EVALUATING THE CORPORATE LEGAL FRAMEWORKS REGULATING ALTERNATIVE FINANCING MECHANISMS FOR NIGERIAN STARTUPS

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Abstract
The rapid growth of alternative financing has necessitated diverse and innovative financing mechanisms beyond traditional banking system. Alternative financing mechanisms such as crowdfunding, venture capital, and peer-to-peer lending have emerged as crucial sources of funding for startups seeking flexibility and accessibility. However, the effectiveness of these mechanisms is significantly influenced by corporate legal framework governing their operations. Using a doctrinal research methodology, this paper evaluates the corporate legal frameworks regulating alternative financing mechanisms for Nigerian startups. The study examines the existing corporate legal frameworks in Nigeria, including the Companies and Allied Matters Act and the Investment and Securities Act, in fostering a conducive environment for startup financing. It identifies gaps in the Nigeria's existing legal framework. Findings reveal regulatory recognition of the importance of alternative financing mechanisms in Nigeria but reveal a lack of comprehensive and coordinated approach necessary to fully realize the potential of these mechanisms. The study recommends targeted reforms, enhanced inter-agency coordination, public education campaigns and responsive regulatory approaches to address the identified gaps.

Keywords: Evaluate, Corporate Legal Frameworks, Alternative Financing Mechanisms, Nigeria, Startups

1. Introduction

The Nigerian startup ecosystem has experienced significant growth in recent years, with entrepreneurs increasingly exploring alternative financing mechanisms to fund their businesses. Traditional financing options, such as bank loans, have often proven inadequate in meeting the capital needs of startups due to stringent lending conditions, high interest rates, and collateral requirements.[1] As a result, alternative financing mechanisms such as venture capital, angel investment, crowdfunding, and peer-to-peer lending have gained traction as viable means for sources of funding for Nigerian startups. However, the effectiveness and sustainability of these financing mechanisms are largely dependent on the corporate legal frameworks governing them. As such, corporate legal frameworks, including the Companies and Allied Matters Act, the Investment and Securities Act, the Securities and Exchange Commission regulations, and the Central Bank of Nigeria policies, play a critical role in shaping the financial landscape, particularly for startups in Nigeria, by ensuring the effective regulation of alternative financing mechanisms.

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[1] B I Gumel and B Bardai, 'Barriers to Accessing Financial Institutions Funding for Nigerian SMEs' (2021) 10(6)*International Journal of Business and Economics Research*, 219.

With the increasing reliance on digital technologies and innovative solutions like crowdfunding and peer-to-peer lending, clear legal provisions are essential for fostering economic inclusion and entrepreneurial growth. These mechanisms offer a lifeline to startups, which often face barriers to traditional financing, but their potential can only be realized under well-defined legal framework that provide a stable and predictable environment for business operations and financial transactions. However, gaps in these frameworks often hinder the seamless integration and growth of alternative financing mechanisms. For example, the historical absence of comprehensive crowdfunding legislation led to unregulated platform proliferation and participant risk exposure. However, the ISA 2025 now establishes a stringent legal framework that mandates the registration of all securities issued through crowdfunding portals.[2] Nevertheless, enforcement challenges and limited capacity within regulatory agencies exacerbate the issues, creating a precarious environment for both startups and investors.

This situation necessitates a critical evaluation of corporate legal frameworks regulating alternative financing mechanisms for Nigerian startups. This study specifically seeks to examine the current corporate legal frameworks governing alternative financing mechanisms in Nigeria, identify gaps and inconsistencies in these frameworks and provide recommendations for legal and regulatory reforms that would enhance access to alternative financing for Nigerian startups while ensuring investor protection and financial system stability.

2. Overview of Alternative Financing Mechanisms

Alternative financing mechanisms represent a diverse and evolving landscape of funding sources that exist outside the traditional realm of banks and public equity markets, offering crucial pathways for businesses, individuals, and projects to secure capital for growth, innovation, and various other needs.[3]For startups, these alternative sources are vital as they offer more accessible, flexible, and tailored funding options that align with the unique needs and risk profiles of early-stage businesses. These mechanisms include crowdfunding, peer-to-peer lending, venture capital, angel investing and blockchain-based innovations like Initial Coin Offerings and tokenization.

Crowdfunding entails raising small amounts of money from a large number of people, typically via online platforms.[4] Crowdfunding leverages the collective contributions of a large number of individuals, often through online platforms, bypassing traditional financial intermediaries to finance a specific project, business venture, or personal need.[5]Crowdfunding encompasses various models, including reward-based crowdfunding, where contributors receive non-monetary rewards in exchange for their contributions. Reward-based crowdfunding offers backers a product or service in return for their support. Equity crowdfunding allows investors to receive equity shares in a company in return for their investment.[6]Equity crowdfunding can attract serious investors who believe in long-term potential while donation-based crowdfunding relies on philanthropic contributions without any expectation of financial or material return. It is often used for social causes

[2] See CAMA, ss 3 & 86.

[3] A Schwienbacher, and B Larralde, *'Crowdfunding* of small entrepreneurial ventures' in. *Handbook of Entrepreneurial Finance* (Oxford University Press, 2010).

[4]G Elias, 'Crowdfunding in Nigeria' <https://www.gelias.com/images/Newsletter/Crowdfunding_in_Nigeria.pdf> accessed 22 August 2025.

[5] E Mollick, 'The Dynamics of Crowdfunding: An Exploratory Study' (2014) 29(1) *Journal of Business Venturing*, 1.

[6]See L Hornuf and A Schwienbacher, 'Market Mechanisms And Funding Dynamics In Equity Crowdfunding' 2018) 50(C) *Journal of Corporate Finance*, 556.

or charitable projects. Entrepreneurs can tap into this model to support community-driven initiatives. Crowdfunding allows start-ups and developers of creative ideas to manage; the funding strategy leverages the power of the Internet through the use of social media to raise funds.[7]These platforms therefore allow businesses to present their ideas and secure funding from many small investors. The success of crowdfunding platforms hinges on their ability to build trust, facilitate communication between fundraisers and backers, and provide efficient mechanisms for payment processing and fund distribution. Regulatory frameworks surrounding crowdfunding vary significantly across jurisdictions, impacting the types of offerings allowed and the level of investor protection in place.

Another significant alternative financing mechanism is peer-to-peer lending, which facilitates direct loans between businesses and individuals without the intermediation of traditional banks.[8] Peer-to-peer lending platforms typically employ sophisticated algorithms to assess borrower creditworthiness and match them with suitable lenders, offering quicker access to credit for startups.[9]The growth of peer-to-peer lending has been particularly notable in the consumer and small business lending sectors, providing access to credit for individuals and enterprises that may have been underserved by traditional banks. Nigerian platforms like Carbon, and Fair Money facilitate such lending, providing an alternative to bank loans for entrepreneurs seeking capital.[10]

Venture capital represents another crucial form of alternative financing for entrepreneurial sector as it involves investment funds that manage pooled capital from investors to invest in startups and small- to medium-sized enterprises with strong growth potential. Hisrich and Peters defined venture capital as professionally managed pool of equity capital.[11] It is a strand of private equity finance which involves investments in unquoted companies (with growth potential) in exchange for a stake in the company by the venture capitalists. [12]Venture capital firms provide not only funding but also strategic mentorship and networking opportunities, making them indispensable to startup growth.[13]Venture capitalists are typically sophisticated investors who bring not only capital but also valuable expertise, networks, and strategic guidance to the companies they invest in. The venture capital investment process involves rigorous due diligence, negotiation of investment terms, and ongoing monitoring and support of portfolio companies.[14] Venture capital plays a vital role in fostering innovation and economic growth by providing the necessary capital for disruptive technologies and business models to scale and reach their full potential. In Nigeria, firms like Ingressive Capital, Ventures Platform, and Greenhouse Capital provide such funding, offering not only capital but also strategic guidance and industry connections to help startups scale.

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[7] O E Ajayi and O Toba, 'Crowdfunding and SMEs Funding in Nigeria-Pros and Cons' (2020) 63(1) *International Journal of Research Publications*, 42

[8]Y A Akhmad, S K Wiryono and S Sukarno, 'Mitigating Default Risks In Peer-To-Peer Lending Platforms: The Role Of Information Asymmetry In Indonesia' (2024) 27 (3s) *African Journal of Biomedical Research*, 1201.

[9]Meegle, 'P2P Lending for Financial Inclusion' <https://www.meegle.com/en_us/topics/p2p-lending/p2p-lending-for-financial-inclusion> accessed 22 August 2025.

[10] M Ogagavworia & Co, 'The Future of Fintech in Nigeria and Investment Opportunities for Foreign Investors' <https://mocaccountants.com/the-future-of-fintech-in-nigeria-and-investment-opportunities-for-foreign-investors/> accessed 22 August 2025

[11]D. R. Hisrich and P. M. Peters, *Entrepreneurship* (Hill Publishing Co. Ltd, 2002).

[12] W G Ollor and D W Dagogo, The Effect of Venture CapitalFinancing on the Economic Value Added Profile of Nigerian SMEs' (2009) 5(5) *African Journal of Accounting, Economics, Finance and Banking Research,* 37.

[13]J Lerner and P Gompers, *The Venture Capital Cycle* (2nd ed, The MIT Press, 2006).

[14]J Karstikko, 'From Sourcing to Exit: The Complete VC Investment Process' <https://rundit.com/blog/the-complete-vc-investment-process/> accessed 23 August 2025

Moreover, Angel investors are high-net-worth individuals who provide capital to early-stage startups in exchange for equity ownership or convertible debt.[15]Angel investors are often entrepreneurs themselves and can offer valuable mentorship and business connections in addition to financial support.[16]Beyond financial support, they often offer mentorship and access to their business networks. Angel investing can be a crucial stepping stone for startups before they are ready to attract venture capital funding. Angel networks such as the Lagos Angel Network, Abuja Angels Network, and LeadPath Nigeria connect startups with potential angel investors, facilitating early-stage funding critical for business development.

Unlike venture capitals, angel investors often offer mentorship and industry connections, which can be invaluable to startups. However, the informal nature of angel investing in Nigeria creates legal uncertainties. Issues of enforceability of contracts, valuation, and governance can arise in the absence of standard investment frameworks.

Beyond these well-established forms, alternative financing also encompasses newer and more niche mechanisms. Initial coin offerings and security token offerings emerged as novel ways for blockchain-based projects to raise capital by selling digital tokens to investors.[17] While initial coin offerings have faced regulatory scrutiny due to concerns about fraud and investor protection, security token offerings, which offer regulated digital securities, represent a more compliant approach to raising funds in the blockchain space.

The growth and diversification of alternative financing mechanisms have several important implications. For businesses, it provides access to a wider range of funding options tailored to their specific needs and stage of development, potentially reducing reliance on traditional bank loans and equity markets. For investors, it offers new asset classes and potential for higher returns, although often accompanied by increased risk. For the broader economy, alternative financing can foster innovation, support entrepreneurship, and contribute to job creation. In addition, recent studies have highlighted the potential of alternative financing mechanisms to support the growth of startups and small businesses in Nigeria. For example, a study by Hoque found that crowdfunding can provide more than just financial support, as it can also help entrepreneurs validate their ideas and build a community of supporters.[18]

3. Corporate Legal Frameworks Regulating Alternative Financing Mechanisms in Nigeria

Corporate legal frameworks refer to the set of laws, regulations, and institutional mechanisms that govern the formation, operation, and financing of businesses. These frameworks play a critical role in regulating alternative financing mechanisms and ensuring that they operate in a fair, transparent, and investor-friendly manner.

[15]AvisenLegal, 'Understanding Angel and Venture Capital Investments: Legal Considerations' <https://www.avisenlegal.com/understanding-angel-and-venture-capital-investments-legal-considerations/> accessed 23 August 2025.

[16] ibid.

[17]P C Oberheiden, 'Initial Coin Offerings (ICOs) and Security Token Offerings (STOs): A Comparative Analysis', <https://blockchainlawyer.com/> accessed 23 August 2025.

[18]M M Hoque, Crowdfunding for innovation: a comprehensive empirical review, https://fbj.springeropen.com/articles/10.1186/s43093-024-00387-5> accessed 23 August 2025.

In Nigeria, key legislative instruments, such as the Companies and Allied Matters Act, the Investment and Securities Act, and SEC's Crowdfunding Regulations 2021, provide the foundation for regulating alternative financing. As these new funding models continue to grow and mature, it is essential to examine the legal frameworks that govern them and explore opportunities for improvement.

Companies and Allied Matters Act 2020

The primary legislation governing corporate entities is the Companies and Allied Matters Act 2020,[19] which replaced the earlier CAMA 1990 to reflect modern business realities. CAMA provides comprehensive guidelines on company incorporation, management, and winding-up processes, as well as directors' responsibilities, shareholder rights, and corporate governance standards.[20]

While the CAMA 2020 serves as the principal legislation governing corporate entities in Nigeria, its direct regulation of alternative financing mechanisms for Nigerian startups is not explicit or comprehensive. CAMA 2020 primarily focuses on the formation, management, and dissolution of companies, as well as related matters such as share capital, debentures, and corporate governance. However, certain sections of CAMA 2020 have indirect implications and can be interpreted as providing a foundational structure that could be relevant to some forms of alternative financing.

One area where CAMA 2020 has a significant, albeit indirect, impact is through its provisions on share capital and the issuance of shares. Section 27(2)(a) stipulates the minimum issued share capital for private companies at N100,000.00 and for public companies at N2,000,000.00. While this does not directly regulate alternative financing, it sets a baseline for companies seeking equity funding, which is a core component of mechanisms like angel investment and venture capital. However, this minimum capital requirement presents both advantages and limitations for startups seeking alternative financing, as the N100,000.00 threshold, though relatively accessible, fails to recognize the iterative nature of modern startup development where minimal viable products often require less initial capital, and creates an artificial distinction that may not reflect the actual capital needs of technology-driven startups that rely heavily on intellectual property rather than physical assets.

Furthermore, sections 141 to 157 of CAMA 2020 detail the powers of companies to issue shares, the pre-emptive rights of existing shareholders, the issuance of different classes of shares and the process of allotment. These provisions are crucial for startups that raise capital by selling equity to investors, regardless of whether these investors are traditional venture capitalists or individuals participating in equity crowdfunding even though equity crowdfunding itself is not specifically addressed. While the comprehensive framework provides legal certainty and allows for sophisticated equity structures through multiple share classes, it suffers from fundamental deficiencies that limit its effectiveness for alternative financing mechanisms, including the absence of specific provisions for equity crowdfunding platforms, no recognition of convertible preferred

[19] Hereinafter referred to as 'CAMA'

[20] Legal and Regulatory Framework of Corporate Governance in Nigeria and the Benefits of Corporate Governance, https://firstfiduciary.ng/legal-and-regulatory-framework-of-corporate-governance-in-nigeria-and-the-benefits-of-corporate-governance/

shares which are cornerstone instruments in venture capital financing, and the lack of framework for employee stock option pools that are critical for startup talent acquisition.

The legal framework surrounding share issuance ensures a degree of transparency and defines the rights and obligations associated with different types of equity ownership, yet this transparency framework, designed primarily for traditional investors, proves inadequate for the unique needs of alternative financing participants. The provisions lack specific disclosure requirements for alternative financing platforms, fail to address the educational needs of retail investors who may participate in crowdfunding without sophisticated financial knowledge, and provide no integration with securities law requirements, thereby creating potential overlapping or conflicting obligations that could discourage innovative financing arrangements. Moreover, the rigid pre-emptive rights provisions, while protecting existing shareholders from dilution, may create unnecessary complexity for the rapid funding rounds that characterize many alternative financing mechanisms, and the absence of proportionate regulations means that small startups face the same regulatory burden as large corporations despite their fundamentally different risk profiles and capital needs.

Part D of CAMA 2020 further elaborates on Limited Partnerships, which are also relevant to the alternative financing landscape, particularly for venture capital and private equity funds. Limited Partnerships allow for a structure where some partners[21] have limited liability and typically do not participate in the day-to-day management of the partnership, while others[22] have unlimited liability and manage the partnership's operations.[23] This structure is commonly used for investment funds, where the general partners make investment decisions and the limited partners provide capital. CAMA 2020 provides a more detailed legal framework for Limited Partnerships compared to previous legislation, which did not make any provision for limited partnerships,[24] outlining the rights, obligations, and liabilities of partners, which is essential for establishing and operating investment funds that may invest in Nigerian startups.[25]

However, while this framework represents a significant improvement in providing legal clarity for traditional investment fund structures, it remains fundamentally limited in addressing the broader alternative financing ecosystem, as the provisions primarily benefit institutional investors and fund managers rather than directly facilitating startup access to diverse financing sources. The Limited Partnerships framework, though sophisticated in its treatment of traditional fund structures, fails to accommodate newer forms of collective investment that characterize modern alternative financing, such as investment clubs operating through digital platforms, community-driven funding initiatives, or hybrid structures that combine elements of crowdfunding with traditional limited partnership arrangements, thereby creating regulatory gaps that may discourage innovative approaches to startup financing.

Furthermore, CAMA 2020's provisions on debentures and charges[26]are relevant to debt-based financing, which could include debt crowdfunding or other forms of private debt arrangements for

[21]limited partners, CAMA s 795 (4)
[22]general partners; CAMA 2 795 (3)
[23]CAMA, s 795 (3); Bakare, M. A. (2020). Limited partnerships under the Companies and Allied Matters Act 2020: A new dawn for investment in Nigeria? *Law and Development Review*, *23*(2), 187-205.
[24] CAMA 1990
[25]See Part D of CAMA 2020
[26] CAMA, ss 191 - 234

startups. Sections 191 to 234 of CAMA outline the creation of debentures, the registration of charges, and the rights of debenture holders providing a legal framework for secured and unsecured debt financing. Startups seeking debt financing through alternative channels would need to comply with these provisions to ensure the validity and enforceability of their debt obligations and the security interests granted to lenders.

However, it is crucial to acknowledge that CAMA 2020 does not explicitly address many of the emerging alternative financing mechanisms that are becoming increasingly relevant for startups, such as crowdfunding,[27] peer-to-peer lending platforms, or the issuance of digital assets. The absence of specific provisions for these mechanisms creates a regulatory gap and can lead to uncertainty regarding their legal standing, investor protection, and operational requirements in Nigeria.

Investment and Securities Act, 2025

The Investments and Securities Act 2025, enacted in March 2025, represents a significant overhaul of Nigeria's capital market regulatory framework, repealing the ISA 2007. The Act regulates capital market activities, including securities transactions and investments and aims to protect investors, ensure market integrity, and foster economic development through efficient capital market operations.

One of the key provisions of ISA 2025 is the recognition and regulation of virtual and digital assets exchanges. Section 357 of the ISA 2025 expands the definition of securities to explicitly include virtual assets, digital assets, and any other instrument deemed as securities which may be transferred by means of any electronic mode or which may be deposited, kept or stored with any depository or custodian. This landmark inclusion brings various forms of crypto-based financing, such as initial coin offerings and security token offerings, which Nigerian startups might explore, under the regulatory purview of the Securities and Exchange Commission. Consequently, virtual asset service providers, digital asset offering platforms, and digital asset exchanges are now required to register with the SEC and adhere to prescribed operational guidelines, as stipulated in relevant sections governing market operators and their registration.

The Act further categorizes securities exchanges into composite securities exchanges, which are authorized to trade all types of securities, and non-composite securities exchanges, restricted to specific asset classes.[28]This categorization provides a clearer regulatory pathway for platforms that facilitate the trading of alternative assets, potentially including crypto and tokenized assets issued by startups. For startups seeking to operate such platforms, mandatory licensing and registration with the SEC are now imperative. As such, establishing licensing and operational requirements for these exchanges, aims to create a more organized and regulated marketplace for alternative investments.

To promote startup financing, section 95(2) of the Act recognizes venture capital and private equity as regulated activities, requiring fund managers involved in such investment schemes to be registered and to comply with SEC's disclosure and operational guidelines. This provision ensures

[27]reward-based or equity-based
[28] CAMA, s 27

that funds targeting startups operate transparently and maintain sufficient capital adequacy, thus building trust in the system.

Moreover, the Act explicitly prohibits ponzi schemes and other unlawful investment schemes, with promoters facing stringent penalties, including a minimum fine of N20 million or a 10-year prison sentence, or both, as stipulated within its provisions.[29] This provision is crucial in protecting investors who might be lured into fraudulent schemes disguised as innovative alternative financing opportunities. The provision therefore strengthens investor confidence in alternative financing mechanisms**,** ensuring that only legitimate and well-regulated platforms operate within Nigeria's financial ecosystem.

While the ISA 2025 makes significant strides in regulating digital asset-based alternative financing, its direct address of other mechanisms like peer-to-peer (P2P) lending or revenue-based financing for startups is less explicit. However, the SEC's broad regulatory powers under section 3 to regulate investment and securities businesses in Nigeria could potentially extend to these areas if they are deemed to involve investment contracts or other forms of securities. As the alternative financing landscape continues to evolve, the SEC may issue further regulations and guidelines under the ambit of the ISA 2025 to specifically address these mechanisms.

Indeed, the ISA 2025 marks a significant step forward in the regulation of alternative financing mechanisms in Nigeria. By explicitly recognizing and regulating virtual and digital assets as securities, categorizing securities exchanges to include platforms for alternative assets. The ISA 2025 therefore provides the SEC with the necessary legal foundation to adapt to and regulate these innovative funding approaches, ultimately aiming to foster a more transparent, efficient, and investor-protected alternative finance ecosystem in Nigeria.

SEC Rules on Crowdfunding 2021

The Securities and Exchange Commission Rules on Crowdfunding, 2021while predating the ISA 2025, provide a framework for regulating investment-based crowdfunding in Nigeria. The SEC Rules on Crowdfunding 2021 therefore provide a legal framework for crowdfunding intermediaries, issuers, and investors. The Rules specifically address the operation of crowdfunding platforms and the obligations of startups raising funds through them, including disclosure requirements and investment limits. Rule 1 of the Rules defines crowdfunding as the process of raising funds to finance a project or business from the public through an online platform. The key participants in this process include fundraisers, who seek capital, crowdfunding intermediaries, which are corporations facilitating transactions, and crowdfunding portals, which serve as online platforms connecting fundraisers with investors. Fundraisers must be micro, small, and medium enterprises incorporated as a company in Nigeria with a minimum of two-years operating track.[30] Every platform that facilitates interaction between fundraisers and the investing public for the purpose of any investment-based crowdfunding shall be registered with the Commission as a Crowdfunding Portal and adhere to specified operational guidelines.[31]The rules limit fundraising

[29] See ISA 2025, ss 196, 357.
[30] Rule 2, SEC Rules 2021
[31] Rule 4, ibid

to private MSMEs incorporated in Nigeria with a maximum capital raise of ₦100 million for medium enterprises, ₦70 million for small enterprises, and ₦50 million for micro enterprises.[32].

Moreover, regulatory oversight is maintained by the SEC, which monitors crowdfunding activities to prevent fraudulent schemes, and crowdfunding portal are mandated to maintain transparency in their operations and provide adequate disclosures to investors.[33] These regulations aim to create a secure environment for crowdfunding, enabling MSMEs to access capital while safeguarding investor interests.

The SEC Rules on Crowdfunding 2021, is likely to be updated under ISA 2025, which are now reinforced by the broader authority granted to the SEC under the ISA 2025.

The Central Bank of Nigeria Guidelines

The Central Bank of Nigeria has issued several guidelines that, while not always explicitly termed alternative financial mechanisms, significantly impact and regulate various forms of financial innovation and non-traditional lending and investment activities relevant to Nigerian startups. These guidelines often focus on specific sectors or activities that fall under the CBN's purview of monetary policy and financial system stability.

One key set of guidelines relevant to alternative financing is the Guidelines for Regulation and Supervision of Credit Guarantee Companies in Nigeria, 2022 that governs entities providing guarantees for loans to Micro, Small, and Medium Enterprises (MSMEs), which can be seen as a mechanism facilitating alternative access to credit. Paragraph 1.1 of these guidelines clearly states that their objective is to provide guarantees to banks and other lending financial institutions licensed by the CBN. Credit guarantee companies play a crucial role in facilitating access to finance for Small and Medium Enterprises, including startups, by providing guarantees to lenders, thereby mitigating the perceived risk associated with lending to these entities. This mechanism acts as an alternative way for startups to secure debt financing when they might lack the traditional collateral required by banks. Paragraph 2.0 outlines the licensing procedure and requirements for operating a CGC in Nigeria, emphasizing the need for a minimum paid-up capital and adherence to corporate governance standards. By regulating these guarantee companies, the CBN indirectly influences the flow of credit to startups through a non-traditional channel.

However, despite these regulations, startups continue to face significant legal and operational challenges in accessing alternative financing sources. The regulatory framework must therefore be tailored to address these specific challenges and promote inclusivity.

4. Challenges in Regulating Alternative Financing Mechanisms in Nigeria

The regulation of alternative financing mechanisms in Nigeria faces several multifaceted challenges, stemming from the novelty of some asset classes, the complexity of their structures, and the need to balance investor protection with fostering market innovation. These challenges span legal, institutional, and market-specific domains.

[32]Rule 3, SEC Rules 2021

[33] ibid, Rule 9

Fragmented Legal Framework

One of the foremost challenges is the fragmentation of the regulatory framework. Nigeria lacks a singular, comprehensive law governing alternative financing mechanisms. Instead, regulations are scattered across multiple legislations, making compliance complex.[34]For instance, crowdfunding is specifically regulated by the SEC under its Rules on Crowdfunding 2021. At the same time, the Central Bank of Nigeria primarily regulates traditional financial institutions and has extended its oversight to various fintech activities, including digital lending and payment service providers. Concurrently, the Securities and Exchange Commission is responsible for regulating the capital markets, which includes crowdfunding platforms and digital assets.[35] This dual oversight can mean that a single startup offering an innovative financial product may need to comply with licensing requirements and operational guidelines from both the CBN and the SEC, each with distinct and sometimes conflicting requirements for licensing, reporting, and operational conduct. This fragmentation not only increases the administrative burden and compliance costs for businesses but also delays innovation and deters participation in formal markets.

Beyond fragmentation, there are substantial regulatory gaps, particularly in relation to emerging financing models such as peer-to-peer lending and initial coin offerings. These models remain largely unregulated under existing laws such as the Companies and Allied Matters Act 2020 and even the recent ISA 2025. This vacuum allows some platforms to operate without oversight, increasing the risk of abuse.

Cost and Complexity of Compliance

The cost and complexity of compliance represent a formidable barrier for startups, which typically operate with limited capital and human resources. For instance, to participate in crowdfunding under the SEC Rules, startups must undergo registration, prepare audited financial statements, and submit periodic disclosures, even if they are early-stage and pre-revenue.[36]A further challenge is the ambiguity in licensing and compliance requirements, which complicates the operations of Fintech startups. The SEC Rules on Crowdfunding 2021, for example, stipulate that a crowdfunding intermediary must register as a funding portal with a minimum paid-up capital of ₦100 million, as provided under Rule 3.3(a). Additionally, the amount a company can raise through crowdfunding is capped at ₦100 million within a 12-month period under Rule 3. While these provisions are aimed at ensuring investor protection and system integrity, they also present significant barriers to entry for small firms that may lack the capital or capacity to comply. Furthermore, although section 3 of the ISA 2024 grants the SEC powers to regulate digital assets, there is little guidance on how this intersects with CBN licensing for digital finance operators, creating confusion for businesses and investors alike.

Moreover, adhering to multifaceted legal frameworks requires significant expenditures on legal counsel, technology solutions for anti-money laundering and know-your-customer processes, and dedicated personnel to manage reporting obligations and administrative filings. This disproportionate compliance burden can effectively exclude smaller startups from participating in certain alternative financing mechanisms. Perhaps, high cost and complexity of regulatory compliance can push startups to seek informal or offshore financing often with no protection for Nigerian investors, thus consolidating capital access among larger or more established ventures that can absorb these costs.

[34]C Nwoke, 'Regulatory Framework for Alternative Investments in Nigeria', <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4825269> accessed 25 August 2025.

[35] ISA 2025, s 3

[36]SEC, Rules on Crowdfunding, 2021, Rules 4 & 9.

Limited Awareness and Financial Literacy

There is a profound lack of awareness of existing regulatory frameworks among startups and investors. Most investors are unaware of the rights, obligations, and risks associated with these mechanisms.[37] Similarly, many startups may not understand the regulatory requirements for raising funds through alternative financial mechanisms like equity crowdfunding or issuing tokens. This ignorance leads to poor compliance, regulatory breaches, and increased vulnerability to exploitation. Moreover, weak enforcement capacity among regulatory agencies due to funding, manpower, or technical limitations means that even when rules exist, they are often inconsistently applied or unenforced.

Balance Between Investor protection and Fostering Innovation

Another inherent challenge lies in striking the balance between investor protection and fostering innovation**,** as legal frameworks must safeguard the public from fraud and market manipulation without unduly stifling the growth of new, potentially beneficial, financing mechanisms. Thus, overly stringent disclosure requirements, designed for large public companies, can be prohibitively expensive and burdensome for early-stage startups seeking capital through alternative financing mechanisms, effectively choking off access to funding.

Institutional Capacity and Expertise

Regulating alternative financial mechanisms effectively requires regulatory bodies with specialized knowledge and expertise in these complex asset classes. Regulatory agencies may face challenges in recruiting and retaining staff with the necessary understanding of the intricacies of alternative financial mechanisms. This skill gap can impede effective oversight and the development of appropriate regulations.

Moreover, infrastructural deficits, including limited internet access in rural areas, cybersecurity vulnerabilities, and unreliable payment systems may constitute a challenge to effective regulation. These limitations can restrict access to digital financing platforms and reduce investor confidence. Perhaps, the lack of adequate infrastructure also affects regulatory surveillance. Regulatory authorities may face challenges in monitoring compliance across various alternative financial mechanisms operating online and sometimes outside national borders.

5. Conclusion and Recommendations

The evaluation of corporate legal frameworks regulating alternative financing mechanisms for Nigerian startups reveals a system in transition. While significant progress has been made through ISA 2025, CAMA 2020 and various regulatory guidelines, substantial gaps remain that limit the effectiveness of alternative financing options for startups.

The current framework demonstrates regulatory recognition of the importance of alternative financing but lacks the comprehensive and coordinated approach necessary to fully realize the potential of these mechanisms. Addressing the identified gaps through targeted reforms, enhanced inter-agency coordination, Public education campaigns and responsive regulatory approaches will be crucial for developing a robust alternative financing ecosystem that can effectively support Nigerian startup growth and innovation.

[37] Gbaf News, 'New Studies Reveals Alternative Financing Knowledge Gap' <https://www.globalbankingandfinance.com/new-study-reveals-alternative-finance- knowledge-gap> accessed 25 August 2025.