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## **An Investor's Guide To Nigeria's Technology Market**

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## Introduction

Bustling with a population of 200 million people and the largest market in Africa, Nigeria is uniquely positioned as a hotbed of innovation and technological advancement. Nigeria is also Africa's largest ICT market, accounting for about 29% of internet usage in Africa. The Nigerian Communications Commission (NCC), in May 2021, reported that Nigeria had more than 160 million active mobile telecom subscribers of GSM.<sup>1</sup>

Nigeria is one of Africa's 'big four' start-ups ecosystem, besides Egypt, Kenya, and South Africa and it spots about 481 active start-ups as of August 2022.<sup>2</sup> Though interest in the Nigerian tech economy seems to have increased in recent years and more investors are willing to inject money into start-ups, technology companies are not particularly new in Nigeria. Interswitch, Nigeria's foremost technology company was founded in 2002. However, the majority of the 481 active start-ups were launched after 2011. To date, Interswitch has raised about US\$320.5 million, with US\$110 million raised before the close of its last funding round of May 2022 from a private equity fund. This demonstrates the depth of the market and the potential for scalability and growth.

The evolving business environment presents endless possibilities that

showcase Nigeria as a rewarding target for foreign direct investment. Between January 2015 and August 2022, the total funding volume raised by technology companies is estimated at US\$2,068,709,445. The five biggest deals in the tech ecosystem in 2022 were Flutterwave with a record US\$250 million, Interswitch with US\$110 million in its 15% sell down, Moove with US\$105 million, TeamApt with more than US\$50 million, and Venture Platform with US\$46 million. These deals were dominated by investors from the United States of America and other countries mostly based outside Africa.<sup>3</sup> There were significant activities from local investors in 2022, even though they did not make the top five lists.

This work explores the technology scene in Nigeria, in areas such as setting up, funding, incentives, innovations, and regulatory activity. It is designed to present a detailed overview for an intending investor in the Nigeria technology industry.

## Enabling Environment For Technology Investments

Harbingers of technology investments in Nigeria include advancement in mobile broadband penetration, digital entrepreneurship, technology hubs, digital infrastructure (comprising access and affordability to high-speed internet), availability and accessibility of incubators/accelerator hubs, robust data

<sup>1</sup> International Trade Administration, "Nigeria – Country Commercial Guide" (ITA, U.S. Department of Commerce) <https://www.trade.gov/country-commercial-guides/nigeria-market-overview>

<sup>2</sup> Disrupt Africa, "The Nigerian Startup Ecosystem Report 2022" <https://disrupt-africa.com/wp-content/uploads/2022/09/The-Nigerian-Startup-Ecosystem-Report-2022.pdf>

<sup>3</sup> Frank Eleanya, "Foreign Investors Dominate Top Deals in Nigerian Tech in 2022" (Business Day, December 29, 2022) <https://businessday.ng/technology/article/foreign-investors-dominate-top-deals-in-nigerian-tech-in-2022/>

protection and privacy laws, and government policies.

## Business Environment

Nigeria hosts several high-growth technology companies. Though digitization of firms in traditional industries and rural locations are still limited, larger firms are actively using digital technology for basic purposes such as customer communications. Active locations include Lagos State which is poised as a mature and active ecosystem with dynamic incubators, venture capital companies, and digital start-ups. Similar ecosystems are fast growing in the cities of Abuja and Port Harcourt with potential for expansion to other cities.<sup>4</sup>

One of Nigeria's biggest strengths is its e-commerce market which was ranked by United Nations Conference on Trade and Development's (UNCTAD) business to customer report for 2018 as the biggest market both in terms of revenue and shoppers in Africa. As of 2018, the e-commerce spending in Nigeria was estimated at US\$ 12 billion with a projected increase to US\$ 75 billion by 2025. In terms of digital commerce, UNCTAD ranked Nigeria as second in Africa below Mauritius.<sup>5</sup> Taking a cue, the Federal Government of Nigeria (**FGN**) launched an official digital platform dubbed the Central Portal for Government Services ([www.services.gov.ng](http://www.services.gov.ng)).

<sup>4</sup> World Bank Group, "Nigeria Digital Economy Diagnostic Report" (Washington, DC: World Bank, 2019)  
<https://documents1.worldbank.org/curated/en/387871574812599817/pdf/Nigeria-Digital-Economy-Diagnostic-Report.pdf>

<sup>5</sup> Ibid.

<sup>6</sup> Frank Eleanya, "Nigeria's Broadband Penetration Rate Moves at Snail Pace", (BusinessDay, 28 December 2022)

In 2020 when the broadband plan was launched, Nigeria's broadband penetration stood at 38.49%. As of October 2022, the penetration stood at 45.55%. The country has set a 70% penetration target by 2025. This implies an additional 24.49% of broadband coverage to achieve.<sup>6</sup> The rollout of 5G network in Nigeria is ongoing, with MTN Nigeria Communications Plc being one of the two network providers to be awarded the spectrum in Nigeria and the first to launch the 5G network in Lagos and six other cities in August 2022. With MTN's roll-out, Nigeria joins Botswana, Egypt, Gabon, Lesotho, South Africa, Uganda, Zimbabwe, Madagascar, Kenya, and Ethiopia in the search for mainstream 5G adoption.<sup>7</sup> The 5G network is not yet available to all Nigerians because of other dependencies, including the compatibility of devices. To enable customers to bypass the impediment of non-compatibility of about 70% of smart devices in Nigerian market, MTN introduced the 5G router.<sup>8</sup>

The Central Bank of Nigeria's (the "CBN") introduced a cashless policy which seeks to reduce the amount of physical cash in circulation and encourage the use of electronic platforms for settlement of payment for goods and services. While the enforcement is strained, the policy is guided by the introduction of various electronic modes of payment, including mobile bank transfers, banking agents, Universal Supplementary System Data

<https://businessday.ng/technology/article/nigerias-broadband-penetration-rate-moves-at-snails-pace/#:~:text=Nigeria's%20broadband%20penetration%20stood%20at,penetration%20stood%20at%2038.49%20percent>

<sup>7</sup> Frank Eleanya, "5G Rollout: Nigeria's Journey to Quality Internet" (BusinessDay, 16 November 2022)  
<https://businessday.ng/technology/article/5g-rollout-nigerias-journey-to-quality-internet/>

<sup>8</sup> Ibid.

(USSD), QR codes, Point of Sale (POS), and mobile money.

### Legal & Regulatory Activities

Nigeria has witnessed a rapid growth in its technology landscape as evidenced by the significant increase in foreign investments in technology as well as the emergence of the country's technology-focused stock exchange.

The FGN established the Universal Service Provision Fund (USPF) in 2006 to facilitate the achievement of national policy goals for universal access and service to information and communication technologies (ICT) in rural and under-served areas in Nigeria. Implementation of the USPF led to the Accelerated Mobile Phone Expansion project which targeted the achievement of full voice coverage by 2017. The objectives were to bring faster telephone coverage to remote places, promote universal access to ICT, easier information dissemination and a wide range of value-added services in underserved and unserved areas. In 2012, the National Information and Communication Technology Policy was launched with the objective to create a conducive environment for the rapid expansion of ICT networks and services that are accessible to all at reasonable costs. In the same year, the FGN issued the National Financial Inclusion Strategy (NFIS) to ensure an increase in both access to and use of financial services by bankable adult Nigerians by 2020. The NFIS also aims to reduce credit risks and transaction costs associated with serving financially excluded Nigerians and to improve microenterprises.

The CBN launched the Payments Systems Vision 2020 in 2006, as a roadmap to drive the adoption of electronic payments in Nigeria.<sup>9</sup> Overtime, the CBN introduced circulars, policies, and regulations to provide a robust framework for technology investments. CBN regulatory activities encompass areas in financial technology (Fintech) such as the introduction of Agent Banking, tiered know-your-customer requirement, and mobile money operations. Policies made by the CBN include the Revised National Financial Inclusion Strategy, the Strategy for Leveraging Agent Network for Women's Financial Inclusion, the National Financial Technology Strategy, the Nigeria Financial Services Maps. Recent regulations comprise New License Categorisations for Nigerian Payment Systems in 2020, Framework for Quick Response Code Payments in Nigeria in 2021, Regulatory Framework for Open Banking in Nigeria in 2021, Supervisory Framework for Payment Service Banks (PSB) in 2021, Guidelines for Licensing and Regulation of Payments Service Holding Companies in Nigeria in 2021, and Guidelines for Contactless Payments in 2022.

In addition to regulations made for Fintech companies and traditional banks operating in the Fintech space, the CBN through the PSB license gave the greenlight to telecommunication companies to complement the services of other banks and Fintech companies rather than compete with them. The license permits these companies to use technology and agency banking to mobilise deposits and facilitate transfers from unbanked consumers in rural regions and any other location in Nigeria where they exist.

<sup>9</sup> The Payment Systems Vision 2020 has been revised with the Payment System Vision 2025.



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To enable ready access to funds for technology companies, the Nigerian Exchange Group (NGX) announced in February 2022 that they intend to revise listing rules to become start-up friendly. They further indicated that they would develop a board tailored after the National Association of Securities Dealers Automated Quotation (NASDAQ).<sup>10</sup> In December 2022, the Securities and Exchange Commission ("SEC") approved the new rules for listing Fintech start-ups on the NGX platform. This is very significant as in-scope companies may now list on the NGX platform to raise capital. Previously, startups like Flutterwave and OPay were listed in foreign markets while operating in Nigeria and other African markets.

Other regulators with significant activities in the Fintech space include the SEC and the Federal Competition and Consumer Protection Commission ("FCCPC"). The SEC in May 2022 made rules on the issuance and custody of digital assets as well as offering platforms, while the FCCPC in August 2022 issued interim guidelines to regulate digital lending platforms in Nigeria.

A major statutory highlight is the Nigerian Start-Up Act 2022. The objective of the Start-Up Act is to create an enabling environment for technology-based startups in Nigeria. An important innovation of the Start-Up Act is the provision of the "Startup Investment Seed Fund" which shall be applied to provide a labelled startup with finance, and to provide relief to technology laboratories, accelerators, incubators, and hubs. There will also be the establishment of Technology Development Zones with the aim of spurring the growth and development of startups, accelerators, and incubators across Nigeria.

### Technology Penetration & Investments

As Nigeria's technology node for business and investment, Lagos is home to majority of technological companies, hubs, accelerators, and incubators. At least 161 Fintech startups (93% of the total) were established in Lagos.<sup>11</sup> The center of Lagos' technology industry is Yaba. The number of startups that began in the community have given rise to its nickname – Yabacorn Valley. These technology startups are international in scope. Foreign venture capital firms account for majority of funding, but there is access to local funding through a growing venture capital network. As a testament to the city's sway in the technological space, Y Combinator held its first event in Africa in Lagos in 2016. In 2021, Nigeria recorded the highest number of tech hubs (85), followed by South Africa which has 80 hubs.<sup>12</sup> Kenya comes third with nearly 50 technology hubs, and

<sup>10</sup> Davidson Oturu & Akintunde Agunbiade, "The Impact of NGX Tech Board on the Tech Startups", (Business Day, January 13, 2023) <https://businessday.ng/news/legal-business/article/the-impact-of-ngx-tech-board-on-the-tech-startups/>

<sup>11</sup> Supra, n2.

<sup>12</sup> Chinwe Micheal and Francis Onyemachi, "Explainer: What Constitutes a Tech Hub" (BusinessDay, 8 February 2023) <https://businessday.ng/big-read/article/explainer-what-constitutes-a-tech-hub/>

conversely, Lagos has more than 40 technology hubs.

Fintech companies lead most of the technology companies in Nigeria with 174 companies out of the 481 active start-ups. E-commerce, e-health, and ed-tech companies come in second, third, and fourth place respectively. Technology companies spread across industries such as recruitment, logistics, entertainment, marketing, legal-tech, agri-tech, waste management, and auto-tech.<sup>13</sup> Altogether, these companies employ about 19,334 people, with Fintech companies accounting for almost half with 8,653 jobs.<sup>14</sup>

Sector-wise, Fintech draws the most attention as well as the lion's share of funding. Leaders of Fintech sub-sectors include payments and remittances (with 46 startups, representing 26.6% of Nigerian Fintech companies) and lending and financing (with 34 startups, representing 19.7% of Nigerian Fintech companies). Other sub-sectors are blockchain (11%), invest-tech (10.4%), personal finance (8.1%), business admin (6.9%), insurance-tech (3.5%), open banking (2.9%), security & ID (2.3%), and other (8.7%).<sup>15</sup> Given that consumers increasingly struggle to access traditional credit-based services, lending and financing solutions are popular among startups. E-commerce and retail-tech comes second place behind Fintech with 58 startups accounting for 12.1% of total technology companies in Nigeria.<sup>16</sup> E-commerce activities are diverse with majority being multi-product online stores; others include retail-tech solutions, designed to help existing physical retailers

to digitize and scale their operations; and niche areas like food and drink, apparel and accessories, furniture, and décor, B2B, and auto.<sup>17</sup>

In terms of investment, Nigeria attracts the highest number of investors of any African country. Between 2015 and 2022, at least 641 entities have made equity investments into the country's technology companies. Nigeria also has a better-established local investment network than other African countries. Key local investors include venture capital firms such as Ventures Platform, Microtraction, GreenHouse Capital, Future Africa, Aruwa Capital Management, and Alitheia IDF Fund.<sup>18</sup> Mergers & acquisition activity is slow in the Nigerian technology scene. Only six deals took place between 2016 and 2020 and a total of seven startups were acquired in 2021.<sup>19</sup> A significant deal was struck in 2020 when Paystack was acquired by Stripe for US\$ 200,000,000.

There are still several sectors that should be explored as a result of their value, projection and consistency (the "**Blue Ocean Sectors**"). For example, in the recent *Partech Africa VC report* African tech has seen 1,149 active investors in 2022, compared to 891 in 2021 of which Nigeria contributed to \$1.2B through 189 Deals. The major contributors in Nigeria were with respect to deals done in the Fintech (\$798M), e-commerce(\$96.9M), logistic-tech (\$71.4M) insure-tech (\$47.6M) and health-tech/e-health (\$41.3M). Other areas which contributed minimally include sectors such as agritech (\$2.8M), ed-tech (\$10.1M), and entertainment (\$10.2M). These sectors have however been

<sup>13</sup> Supra, n2

<sup>14</sup> Ibid.

<sup>15</sup> Supra, n2.

<sup>16</sup> Ibid.

<sup>17</sup> Ibid.

<sup>18</sup> Ibid.

<sup>19</sup> Ibid.

consistently funded and yielded result over the years. According to Disrupt Africa Report 2021, these Blue Ocean Sectors contributed to 16.9% of the total fund raised in Nigeria in 2021, in the following instances – agritech – 2.6% (\$23M), transport – 3.9% (\$35M), e-health/health-tech – 4.2% (\$37M), ed-tech – 6.2% (\$55M). These sectors are consistent and it's a great spot for Investors to explore.

## **CONCLUSION**

Technology penetration promises better living conditions especially for underserved and unserved populace as well as a sustained economic boost. Technology companies deal in products and solutions that are consumer focused. In this work, we decided to follow the money, and the resulting picture showed Fintech taking up majority of the market share. Fintech companies unbundle financial services to cater for the unbanked and underbanked.

However, we equally showed other opportunities for investors in less saturated Blue Ocean Sectors.

These are fertile ground for more investments. Our analysis show that most investments are targeted at Fintech and e-commerce, with e-health, ed-tech, mobility & logistics, recruitment & HR, agri-tech, and entertainment making up the Blue Ocean Sectors.

Additionally, the spate of technology growth in Nigeria is engendered by an enabling environment brought on by the market size, regulatory activities focused on technological infrastructure, regulatory innovation, robust data privacy and protection laws, and ease-of-doing business. With all of these in place, Nigeria is the tech go-to destination in Africa.

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