that promotes fairness and integrity in the FX Market. The FX Code emphasises three sub-principles which, among other things, require Market Participants to strive towards maintaining the highest ethical standards in relation to their operations, dealing with clients, and with other Market Participants.

Market Participants are also required to strive for the highest degree of professionalism and standards of business conduct in the FX Market. The FX Code further highlights certain factors that underpin professionalism, which include having sufficient knowledge of applicable laws in the industry, possession of relevant experience and application of professional judgment among personnel.

In addition, Market Participants are also indulged to device internal mechanisms to identify and avoid conflicts of interest in relation to dealings with clients, activities involving other Market Participants, personal dealings, etc. This may be achieved by, among other things, the provision of relevant training for their personnel, segregation of duties and reporting lines, establishing clear declaration policies for potential conflicts of interest.

### **(b) Governance**

The FX Code emphasises the need for Market Participants to implement sound and effective governance frameworks which promote responsible engagement in the FX Market and encourage compliance with the principles set out by the FX Code. The FX Code also acknowledges that these frameworks may vary depending on the size, stage and complexity of the Market Participant's activities within the FX Market.

The underlying sub-principles for governance under the FX Code range from the implementation of business strategies and appropriate structures, which provide appropriate oversight, supervision and control of the activities of Market Participants in the FX Market to the implementation of appropriate

checks and balances to ensure that the relevant personnel carry out their duties in line with best practices under the FX Code.

### **(c) Execution**

Market Participants are required to exercise due diligence when executing transactions in the EFEMS to ensure fairness and transparency. Market Participants must also have clear policies on how client orders are handled and ensure that clients are informed about transaction terms and conditions. There are also specific provisions relating to the manner of discharging disclosure obligations and exercising duties, which include transaction risk management, for Market Participants acting in different capacities such as agents, interdealer brokers, or those operating e-trading platforms for FX.

Specifically, Principles 12, 13 and 14 contain provisions which prohibit Market Participants from engaging in unfair trade practices which are capable of hindering effective market functioning or compromising market integrity. Such unfair practices may include acts that are capable of resulting in artificial price movements, delayed transaction turnaround, the application of outrageous mark-up towards client transactions, etc.

### **(d) Information Sharing**

This principle relates to the standards for clear and unambiguous communication of relevant information to intended recipients such as clients. It also covers the exercise of adequate discretion towards protecting confidential information which the FX Code defines to include FX trading information not already available in the public domain, and other categories of information designated by the relevant Market Participants to be confidential. Such confidentiality may be contained in formalised confidentiality or non-disclosure agreements between Market Participants and their clients, service providers, or with other participants within the FX Market.

### **(e) Risk Management and Compliance**

Market Participants are required to establish appropriate risk management and compliance frameworks that help identify and prevent risks associated with their operations within the FX Market, as well as manage such risk exposures effectively.

Market Participants are also required to carry out periodic independent reviews of their risk and compliance control measures to ensure that these are up to the required standards for their operations at every point in time. Some of the key risks identified in the FX Code for consideration by Market Participants include counterparty credit risks, which the FX Code recommends could be managed by the use of master netting agreements and other credit support agreements that can reduce exposure from counterparty party credit risks. Others include operational risks, legal and compliance risks, risks associated with technology, as well as market risks arising from changes in FX prices or rates, which could adversely impact Market Participants.

#### (f) Confirmation and Settlement

This principle dwells more on post-trade risk mitigation and settlement processing. Market Participants are encouraged to establish consistency between their operating practices, documentation, monitoring and management and transmission of trade data. It also underscores timeliness in account reconciliation and settlement of any likely discrepancies arising from transactions and encourages the use of Standing Settlement Instructions (SSIs). SSIs are standardised instructions that provide pre-programmed information/procedure on how particular transactions should be settled between Market Participants.

Under Principle 43 of the FX Code, trade confirmations must be conducted promptly using secure and efficient automated trade confirmation matching systems where such systems are available. While the FX Code suggests that the use of such systems is optional, this principle seems to have informed the CBN's decision to introduce the EFEMS. However, unlike the FX Code which offers flexibility in using automated systems, the implementation of EFEMS mandates its use for all FX transactions, making it a compulsory platform for trade confirmations.

#### The Implications of the New Measures Introduced

The primary objectives of the FX Code and the EFEMS are the introduction of necessary mechanisms for effective governance, professionalism, and transparency in the FX Market. These are to further address the underlying FX illiquidity issue and its impact on the larger Nigerian economy. The EFEMS will allow for real-time buy/sell

order matching and FX price transmission by the CBN, aimed at improving market efficiency and reducing speculative activities.

By requiring Market Participants to incorporate efficient mechanisms for timely settlement and confirmation of orders (such as the use of SSIs and the live transmission of real-time transactions on the EFEMS), the possibility of price speculation and manipulation in the FX Market will be minimised. In addition, by eliminating the usual forms of market-disrupting activities, the CBN will effectively be able to ensure that the FX Market, although liberalised, is not subjected to untoward price manipulation and absence of integrity and transparency.

#### Conclusion

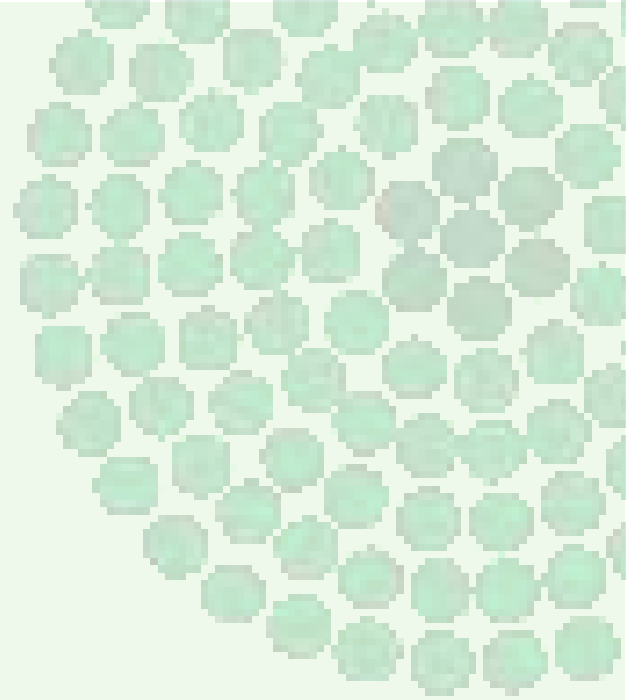
The measures introduced by the FX Code and the EFEMS Circular are aimed at fostering a robust, liquid, and transparent FX Market environment. This is to empower Market Participants, underpinned by resilient infrastructure, to engage in open, efficient and effective FX transactions in Nigeria. By promoting competitive pricing that accurately reflects available market information, the FX Code and the introduction of the EFEMS align with established global standards of best practices in FX dealings.

The effective implementation of the FX Code and the EFEMS, particularly the live transmission of prices and orders, would enhance market efficiency and transparency, allowing exchange rates to be more reflective of actual market forces. The adoption of SSIs for certain categories of transactions may also be an efficient way of ensuring that orders are processed timeously, with reduced exposure to market and operational risks. It is essential that Market Participants put in place measures for compliance, especially regarding governance structures, ethical practices, and risk management frameworks, to ensure a smooth transition into this new regime in the FX Market.

We hope that the implementation of the FX Code and the operations of the EFEMS will yield the desired results of the CBN to have an open, transparent, efficient and effective FX Market.

*This publication has been provided by Joseph Eimunjeze, Itoro Uwemedimo Etim, and Fortune Ithator of the Banking & Finance team at Udo Udoma & Belo-Osagie. For more information about our Banking & Finance practice group offerings, please visit our website at [www.uubo.org](http://www.uubo.org) or email us at [uubo@uubo.org](mailto:uubo@uubo.org).*

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## **REGULATORY CONSIDERATIONS FOR ESTABLISHING PRIVATE EQUITY AND VENTURE CAPITAL FUNDS IN NIGERIA**



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**Bukola  
Akinsulere**



## Introduction

Private Equity (“**PE**”) and Venture Capital (“**VC**”) funds are pivotal to the growth and development of the Nigerian economy. These funds provide critical patient capital for private companies, stimulating innovation, and enhancing the growth trajectory of early-stage businesses or revitalising mature companies that require transformative change.

However, the legal landscape regulating these funds is nuanced and potential fund managers must navigate a comprehensive regulatory framework to ensure compliance and to benefit from available incentives. This article explores the regulatory and tax implications of establishing domestic PE and VC funds under Nigerian law.

## General Legal and Regulatory Framework

The Securities and Exchange Commission (“**SEC**” or the “**Commission**”) regulates the establishment of PE and VC funds in Nigeria in accordance with the provisions of the *Investment and Securities Act, 2007* (“**ISA**”) and the *SEC Rules and Regulations, 2013* (the “**SEC Rules**”). Provisions in the ISA and the SEC Rules generally refer to funds as Collective Investment Schemes (“**CIS**”). Under the legislation, the various forms of CIS include unit trusts, fund of funds, real estate investment schemes and specialised funds. Specialised funds may further be categorised to include venture capital funds (“**VC Funds**”) and private equity funds (“**PE Funds**”).

Under Section 54(5) of the ISA, a CIS must be registered with the SEC before it can be publicly offered, sold, or transferred. This requirement is crucial to ensure that members of the public interested in participating in investments are sufficiently protected. A violation of this provision constitutes an offence, and the guilty party is liable on conviction to a fine of ₦1,000,000 (One Million Naira) or to a term of imprisonment of 3 (three) years or both.

Highlighting the importance of registration for access to a broader investor universe, the National Pension Commission’s *Regulations on the Investment of Pension Fund Assets 2019* also prohibits the investment of pension funds in unregistered PE or VC Funds or in funds managed by fund managers that are not registered with the SEC, .

Historically, a prevailing interpretation of Section 54 (5) of the ISA as well as other relevant provisions requiring the registration of securities or investments of a fund was that where a fund (particularly those below the applicable commitment thresholds in the SEC Rules) would be solely

and exclusively targeted at certain pre-identified or select investors rather than the public (“**Private Funds**”), there was no requirement for such securities to be registered with the SEC.

However, changes introduced by the SEC through its amendment of the SEC Rules in January 2021 via the *Rules on Fund Management Products and General Rules for Collective Investment Schemes* (collectively the “**New SEC Rules**”) altered the landscape. The New SEC Rules mandated that all securities or units of a CIS must be registered with the SEC. Additionally, the SEC required fund managers to seek its approval or “no objection” before launching a fund or portfolio product, and prohibited entities from operating pooling investors funds without registering as a fund manager.

Further to the above, it is prudent for fund managers to either seek clarity from the SEC before proceeding with the establishment of PE Funds or VC Funds that are Private Funds, or to obtain a no objection from the SEC.

## Nature of Private Equity Funds

PE Funds are defined by the SEC Rules as a type of CIS that primarily invests in private equity or unlisted companies, regardless of whether such investments aim to gain control of the companies. These funds typically source their capital from qualified investors, including pension funds, sovereign wealth funds, development financial institutions, insurance companies, financial institutions, and high-net-worth individuals (“**HNI**s”). According to the SEC Rules, an HNI is defined as an individual with a net worth of at least ₦100,000,000 (One Hundred Million Naira), excluding personal assets.

As specialized investment vehicles, PE Funds are currently prohibited from soliciting funds from the public and are limited to investing no more than 30% of the fund’s assets in a single investment.

The life span of a typical PE Fund in Nigeria is 10 (ten) years, with the possibility of extending the fund’s life by two (2) additional one-year terms. During this period, the fund manager invests in specific portfolio companies, usually over a period of 5 (five) to 7 (seven) years. A PE Fund with a minimum commitment of ₦1,000,000,000 (One Billion Naira) must be registered with the SEC. Additionally, any fund in which pension assets are invested must also be registered with the SEC, irrespective of its size. To facilitate registration, the fund manager must be licensed by the SEC.

Managers of PE Funds are required to file both quarterly returns and annual reports with the SEC, detailing the fund's performance. They must also meet a minimum paid-up capital requirement which is set at ₦150,000,000 (One Hundred and Fifty Million Naira). PE Funds must also have at least 3 (three) sponsored individuals - key professionals whose advice or actions are relied upon by investors - who must be registered with the SEC. One of these individuals must be a compliance officer responsible for ensuring adherence to the ISA and SEC Rules.

### Nature of Venture Capital Funds

VC Funds represent a specialized form of CIS like PE Funds but with a distinct focus. While PE Funds typically invest in more mature companies, VC Funds focus on investing in early-stage companies with high growth potential. These funds are structured to provide capital to startups and emerging businesses, often at critical points in their development.

Unlike PE Funds, the SEC Rules in Nigeria do not provide detailed provisions regarding the operational requirements for VC Funds. However, similar to PE Funds, VC Funds are restricted from sourcing capital from the general public and can only raise funds from qualified investors. Moreover, VC Funds are not subject to the same investment limits as PE Funds, as there is no cap on the proportion of a VC Fund's assets that can be invested in a single entity.

In Nigeria, VC Funds benefit from several tax incentives, as outlined in the *Venture Capital (Incentives) Act 1993*. These incentives include favourable capital allowance deductions for investments in venture project companies, which are as follows: a 30% deduction for the first 2 (two) years, 20% for the third year, and 10% for the fourth and fifth years. Additionally, capital gains from the disposal of equity interests in venture project companies are tax-exempt for the first 5 (five) years, with partial exemptions for sales made between the sixth and fifteenth years.

For a VC Fund to qualify for these tax incentives, its investment in the venture project must be no less than 25% of the total capital required for the venture project. The *Venture Capital (Incentives) Act* also provides that investments in accredited venture capital companies may be considered as secure investments for trustees, subject to the *Trustee Investments Act*.

The Federal Inland Revenue Service ("**FIRS**") is responsible for determining whether a VC Fund qualifies for the incentives under the *Venture Capital (Incentives) Act*. In making this determination, the FIRS considers various

factors, such as the fund's role in fostering industrialization, promoting indigenous technologies, supporting small and medium-scale enterprises, and encouraging resource-based industries.

In addition, venture capital companies are entitled to investment tax credits and capital gains exemptions in certain instances under the *Nigeria Startup Act 2022*.

To operate as a VC Fund manager in Nigeria, the fund manager must be registered with the SEC. The manager is required to maintain a minimum paid-up capital of ₦20,000,000 (Twenty Million Naira).

### PE and VC Fund Structures

The establishment of a PE Fund or VC Fund typically involves the selection of an appropriate legal vehicle. In Nigeria, the 2 (two) most commonly used structures for such funds are limited partnerships and limited liability partnerships. The choice of structure significantly influences the operational framework, governance, and liability profiles of the fund.

- **Limited Partnerships:** To mitigate the risk associated with general partnerships, Private Funds often adopt a limited partnership structure, which consists of a general partner (who manages the fund) and limited partners (who provide capital but do not manage operations). The liabilities of the limited partners in this structure are constrained to their capital contributions.
- **Limited Liability Partnerships:** In a limited liability partnership ("**LLP**"), the liability of each partner is limited to the extent of their respective contributions to the partnership arrangement. The LLP can be sued and can also sue in its own name. The LLP structure is particularly attractive for fund managers seeking a balance between operational flexibility and liability protection.

Under Section 797 of Nigeria's *Companies and Allied Matters Act 2020 ("**CAMA**")*, a partnership carrying on business as a limited partnership must be registered, otherwise it shall be deemed a general partnership, and every limited partner shall be considered as a general partner.

The choice between these structures depends on factors such as investor preferences, the desired level of liability protection, and regulatory requirements.

## Tax Implications

The tax implications of establishing a PE Fund or VC Fund are largely determined by the structure chosen. Different legal structures attract different tax liabilities, and it is essential for fund managers to consider these factors when establishing a fund.

### ▪ **Companies Income Tax**

On 14 August 2023, the FIRS released guidelines on the tax obligations of LLPs. The guidelines clarified that LLPs are subject to Companies Income Tax (“CIT”) and are statutorily required to pay income tax on profits accrued in, derived from, brought into or received in Nigeria for each year of assessment.

However, LLPs with an annual turnover of less than ₦25,000,000 (Twenty-Five Million Naira) are exempt from CIT, while those with turnover between ₦25,000,000 (Twenty-Five Million Naira) and ₦100,000,000 (One Hundred Million Naira) are subject to a 20% CIT. LLPs exceeding ₦100,000,000 (One Hundred Million Naira) in turnover are subject to a 30% CIT rate.

### ▪ **Capital Gains Tax**

The Capital Gains Tax Act governs the taxation of capital gains on the sale of investments. It imposes tax on the disposal of capital assets, including the sale of investments by PE Funds and VC Funds. However, this tax may be impacted by structuring decisions and whether any applicable exemptions.

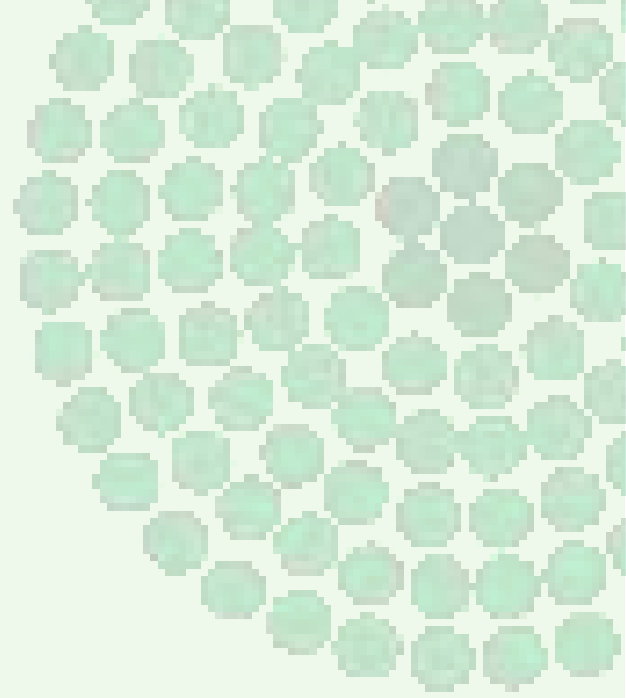
## Conclusion

Establishment of PE Funds and VC Funds in Nigeria is governed by a regulatory and legal framework that is designed to foster transparency and investor protection. Fund managers are required to navigate these regulations carefully, considering both the structure and tax implications of their fund, as well as the need for compliance with the SEC’s requirements. By adhering to these regulatory requirements, fund managers can operate effectively whilst taking advantage of available incentives and opportunities.

The SEC recently released exposure drafts of amendments and new rules that would impact the registration and operation of both PE and VC Funds. We envisage that the final rules, when issued in line with feedback from stakeholders, will advance clarity and support increased investment activity.

Setting up a PE Fund or VC Fund is a significant undertaking, but with the proper legal guidance and compliance, it can provide critical incentivised capital for the long-term growth and development of the Nigerian economy.

# Detail



## **REGULATORY UPDATES: REVIEW OF RECENT REGULATORY CHANGES AFFECTING PRIVATE EQUITY AND VENTURE CAPITAL IN NIGERIA**



**Temidayo Ajayi**



**Anthony Obidike**



**Moyogbemi Nesiama**

## Introduction

Nigeria remains a choice destination for Venture Capital (“VC”) and Private Equity (“PE”) investments in Africa despite macroeconomic challenges. VC and PE funding are vital to Nigeria’s growing economy, supporting early-stage start-ups and expanding high-growth companies. The Nigerian PE market is projected to reach US\$0.36bn by year-end 2024, with an expected annual growth rate (CAGR 2024-2025) of 5.56% totaling US\$0.38bn by 2025<sup>84</sup>. The recent regulatory updates aim to create a more transparent investment environment, aligning with global best practices while addressing local market dynamics. This article seeks to highlight the recent regulatory updates, their impact on PE and VC funds, as well as investors in such funds, in Nigeria.

### Brief overview of the legal and regulatory framework for VC and PE funding in Nigeria.

The Nigerian PE and VC space is primarily regulated by the Companies and Allied Matters Act (CAMA) 2020, the Investment and Securities Act (ISA) 2007, the Federal Competition and Consumer Protection Act 2018 (“FCCPA”), National Office for Technology Acquisition and Promotion (NOTAP) Act 2004 and other sector-specific regulations.

The Securities and Exchange Commission (SEC), being a principal regulator of the Nigerian capital markets issued the Consolidated Rules and Regulations 2013 (“SEC Rules”), which amongst others, sets out the Rules on Venture Capital Funds and the Rules on Private Equity Funds which apply to PE funds with a minimum commitment of N1billion investors’ funds<sup>85</sup>. In December 2023, the SEC issued two (2) exposure drafts to amend its Collective Investment Scheme (CIS) Rules and Private Equity Fund regulations. An analysis of these amendments is set out below.

#### (A) Amendments to CIS Rules

- **Consent Requirement for Amendment of Trust Deed**

By Rule 466, fund managers must obtain the trustees’ consent and secure the SEC’s approval before implementing any amendments to the trust deed; once approval of the amendment is issued by the SEC, an executed copy of the amended deed must be filed with the SEC within seven working days of approval. Also, if unitholders’ ratification is

required, such ratification must be filed within seven working days after the unitholders’ meeting, which must take place within two months of receiving the SEC’s approval. These provisions are reiterated in Rule 566.

The amendments to Rules 466 and 566 introduce stricter requirements for fund managers seeking to amend their trust deeds. These requirements bolster governance by involving all relevant parties in significant fund decision-making, thereby enhancing transparency and safeguarding investor interests. For PE and VC funds, utilizing such measures provides a clearer framework for navigating fund governance, minimizing potential disputes and ensuring compliance.

- **Offer Process for Closed-Ended Collective Investment Schemes**

The proposed amendment to Rule 450(B) retains the 28-working-day limit for offers under closed-ended CIS but introduces an exemption for Infrastructure Funds and other Alternative Investment Schemes targeting qualified investors. These funds must disclose their offer periods in offering documents, reflecting their unique capital-raising processes that often require extended due diligence.

Furthermore, Rule 450(C) mandates the inclusion of a schedule of scheme setup costs in the registration statement of open-ended fund structures. This is aimed at disclosing the expenses incurred during the fund registration and ensuring that it is capped at the prescribed 1%. Additionally, the submission deadline for executed scheme documents has been extended from three to ten working days after approval. This extension provides relief for fund managers who often encounter logistical challenges, such as securing stamp duties, and facilitates smooth compliance. For PE and VC funds, particularly those targeting infrastructure projects or alternative assets, these provisions offer greater flexibility in structuring and executing capital-raising initiatives.

<sup>84</sup> Private Equity- Nigeria. <https://www.statista.com/outlook/fmo/private-equity/nigeria>

<sup>85</sup> Rule 558, SEC Consolidated Rules and Regulations 2013.

- **General Rules for CIS**

The amendments also clarify requirements for supplementary shelf prospectuses, mandating that offer periods do not exceed 28 working days unless otherwise approved by the SEC. Exemptions for Infrastructure Funds and Alternative Investment Schemes targeting qualified investors acknowledge the unique fundraising dynamics of these funds, which often involve extensive due diligence.

Another notable addition is the provision requiring that no subsequent series of a fund be issued until at least 50% of the proceeds from the previous issuance have been utilized according to the fund's stated objectives. This rule ensures responsible capital deployment, promoting investor confidence and preventing fund mismanagement. For PE and VC funds, this provision aligns fundraising with operational timelines, tracks the utility of investor funds and encourages efficient use of funds.

- **Annual Supervisory Fees for CIS**

The proposed amendment modifies the basis for computing annual supervisory fees for fund managers, shifting from Net Asset Value (NAV) to total Assets under Management (AuM). This adjustment addresses prior issues where some fund managers artificially lowered NAV by classifying client assets as payables, thereby avoiding higher regulatory fees. The shift to AuM ensures fair contributions from all managers, fostering equity and transparency within the industry. For PE and VC funds, this change promotes a level playing field while maintaining accountability in fee assessments.

- **Filing Fees and SEC Fees**

The amendments introduce a flat filing fee of N100,000 for processing application documents related to portfolio products, simplifying the application process. Additionally, filing fees for proxy materials are set at N50,000 for CIS, a significant reduction from the N500,000 fee for companies. This differentiation acknowledges the smaller

scale of CIS and eases the financial burden on fund managers. For PE and VC funds, this adjustment reduces operational costs, enabling more efficient compliance with regulatory requirements.

**(B) Amendment to Rules on Private Equity Funds.**

- **Scope of Private Equity Funds**

The Amendment expands the definition of PE funds to include entities beyond traditional mutual funds. According to the revised Rule 557 of the SEC Rules, private equity funds are classified as collective investment schemes that primarily invest in private equity or unlisted companies, whether or not in an attempt to gain control of these companies. This new inclusion based on a specified investment strategy and defined investment horizon contemplates PE funds that make investments in a bid to achieve specific investment goals such as impact and sustainability goals. It acknowledges that funds may aim for objectives beyond acquisition, focusing on investments that align with their overall fund objectives.

- **Applicability and Registration Requirements**

Prior to this amendment, the Rules on Private Equity Funds applied only to funds with a minimum commitment of N1,000,000,000. The amendment to Rule 558 of the SEC Rules now requires all private equity funds to obtain authorization and registration from the SEC. However, funds with a target size of N5,000,000,000 or less are exempt from full registration but must file governing documents to obtain a no objection from the SEC before commencing operations. This amendment establishes that only PE funds valued at over N5,000,000,000 require SEC approval, while those below this threshold must notify the SEC.

- **Restrictions on Investments**

The Amendment introduced new investment restrictions to Rule 560 of the SEC Rules. By the Amendment, PE funds in addition to soliciting funds from only qualified investors, are now required to disclose investment

restrictions in the governing documents of the fund. In addition, PE funds must now maintain an investment of not less than 3% of the fund size in the fund where it targets pension fund assets. The total management fees and expenses of PE funds shall not exceed 2% of the total sum raised in Nigeria, and the total performance fee shall not exceed 20% of the total sum raised in Nigeria. This amendment appears to pay attention to funds raised locally and increases investor protection by providing a cap to fund expenses.

- **Reporting Obligations**

The Amendment expands the reporting obligations of the fund managers to include the annual account/report of the fund and any other report and information required by the investor. This places more obligations on the fund manager and enlarges the scope of information investors can request from the fund manager.

- **Valuation**

By the amendment to Rule 563 of the SEC Rules, the basis for the valuation of a fund shall be appropriate valuation methods based on principles approved by the fund's advisory board. The Amendment provides that the methods used to arrive at the value "in good faith" shall be reviewed annually by the statutory auditor of the Fund and the requirement to supporting data for the valuation shall be preserved for at least a period of seven (7) years. This amendment departs from fair value valuation to standardize the valuation methodologies based on principles approved by the fund's advisory board.

- **Policy on Conflict of Interest**

The SEC's proposed amendments to Rule 561 of the SEC Rules on the general requirements for the authorization and registration of private equity funds now include the policy on conflict of interest. By this provision, parties seeking to register a PE fund are

required to disclose potential areas of conflict of interest. This requirement will enhance transparency and improve governance requirements.

**(C) A Bill for an Act to Repeal the Investments and Securities Act, 2007 and Enact the Investment and Securities Act 2024.**

There is currently a Bill for an Act to Repeal the Investments and Securities Act, 2007 and Enact the Investment and Securities Act, 2024 (the "Bill")<sup>86</sup>. The Bill successfully passed its second reading in the National Assembly on October 8, 2024. Amongst its provisions, S.193 of the Bill provides that with the exception of PE, CIS shall be treated as pass-through vehicles for purposes of taxation. By this provision, any income generated by other CIS will not be taxed at the level of the CIS. Instead, it will be taxed at the level of the individual investors who receive the income. This will lead to a lower tax burden on other CIS and make them more attractive as taxes will only be paid once at the hands of investors. We note also that while this provision exempts PE funds, VC funds will be taxed under the new arrangement.

**Recommendations and Conclusion**

The recent amendments to the SEC's rules governing PE and VC funds signify substantial progress toward a more transparent and structured regulatory framework in Nigeria. While these updates address many critical issues, there are areas where additional regulatory refinements could further enhance the growth and stability of Nigeria's PE and VC markets.

- **Tailored Incentives for Smaller Private Equity and Venture Capital Funds**

The SEC's exemption of funds below NGN5 billion from full registration is a positive step. To further encourage the establishment of smaller funds, particularly those focused on early-stage VC investments, the SEC could introduce incentives such as reduced filing fees or targeted tax benefits for funds investing in high-growth sectors like technology, renewable energy, or healthcare. This would promote diversification within the

<sup>86</sup> <https://placng.org/i/wp-content/uploads/2024/10/Senate-order-paper-Tuesday-8th-October-2024.pdf>

PE and VC ecosystem and attract more domestic and international capital.

- **Enhanced Guidance on Conflict-of-Interest Disclosures**

The new requirements for disclosing potential conflicts of interest are commendable. To enhance transparency, the SEC could issue specific guidelines or templates to standardize these disclosures for PE and VC funds. This would ensure consistency across filings and provide investors with clearer insights into governance risks.

- **Streamlined Reporting for Smaller and First-Time PE/VC Funds**

While reporting obligations have been expanded to include annual fund accounts and advisory board-approved valuation methods, the SEC could introduce simplified reporting templates for smaller or first-time PE/VC funds. This would lower compliance burdens for new entrants while maintaining essential transparency for investors.

The SEC's proposed amendments to the CIS rules mark a significant advancement in Nigeria's regulatory environment. By addressing issues of transparency, governance, and operational efficiency, these changes will enhance investor confidence and support the growth of PE and VC funds.



CEO SPOTLIGHT

*In Conversation With*

*Adesuwa Okunbo Rhodes*

FOUNDER AND MANAGING PARTNER  
ARUWA CAPITAL MANAGEMENT

"Charting New  
Frontiers in  
Gender-Lens  
Investing"

Adesuwa Okunbor-Rhodes,  
Founder/CEO of Aruwa Capital  
Management, redefines  
investment in Nigeria with a  
focus on empowering women-led  
businesses and unlocking  
untapped market potential.



## ACHIEVEMENTS AND MILESTONES

**Winning multiple awards, including *Portfolio Company of the Year, Decade Recognition: Private Equity Leading Lady, Female Founder Award, and the People’s Choice Award*. What do these milestones mean to you and Aruwa Capital, and how do you see your role evolving as you build on these accomplishments?**

**Responses:** Thank you so much for the recognition. Winning these awards is a testament and recognition of the hard work, resilience, and intentionality that Aruwa Capital brings to the table. These awards are more than just milestones, they are a validation of Aruwa Capital’s mission to redefine the private equity landscape in Africa and change the face of investing on the continent. Winning accolades like Portfolio Company of the Year and Female Founder Award underscores the impact of our gender-lens strategy and our ability to deliver financial success while fostering inclusive growth. The Decade Recognition: Private Equity Leading Lady and the People’s Choice Award reflect the trust and support we have garnered from our peers, investors, and stakeholders, which is truly humbling.

For Aruwa Capital, these achievements signify the power of intentionality. They show that a focus on addressing systemic gaps particularly around access to capital for SMEs and women can lead to transformative outcomes. Our portfolio companies are proof of this: they are creating jobs, driving economic growth, yielding superior financial returns and empowering women and youth across underserved sectors.

As we build on these accomplishments, my role continues to evolve. I see myself as a bridge between global capital and local opportunities, between overlooked talent and transformative possibilities. I am more committed than ever to scaling our impact, mentoring the next generation of women in finance, and demonstrating that private equity can be a force for good in Africa. These awards are just the beginning, and I’m excited about the work we still have ahead of us, we have so much more to do.

## SECTORAL PERSPECTIVES

**Question: How has your personal experience influenced your perspectives on key sectors, and what emerging trends and opportunities in Nigeria currently excite you the most?**

My personal experiences have made me deeply aware of the transformative potential of sectors that address the

foundational needs of Africa’s burgeoning population. At Aruwa Capital, we focus on essential sectors such as healthcare, fintech, clean energy, and essential goods and services. These are not just resilient industries but critical to meeting the needs of Africa’s youthful and rapidly growing population.

Africa holds the promise of a demographic dividend unlike any other region in the world. With over 64% of sub-Saharan Africa’s population under the age of 25 years and projections that one-third of the world’s workforce will be African by 2075, the continent’s young and dynamic population is both an opportunity and a responsibility. By equipping this generation with the right tools and access to critical resources, we have the chance to drive unprecedented economic prosperity.

What excites me most are the emerging trends at the intersection of innovation and impact. In fintech, we’re seeing technology bridge financial inclusion gaps, empowering underserved communities. In clean energy, companies in our portfolio are solving energy access challenges while creating sustainable growth. Meanwhile, the demand for healthcare and essential goods continues to rise, offering scalable opportunities to meet the needs of Africa’s youthful population.

At Aruwa, we’re not just investing in businesses—we’re investing in the future of Africa. Our strategy is grounded in creating defensible, non-cyclical portfolios that align with the continent’s growth trajectory. We see Africa as an untapped investment frontier, where attractive entry points and significant growth potential make it a compelling destination for capital. Every investment we make fuels a future where Africa’s youth can thrive, contribute, and lead the continent toward sustainable prosperity.

## NAVIGATING CHALLENGES

**Question: What are the primary pain points investors encounter in Nigeria’s sectors, and what strategies can be employed to effectively navigate and mitigate these risks? How have these challenges shaped your investment approach?**

**Response:** Investing in Nigeria is both challenging and rewarding, with unique complexities that require a nuanced approach. The primary pain points include:

1. **Rising Operational Costs:** Escalating energy, logistics, and human capital expenses strain profitability for businesses.

2. **Currency Volatility:** Exchange rate volatilities complicate financial planning and returns for investors.
3. **Access to Affordable Capital:** Many SMEs face significant barriers to obtaining long-term, patient funding that supports sustainable growth.
4. **Regulatory Uncertainty:** Inconsistent policies and unpredictable changes create hurdles for businesses trying to scale and attract investments.

At Aruwa Capital, these challenges have shaped our intentional investment philosophy, focusing on creating value while mitigating risks:

- **Non-cyclical investments:** We focus on sectors like healthcare, fintech, essential goods & services, cleantech, which address fundamental societal needs and exhibit demand resilience, even in volatile market conditions.
- **Strategic Knowledge Sharing Amongst Investees:** Initiatives like our *Portfolio Mixer* foster collaboration among our portfolio companies. For instance, discussions on optimizing revenue amidst rising costs, exploring regional market opportunities, and assessing the capital markets help our businesses adapt and thrive.
- **Hands on operational support and active governance:** We ensure we provide more than just capital but also provide hands on operational support in strategy, finance, capital raising, recruitment and also in governance.

These challenges have driven us to be intentional about impact and value creation. At Aruwa, we view obstacles as opportunities to innovate and create transformative solutions. By focusing on businesses that solve critical societal problems, we deliver financial returns while driving social impact.

At Aruwa, we see these challenges not as deterrents but as opportunities to create innovative solutions that deliver financial returns and drive social impact. By focusing on businesses that solve critical societal problems, we ensure our investments are not only profitable but also transformative for Nigeria’s economic landscape.

Our investments are not just about solving immediate challenges but about creating a sustainable and inclusive future for Nigeria. We are proud to partner with businesses that share our vision of driving economic growth while addressing the structural issues that hold back progress. Together, we are building a stronger, more resilient economy.

## INVESTMENT PHILOSOPHY

**Question: Could you provide an overview of Aruwa Capital’s current investment thesis and its approach to Nigerian investments, particularly in balancing the dual objectives of delivering financial returns and creating social impact?**

**Response:** At Aruwa Capital, our investment philosophy is rooted in the belief that financial returns and social impact are not mutually exclusive, they can and must go hand in hand. Our thesis focuses on mid-sized businesses in high-growth sectors that are often underserved by traditional capital providers. These businesses operate in essential sectors such as healthcare, fintech, clean energy, and essential goods, which address critical needs in Nigeria and across Africa.

A key pillar of our strategy is our gender-lens approach, which prioritizes investments in businesses founded or led by women, or those creating products and services that disproportionately benefit women. We believe that being one of the few women owned and managed PE funds in the continent, we have a natural competitive advantage to invest in female led and female focused businesses whilst improving gender diversity across the value chains of our businesses. This trickle down effect to gender diversity in our portfolios improves profitability of our businesses, enhances the returns of our funds and enables us to create ripple effects that foster inclusive growth and transform underserved communities.

By aligning our impact metrics with financial performance, we ensure that our investments deliver tangible outcomes. For instance in 2023:

- Our 10 portfolio companies support over 175,000 direct and indirect jobs, with 56% of these roles held by women;
- Of the direct jobs we support, 44% of those are women under the age of 35 years old;
- 70% of the businesses in our portfolio are either founded or led by women; and
- Our companies serve over 600,000 customers, 58% of whom are women, highlighting our commitment to addressing the diverse needs of communities.

Through these investments, we’ve demonstrated that profitability and purpose can coexist. We’re proud to show that when capital is deployed intentionally, it can generate competitive financial returns while addressing pressing societal challenges. Aruwa’s philosophy is about more than solving today’s problems—it’s about building a

sustainable future where businesses drive both economic growth and meaningful social impact.

Our work proves that capital in the hands of the right businesses doesn't just create value—it transforms lives, communities, and economies. By showing the multiplier effect of inclusive investments, we aim to inspire more stakeholders to embrace this approach and redefine what success looks like in private equity.

## IDENTIFYING OPPORTUNITIES

**Question: What criteria does Aruwa Capital apply when identifying potential investee companies, and how do you ensure alignment with the firm's core values and strategic objectives?**

**Responses:** At Aruwa Capital, our investment criteria are tailored to identify established, rapidly growing companies in the small to lower mid-market segment. These businesses often fall between the traditional venture capital stage and the scale required by larger private equity funds, making them underserved by conventional capital providers.

We focus on companies that operate in high-growth industries and meet the following criteria:

1. **Essential Goods and Services:** We invest in businesses that provide goods or services that address fundamental needs, particularly those that cater to women and underserved communities.
2. **Gender Inclusion:** We prioritise companies that are founded or co-founded by women, actively support gender-diverse teams, or have women in their workforce, senior management, or value chains.
3. **Diverse Leadership:** Companies must demonstrate a positive attitude toward building and maintaining a diverse team, as this fosters resilience and innovation.
4. **Revenue Benchmarks:** We typically invest in businesses that have proven business models validated by achieving annual turnover of at least \$300k-\$500k.
5. **Proven Management Team:** The company must have a management team with a clear track record of successfully delivering on its business plan.

To ensure alignment with some of our core values which include **innovation, inclusivity, and impact**, we conduct rigorous due diligence that goes beyond financial metrics. This includes evaluating a company's social impact potential, scalability, and alignment with our gender-lens investment strategy.

For example, our portfolio company, Koolboks provide essential, solar-powered refrigeration solutions that directly address energy access challenges, particularly for women in underserved communities. Another portfolio company, Agroeknor supports agricultural value chains, empowering farmers and creating ripple effects across its ecosystem.

Through this targeted selection process, we ensure that our investments align with Aruwa's mission to deliver financial returns while driving transformative social impact. Each company in our portfolio reflects our commitment to fostering inclusive growth and building a sustainable economic future for Africa.

## PERFORMANCE AND SECTOR INSIGHTS

**Question: From a performance standpoint, how have private equity and venture capital investments fared against traditional investment options over the past five years? Which sectors are seeing the most investment and why? Could you share examples of successful investments?**

**Response:** The private equity (PE) and venture capital (VC) investments in Africa are primed to outperform traditional asset classes over the long term. Unlike traditional investments, which may offer stability but typically yield lower returns, the private market has the potential to deliver exceptional growth, particularly in sectors that address fundamental needs whilst solving complex problems. These sectors are seeing significant investment due to their resilience, growth potential, and ability to tackle pressing societal challenges.

One of the primary drivers of this performance has been the resilience and growth potential of sectors like fintech, healthcare, and agriculture. In fintech, for example, the rapid expansion of mobile payments, digital lending, and insurance solutions has led to a thriving ecosystem. These innovations not only have high growth potential but also play a crucial role in financial inclusion, providing underserved populations—especially women and small businesses—with access to services previously out of reach. Portfolio companies like **Fairmoney**, recognized by the Financial Times as the 12th fastest growing company, are leading the charge in bringing innovative solutions to market, proving the scalability of fintech in Africa.

Similarly, the healthcare sector has experienced substantial growth, driven by the increasing demand for affordable and accessible healthcare services. With the continent's growing population and rising health concerns, investments in healthtech and healthcare delivery are critical. These investments are addressing critical

infrastructure gaps and expanding access to essential services, while also creating long-term value. Portfolio companies like **Lifestores Healthcare** and **Mdaas**, which leverage technology to improve healthcare access, are exemplary in demonstrating how the sector is evolving to meet these needs.

Agriculture, a cornerstone of many African economies, has also attracted significant investment. Innovations in agriculture by portfolio companies such as **Agroeknor**, are revolutionizing the agricultural value chain by improving productivity, reducing waste, and enhancing food security. Furthermore, the sector is increasingly opening up opportunities for exports, allowing African agricultural products to reach international markets, and creating sustainable growth for the local economies. The agricultural sector continues to offer stable returns while also addressing core issues such as food security and rural development.

The success of private equity and venture capital in these sectors illustrates that investments can be both profitable and impactful. These sectors not only offer high growth potential but also provide tangible solutions to some of Africa's most pressing challenges. As demand for innovation and essential services continues to rise, these sectors will remain key areas of focus for investors, creating significant opportunities for both financial returns and positive societal impact.

## OUTLOOK AND KEY TAKEAWAYS

**Question: What is your outlook for private equity and venture capital investments in Nigeria and Africa for H2 2024 and 2025? Are there specific trends, sectors, or opportunities that you believe will shape the industry during this period?**

The outlook for private equity and venture capital investments in Nigeria and Africa for H2 2024 and 2025 is optimistic. We expect technology, clean energy, and healthcare to continue attracting significant investment due to their resilience and growth potential.

However, a key trend I would like to see would be the growing participation of local institutional investors, like pension funds and insurance companies, in private markets. This shift could unlock significant capital, reducing dependence on foreign investments and fostering greater economic stability.

As we look ahead, I believe the industry will increasingly prioritise impact-driven investments, leveraging innovative models to address Africa's most pressing

challenges. Aruwa remains committed to being at the forefront of this transformation, combining financial returns with transformative social impact.

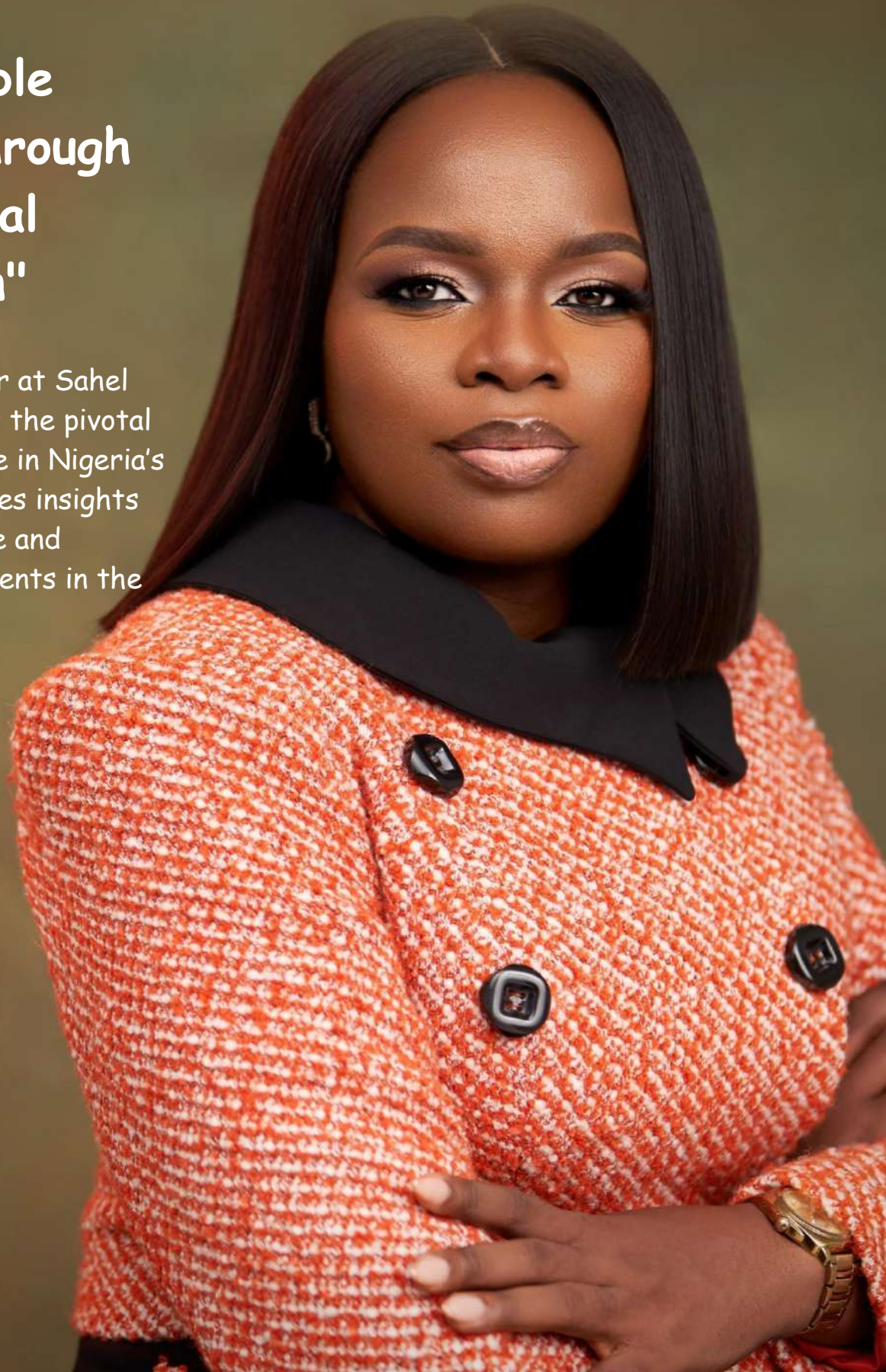
CEO SPOTLIGHT

In Conversation With *Oluwatosin Ojo, CFA*

PARTNER  
SAHEL CAPITAL

## "Sustainable Growth through Agricultural Innovation"

Tosin Ojo, Partner at Sahel Capital, highlights the pivotal role of agriculture in Nigeria's economy and shares insights on driving scalable and impactful investments in the sector.



**1. Congratulations on your promotion to Partner at Sahel Capital! What does this milestone mean to you, and how will your role evolve?**

Thank you. The promotion is a significant milestone in my career and it's like coming full cycle, having started my career journey in the financial services sector almost 17 years ago in retail banking. A significant part of my role as a partner is providing strategic leadership, to consolidate our position as a major agribusiness investment firm on the continent while deepening relationships with our investors, investees, regulators and other critical stakeholders.

**2. How has your experience shaped your perspective on Nigeria's agribusiness sector, and what emerging trends and opportunities excite you most?**

**Agribusiness Landscape**

As a sector specialist investing in the agribusiness sector, I have had the opportunity to see firsthand the difficult and multifaceted challenges of the sector in Nigeria. While funding is critical, the complex nature of the sector means that a different approach to funding is required. Funding needs to be appropriate for the different value chains in the sector. For example, primary production which is upstream in terms of value chain positioning has completely different risk to distribution and retail which is further downstream in the sector. The nature of the funding to these different segments of the value chain needs to be designed to appropriately address their risk. We need to design ecosystem solutions that can help address different aspects of the challenges in the sector from farm to table. Some of these solutions will be funding, some will be technical assistance, while others will be funding research and talent development. Our approach needs to be integrated if we truly want to solve the problem of food insecurity in Nigeria.

**3. What pain points do investors face in Nigeria's agriculture and agribusiness sectors, and how can they navigate and mitigate risks?**

**Investment Approach**

Agribusinesses are operationally intense. The manufacturing sector in Nigeria (of which agribusiness is a subsector) is faced with significant bottlenecks – from unavailability of raw

material/feedstock, to energy, to logistics and distribution challenges. For most agribusinesses the two biggest problems have been shortage of raw material (because we are not producing enough at primary production level given very low yields) and inaccessibility to the right type of working capital finance (i.e. finance that's appropriately priced and structured for agribusinesses). Investors in the sector need to understand these dynamics and figure out a wholistic approach that ensures they can support their investee companies to address these problems.

**4. Outline Sahel Capital's current investment thesis and approach to Nigerian agriculture.**

We are very bullish on the agriculture sector in Nigeria, in SubSaharan Africa at large. The challenges are enormous but so are the opportunities. We have developed significant expertise over the last 10+ years with our first fund - Fund for Agricultural Finance in Nigeria (FAFIN) and more recently with our fund SEFAA (Social Enterprise Fund for Agriculture in Africa) which is investing in 13 Sub-Saharan African countries. Our approach has evolved based on the lessons over the last 10+ years. I will outline how our approach has evolved as follows1. Catalytic capital is crucial to unlock capital to the sector, given the relatively higher risk compared to other sectors, like service sector. Hence, the successor fund to FAFIN – Sahel Capital Agribusiness Fund 2 (SCAF II - which we are targeting for Q1 2025 first close), has been structured with a catalytic capital layer. 2. There's significant need for working capital that's appropriately priced and delinked from short term monetary policy volatilities for the sector. This implies that there's a need for different fund strategies. This has informed the strategy for our private credit fund – SEFAA. 3. Multi-country exposure is important to manage currency and macro risk – which has also informed our strategy for SEFAA and SCAF II.

**5. What criteria do you use to identify potential investee companies in agribusiness?**

We adopt fundamental approach to identify or chose the subsectors we want to focus on. Within these subsectors, we identify leaders or major challengers and develop relationships with them to understand their business better with the aim of being an investor. More importantly though, we have found that the ability to identify and back the

right founders or managers, is the most critical determining factor of how an investment would perform. Finding this “right” counterparties is more nuanced...it’s not easily determinable in a model. It’s a combination of significant knowledge of the counterparty which comes from deep relationship building.

### **Sustainable Agriculture**

#### **6. How does private equity promote sustainable agricultural practices and agribusiness growth in Nigeria?**

Climate adaptation is a key component of our investment approach, given that the agriculture sector is facing extreme effect of climate change from drought to excess floods all across the continent. Our approach to climate adaptation depends on the value chains. It would range from using flood resistant seeds, to minimising the use of inorganic fertilisers, to recycling of bio waste. In our previous portfolio company – Coscharis, significant capex went into managing the effect of excess floods, as well as deploying flood resistant seeds. As institutional investors we have the unique opportunity to ensure that sustainability is mainstream across the different agribusiness value chains in which we invest.