



Establishing and Scaling Nigeria's Innovation Fund to Drive Sustainable Economic Growth

ABOUT US

The **Digital Transformation Center Nigeria (GIZ/DTC Nigeria)** is jointly funded by the European Union (EU) and the German Federal Ministry for Economic Cooperation and Development (BMZ) and implemented by *Deutsche Gesellschaft fuer Internationale Zusammenarbeit* (GIZ) GmbH. The project focuses primarily on digitalisation, innovation and entrepreneurship. It aims to improve the Nigerian Digital Innovation Ecosystem and the capacity of the economy to adopt digital innovations for growth and improve the innovation ecosystem, through the transformation of the economy and the society.

The project follows a holistic approach to digitalising the economy. It works with all stakeholders, with a focus on the digital ecosystem to promote the supply of and demand for digital innovation. Innovation centers, public and private service providers and consultants are empowered to support MSMEs, women and youth with their digitalisation efforts. The project supports the government in implementing its policies and strategies for digitalising the Nigerian economy. In doing so, it promotes the long-term provision of digitalisation services for MSMEs, and, at the same time, positively contributes to the country's economic growth.

DTC Nigeria cooperates with key stakeholders in the Nigerian and International Digital Innovation Ecosystem, such as: National Information and Technology Development Agency (NITDA), research and academic institutions, innovation hubs, networks, start-ups, Micro Small and Medium Enterprises (MSMEs), women and youth, in the following thematic areas:

Improved innovation-friendly conditions for the digital economy and promoted.



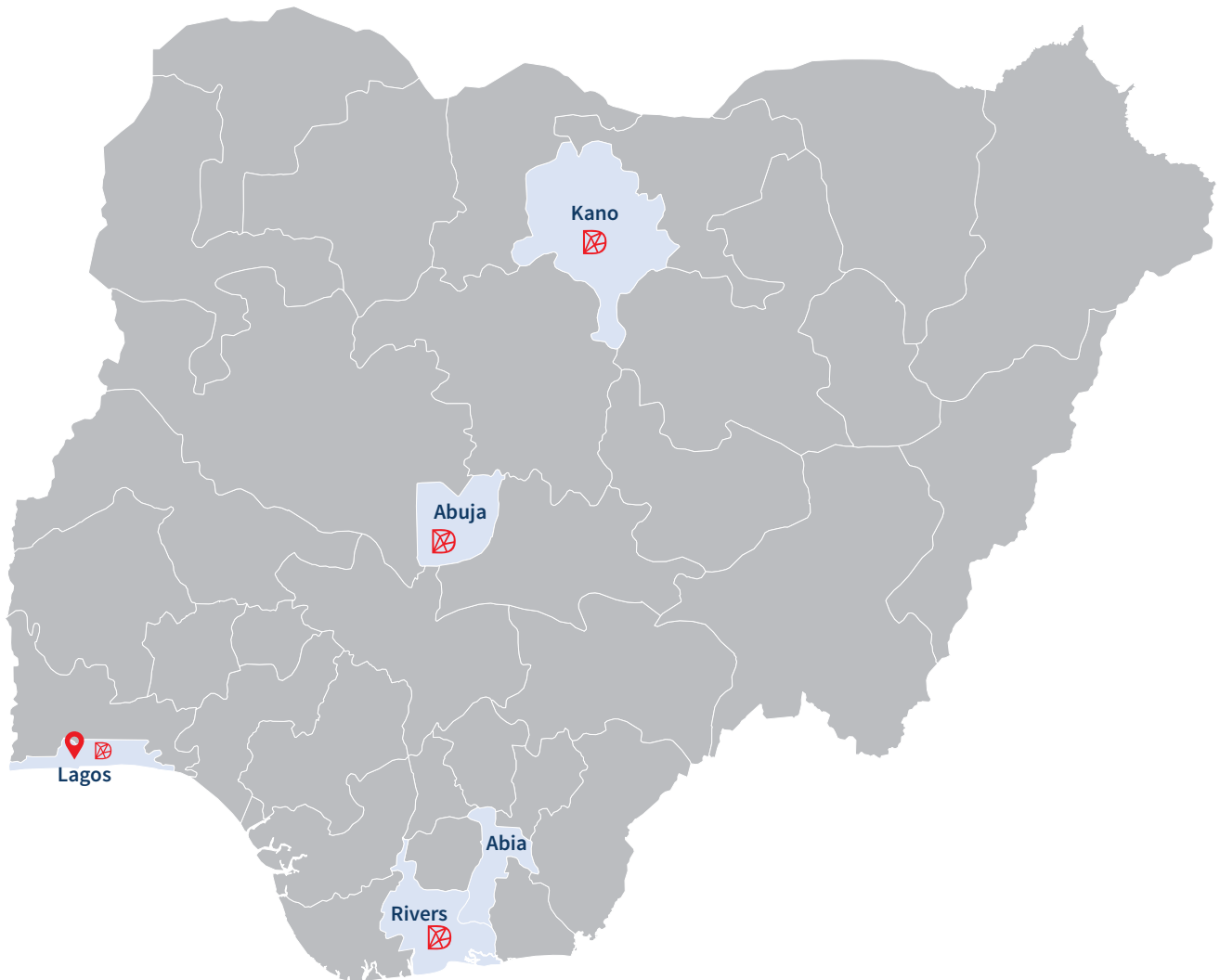
Innovation support organisations fostering digital transformation are developed and supported.




Digital and entrepreneurial skills and developed among youth and women.



New and validated innovative solutions are produced and deployed for use.

CURRENT GIZ/DTC NIGERIA ACTIVITY LOCATIONS



-  Location with GIZ/DTC Nigeria Office
-  Location with lead DIH
-  Location with implementation activities

LIST OF ABBREVIATIONS

BPE	Bureau of Public Enterprises
CBN	Central Bank of Nigeria
FIRS	Federal Inland Revenue Service
FG	Federal Government
FMoF	Federal Ministry of Finance
JVC	Joint Venture Companies
MDA	Ministries, Departments, and Agencies
NDE	National Directorate of Employment
NEXIM	Nigerian Export-Import Bank
NCAA	Nigerian Civil Aviation Authority
NDIC	Nigeria Deposit Insurance Corporation
NIPC	Nigerian Investment Promotion Commission
NIHSA	Nigerian Hydrological Services Agency
NSE	Nigerian Stock Exchange
NBET	Nigeria Bulk Electricity Trading Plc
SMEs	Small and Medium Enterprises

EXECUTIVE SUMMARY

This policy brief presents a framework for establishing and scaling the Nigerian Innovation Fund (NIF) to drive economic growth, enhance technology-led innovation, and cultivate a strong foundation for entrepreneurship across Nigeria. By investing strategically in innovative startups and small to medium-sized enterprises (SMEs), the NIF can accelerate technological progress, promote job creation, and support economic diversification.

The NIF is designed to provide vital financial backing for early and growth-stage tech ventures in sectors integral to Nigeria's digital transformation, such as fintech, agritech, healthtech, education technology, renewable energy, and artificial intelligence. These sectors have significant potential to improve productivity, bridge service gaps, and foster sustainable development.

This brief highlights the challenges faced by Nigeria's current funding landscape, including limited access to capital for new enterprises and a skills gap across emerging technology fields. It also outlines opportunities for collaboration between the public and private sectors to maximise the impact of the fund. Through targeted investment, mentorship, and capacity-building initiatives, the NIF can act as a catalyst for a vibrant tech ecosystem, advancing Nigeria's goal of becoming Africa's leading innovation hub.



Mr. Charles Emembolu, FNIEEE, FNCS, PMP - Chairman ISN Hubs giving the opening remarks

To ensure the Nigerian Innovation Fund (NIF) achieves its objectives, this policy brief incorporates strategic recommendations from a public policy dialogue hosted in Uyo, Akwa Ibom by the GIZ/Digital Transformation Center (DTC) Nigeria, and the Innovation Support Network (ISN). This dialogue brought together key stakeholders across Nigeria's innovation ecosystem to explore ways to structure and implement the fund effectively.

The recommendations underscore the need for a coordinated approach involving government, private industry, and civil society. Such collaboration is essential for addressing funding and capacity gaps and maximising the fund's impact. Properly implemented, the NIF has the potential to significantly enhance Nigeria's economic resilience, support the development of a digitally skilled workforce, and drive sustainable growth in the digital economy.

PROBLEM STATEMENT

Nigeria's economic progress is hampered by insufficient access to capital for startups and small to medium-sized enterprises (SMEs), particularly in the technology and innovation sectors. Despite a large and entrepreneurial youth population with vast potential, many promising innovators lack the resources and support needed to turn their ideas into sustainable businesses. Current funding sources for early-stage ventures are often inaccessible, insufficiently capitalised, or misaligned with the specific needs of startups.

In 2024, Nigeria's tech ecosystem reflects both dynamic growth and considerable challenges. Although the sector received a substantial \$2.4 billion in investments in 2023, the landscape has since shifted with a significant "funding winter," marked by reduced investment inflows and a cautious approach from venture capital. This shift has left a critical funding gap for many Nigerian startups, limiting their potential to scale and innovate.

As traditional venture funding becomes more selective, alternative financing sources, such as debt financing, crowdfunding, and government-led initiatives, have gained traction. While high interest rates pose challenges for conventional investment, they also open doors for value-driven investors willing to support resilient and innovative startups. This funding environment presents a complex mix of challenges and opportunities: while access to capital is increasingly limited, well-positioned startups can still attract partnerships locally and internationally.

Without a structured, strategic approach to financial support, Nigeria risks lagging in the global digital economy and constraining its potential for homegrown innovation. Addressing these funding gaps is essential to enabling Nigeria's entrepreneurial talent to thrive, sustain growth in the digital economy, and contribute meaningfully to national economic development.

BACKGROUND OF NIGERIA'S DIGITAL ECOSYSTEM

Nigeria, with one of the largest economies in Africa, has seen rapid growth in its tech sector. However, despite this potential, 85% of startups report significant challenges in accessing sufficient funding¹. Most available capital comes from external sources, resulting in dependency on foreign funding and leaving gaps in domestically controlled, sustainable funding structures².

Meanwhile, other emerging economies are establishing national innovation funds that have led to demonstrable successes, including advancements in innovation ecosystems, job creation, and improvements in technology export capabilities³. For instance, countries like South Africa and Kenya have made strides in their national funds, with these initiatives helping boost their tech sectors and export capacities, making them highly competitive in the global digital economy.

To effectively harness Nigeria's demographic advantage, particularly its youthful population, and stimulate economic diversification, a domestically managed Innovation Fund is critical. Such a fund would help reduce the dependency on external funding and create a more sustainable ecosystem for local startups, allowing Nigeria to take a more proactive role in driving its economic transformation.

To effectively harness Nigeria's demographic advantage, particularly its youthful population, and stimulate economic diversification, a domestically managed Innovation Fund is critical. Such a fund would help reduce the dependency on external funding and create a more sustainable ecosystem for local startups, allowing Nigeria to take a more proactive role in driving its economic transformation⁴.



Participants engaging during the breakout session



Participants promoting participation in policy implementation using insightful props

¹ National Bureau of Statistics (NBS), (2023). Nigeria economic report Q1 2023: Tech and digital economy growth statistics. <https://www.nigerianstat.gov.ng>

² Techpoint Africa. (2023). Funding winter: How Nigerian startups are navigating the funding drought. <https://www.techpoint.africa>

³ DLA Piper (2023). Global venture capital funding trends 2023: A year in review. <https://www.dlapiper.com>

⁴ Jumia. (2023). State of startups in Nigeria 2023, A snapshot of the ecosystem. <https://www.jumia.com>

ANALYSIS OF CURRENT POLICY AND GAPS

Nigeria has made strides in creating frameworks to support innovation and entrepreneurship. Key policies such as the *National Digital Economy Policy and Strategy (2020)*, the *Nigeria Startup Act (2022)*, and various financial incentives for SMEs are examples of government efforts to nurture the tech ecosystem. However, despite these initiatives, there is a significant gap in the form of a scalable, sustainable innovation fund tailored to the unique needs of startups in the technology and innovation sectors.

The *National Digital Economy Policy and Strategy (NDEPS)* sets a broad agenda for digital transformation across the country and aims to foster a digitally inclusive economy. While NDEPS prioritises initiatives in sectors such as e-government, broadband expansion, and digital literacy, it does not provide a clear, structured mechanism for funding high-risk, early-stage tech ventures. Similarly, the Nigeria Startup Act is a step towards creating an enabling environment for startups by establishing a regulatory framework and providing tax incentives. However, it lacks a dedicated, institutionalised funding structure, which leaves a critical gap in terms of the financial support needed to scale up the innovation ecosystem⁵.

Existing financing mechanisms such as grants and loans from commercial banks have proven inadequate for tech startups, particularly those in the early stages. According to a 2023 report by the Central Bank of Nigeria (CBN), many commercial banks are hesitant to offer credit to startups due to the high risk associated with early-stage businesses. Traditional financial institutions often require collateral or personal guarantees that most startups do not have. Moreover, grants are often too small or inflexible to support the growth trajectory of high-tech ventures that require significant investment in research and development, marketing, and infrastructure⁶.

For example, while programs like the *Nigerian Bank of Industry's (BoI) Youth Entrepreneurship Support (YES) Programme* offer financing to youth-led startups, these are primarily focused on small-scale businesses and do not cater to the high-growth tech startups that are essential to Nigeria's economic diversification⁷. Similarly, the *YouWin! Connect program*, a government initiative aimed at supporting young entrepreneurs, offers limited funding and mentoring but remains insufficient in addressing the financial needs of innovative ventures in high-tech sectors like AI, FinTech, and HealthTech.

A Nigeria Innovation Fund could provide the much-needed capital injection for high-potential startups and growth-stage companies, addressing the gaps in the current funding ecosystem. Such a fund would allow for targeted, risk-tolerant investments in tech startups, thereby aligning with national economic priorities such as job creation, diversification of the economy, and digital transformation. Importantly, the NIF could offer financing in a form that is tailored to the specific needs of the tech ecosystem—equity investment, venture debt, or blended finance—rather than traditional loans with rigid repayment schedules⁸.

⁵Federal Government of Nigeria (FGN). (2022). *Nigeria Startup Act, 2022*. Retrieved from <https://www.nigeria.gov.ng>

⁶Central Bank of Nigeria (CBN). (2023). *Financing for startups and SMEs: Opportunities and barriers*. <https://www.cbn.gov.ng>

⁷Youth Entrepreneurship Support (YES) Programme: A new frontier in financing youth-led businesses. <https://www.boi.ng>

⁸Techpoint Africa. (2023). *Funding winter: How Nigerian startups are navigating the funding drought*. <https://www.techpoint.africa>

In comparison, other emerging economies have established national innovation funds with marked success. Kenya, for instance, has implemented the Kenya Innovation Fund (KIF), which has supported startups in sectors ranging from renewable energy to fintech and agri-tech. The KIF has provided both seed capital and growth-stage funding, enabling the startups to scale their operations and contribute to job creation and economic growth⁹. South Africa has also created the Technology Innovation Agency (TIA), which works to fund early-stage ventures in high-tech sectors and bridge the funding gap for high-risk innovation. The TIA has played a crucial role in transforming South Africa into a regional tech hub, fostering innovation-driven enterprises and creating thousands of jobs in the process¹⁰.

The Nigerian innovation ecosystem is highly attractive to foreign investors, but these investors typically exhibit low risk tolerance at the early stages of startup development. As a result, many promising startups fail in the critical "death valley" phase due to a lack of funding, stunting growth and limiting the ability to meet the criteria of structured venture capitalists. This gap hinders job creation, the retention of intellectual property, and the attraction of foreign investments. The NIF could play a pivotal role in bridging this gap by offering targeted support at this stage, helping startups gain traction and ultimately position themselves for sustainable growth, local job creation, and stronger international partnerships, all of which are essential for the nation's digital economy and economic diversification¹¹.



Mr. Hanson Johnson, Founder Start Innovation Hub facilitating a breakout session.

⁹World Bank. (2023). Kenya Innovation Fund: A case study in venture funding. <https://www.worldbank.org>

¹⁰Department of Science and Innovation. (2023). Technology Innovation Agency Annual Report <https://www.dst.gov.za>

¹¹Emembolu, C.U. (2024). Nigeria Innovation Fund (NIF) Proposal. <https://forms.gle/grh5uBguZ8tr5iZ6>

POLICY RECOMMENDATIONS

1. Establish the Nigeria Innovation Fund (NIF):

The private sector, in alignment with the public sector, investors, and the organised innovation ecosystem of Nigeria should establish a dedicated national fund to support innovation-driven enterprises, particularly in priority sectors such as technology, creative, agritech, healthtech, and clean energy. The fund would provide crucial early-stage capital, enabling startups to transition from concept to market-ready solutions, fostering innovation, and diversifying the economy.

2. Public-Private Partnership (PPP) Model:

Instead of a traditional Public-Private Partnership (PPP), structure the NIF as a **Public-Private Collaboration (PPC)** where the government provides policy backing, co-investment incentives, and risk mitigation tools. The private sector, through venture capital firms, angel investors, and corporate stakeholders, will lead fund management and investment decisions. This approach maximises efficiency, encourages diverse investment inflows, and aligns with global best practices.

3. Grant, Equity-Based, and Debt Support:

Implement a mix of **equity, debt, and grant-based funding models** tailored to the growth stages of startups:

- **Grants** for early-stage research and development (R&D).
- **Equity investments** for scalable and high-growth ventures.
- **Debt instruments** for bridging finance or expansion capital.

This multi-pronged approach ensures that startups at different stages receive appropriate funding, fostering growth, innovation, and job creation. Private sector fund managers will ensure optimal allocation of resources.

4. Sector-Specific Investment Pools:

Focus investments on high-impact sectors with strong growth potential and socio-economic benefits, such as fintech, agritech, creativetech, healthcare, and renewable energy.

- **Private sector fund managers** will oversee sector-specific pools, ensuring capital flows to initiatives with the highest market potential and return on investment (ROI).
- Encourage co-investment from private stakeholders in these sectors to enhance scalability and resilience.

5. Innovation Hubs and Capacity Building:

In addition to financial support, the NIF should integrate with existing innovation hubs such as the Innovation Support Network of Nigeria and capacity-building programs across the country. This would provide startups with essential mentorship, training, and resources to grow sustainably. Collaboration with established hubs will enhance the chances of success for early-stage ventures and help create a stronger, more collaborative innovation ecosystem.

6. Legislative Support for Funding Mechanisms:

To ensure consistent and reliable funding for the NIF, the government should legislate a first-line charge from national earnings as the primary funding source. This would include contributions from structured private sector sources such as the Bankers Committee, local venture capitalists, the Nigerian Sovereign Investment Fund (NSIF), angel networks, and the Central Bank of Nigeria (CBN). This collaborative effort will create a self-sustaining fund with broad-based support, enabling greater access to capital for innovation-driven enterprises.

7. Incentivise private sector contributions through legislative and policy support:

Instead of a government-led funding mechanism, create legislative and policy frameworks that incentivise private sector contributions.

- Provide tax incentives for corporations and high-net-worth individuals who invest in the NIF.
- Mandate structured contributions from private sector entities such as the Bankers Committee, venture capital firms, and corporate foundations.
- Encourage participation from key financial stakeholders like the Nigerian Sovereign Investment Fund (NSIF), the Central Bank of Nigeria (CBN), and angel networks.

This will create a sustainable, self-replenishing fund while minimising reliance on direct government allocations.

IMPLEMENTATION STRATEGY

1. Establish Regulatory Framework: Align with existing legislation to define the structure, governance, and operational guidelines for the NIF.

2. Secure Funding: Initial capital should be sourced from a combination of government allocations, private sector contributions, and international development partners.

3. Operational Management: Appoint an independent management board to oversee fund allocations, ensuring transparency, accountability, and alignment with policy objectives.

4. Monitoring and Evaluation (M&E): Develop a robust M&E system to assess fund impact, track progress, and refine funding strategies as needed.

Key Stakeholders

Key stakeholders include The Federal Ministry of Communications, Innovation and Digital Economy, The Central Bank of Nigeria (CBN), Private sector investors, Innovation Support Network (ISN), Civil Society Organisations, and Academic Institutions. Other key stakeholders are Federal Ministry of Innovation Science and Technology, Inter-Ministerial Committee on Research and Innovation (IMC-RI), Federal Ministry of Trade and Investment, Nigeria Governors Forum, International Development Organisations, National Office for Technology Acquisition and Promotion (NOTAP), National Board for Technology Incubation (NBTI), etc.

FUND GOVERNANCE STRUCTURE

1. Board of Trustees (BOT)

a. Composition:

- Representatives from key private sector stakeholders (hub owners, venture capital firms, angel networks, corporate investors).
- Observers from relevant government ministries (e.g., FMITI, FMCIDE, FMACCE, FMIST, Ministry of Finance) to ensure policy alignment.
- Independent experts from innovation ecosystems (both local and international).

b. Roles and responsibilities:

- Provide strategic oversight and ensure alignment with the fund's objectives.
- Approve high-level policies, sector focus, and investment strategy.
- Oversee the appointment of the Fund Management Team.
- Ensure compliance with applicable laws, regulations, and ethical standards.

2. Fund Management Team (FMT)

a. Composition:

- Experienced professionals from private equity, venture capital, angel investors, and financial management sectors.

b. Roles and responsibilities:

- **Day-to-Day Operations:** Manage investment decisions, disburse funds, and monitor portfolio performance.
- **Investment Strategy Implementation:** executes strategies approved by the Board of Trustees.
- **Risk Management:** Assess and mitigate investment risks.
- Provide regular reports on the fund's financial performance and social impact.

3. Investment Committee

a. Composition:

- A subset of the Board of Trustees, including finance and sector-specific experts.

b. Roles and responsibilities:

- Review and approve individual investment decisions proposed by the Fund Management Team.
- Ensure investments align with the fund's sector focus and risk appetite.
- Periodically review the fund's portfolio performance.

4. Advisory Council

a. Composition:

- Industry leaders, innovation ecosystem stakeholders, and international advisors.

b. Roles and responsibilities:

- Provide sector-specific insights and strategic guidance.
- Advise on emerging trends and opportunities within high priority sectors.
- Act as a bridge between the NIF and broader innovation ecosystems, both locally and globally.

5. Audit and Compliance Committee

a. Composition:

- Independent auditors, legal experts, and compliance officers.

b. Roles and responsibilities:

- Conduct regular audits to ensure financial integrity and operational efficiency.
- Monitor adherence to legal, regulatory, and ethical standards.
- Report findings and recommendations directly to the Board of Trustees.

EXPECTED OUTCOMES

The establishment of the Nigeria Innovation Fund (NIF) is expected to bring about several significant outcomes, driving both immediate and long-term benefits for Nigeria's economy:

1. Increased Access to Capital: The NIF will provide enhanced funding opportunities for startups and SMEs, focusing on high-growth sectors like FinTech, AgriTech, HealthTech, CreativeTech and more, which are vital for Nigeria's economic transformation. This access will address the funding gap, particularly in early-stage ventures, and enable innovators to scale their businesses.

2. Job Creation: With the targeted support to technology-driven startups, the NIF will facilitate job creation in emerging industries, thus reducing unemployment and underemployment. This is critical, especially for Nigeria's large youth population, which is often hindered by the lack of viable job opportunities.

3. Innovation Ecosystem Growth: The fund will stimulate collaboration between public and private sectors, research institutions, and startups, creating a dynamic innovation ecosystem. This ecosystem will foster knowledge sharing, networking, and joint ventures, boosting Nigeria's global competitiveness in technology and innovation.

4. Economic Diversification: By supporting technology and innovation industries, the NIF will help reduce Nigeria's dependency on oil revenues, aligning with the country's broader vision for economic diversification. It will foster growth in non-oil sectors, improving resilience and contributing to long-term sustainable development.

5. Localisation and Retention of Intellectual Property (IP): The NIF will encourage the localisation of intellectual property, ensuring that innovations and technologies developed by Nigerian startups remain in-country. This will contribute to building a strong national IP portfolio, which can be leveraged for further investment and export opportunities.

6. Sustainability of Hubs and Innovation Ecosystems: The fund will contribute to the long-term sustainability of innovation hubs and ecosystems across Nigeria. It will provide the necessary resources to support innovation centres, accelerators, and incubators, thereby nurturing the growth of future startups.

7. Strengthening and Expansion of Nigeria's Capital/Stock Market: The NIF's emphasis on nurturing high-potential startups will create an environment conducive to capital market growth, encouraging investments in technology companies and facilitating IPOs. This will boost Nigeria's stock market, increasing the influx of both local and international capital into the economy.

CONCLUSION

Establishing the Nigeria Innovation Fund (NIF) is an urgent and strategic priority for the nation's economic growth and transformation. The fund presents a unique opportunity to cultivate a thriving, inclusive innovation ecosystem that aligns with the rapidly evolving global digital economy. In the face of increasing global competition and the pressing need for economic diversification, the NIF will serve as a critical enabler for Nigeria to harness its considerable innovation potential, drive sustainable job creation, and foster technological advancement.

Immediate action is necessary to mobilise the resources required to launch the NIF, alongside the establishment of a robust regulatory framework that fosters innovation while ensuring transparency and accountability. The fund's success will hinge on securing strong buy-in from both the public and private sectors, as well as stakeholders from the academic and civil society realms. Collaborative efforts will be pivotal in ensuring that the NIF effectively bridges the existing funding gap, particularly for early-stage startups and high-impact ventures, thus positioning Nigeria as a global leader in innovation.

Moreover, with the right structure and support, the NIF can stimulate an environment conducive to the development of locally driven intellectual property (IP), further enhancing the country's global competitiveness. It will also bolster Nigeria's stock market, creating opportunities for growth in capital markets, which will support long-term economic sustainability. As such, the Nigeria Innovation Fund is not just a financial tool but a catalyst for driving the future of Nigeria's digital and innovation-driven economy.

For Nigeria to fully capitalise on this potential, it is essential that decisive and prompt action is taken to ensure the NIF's effective implementation. With commitment and collaboration, the NIF can lead to the creation of a resilient, diverse, and sustainable economy, positioning Nigeria at the forefront of technological and entrepreneurial excellence in Africa.



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