



Nigeria Startup Act - Examining the Potentials for Startups in Nigeria

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Introduction

Nigeria has rapidly emerged as a vibrant hub for startups, particularly in the tech sector. The last few years were significant for the startup ecosystem, with many Nigerian startups rising to prominence and relevance domestically, in Africa, and internationally.¹ For example, in 2023, Nigeria became the first African country to access Starlink's satellite broadband service, significantly enhancing internet speed across the nation.² In 2023, Nigerian startups raised almost \$400 million in funding³.

In the past few years, startups in Nigeria have continued to grow exponentially despite the struggling economy.⁴ This is fueled by a huge population with access to technology and the new import of startup support systems in the ecosystem.⁵ As the number of internet users seeking digital solutions continues to rise, startups in Nigeria have capitalized on the opportunity to transform traditional industries and establish new markets. Ranging from Fintech and e-commerce to Agri-Tech and Health-Tech, a wide array of sectors are experiencing exponential growth, contributing to economic development and societal progress.⁶

These advancements in various sectors are key contributors to an improved standard of living for many Nigerians, addressing challenges that have impeded the country's development for a long time. However, the Nigerian startup ecosystem is not without its challenges. Startup entrepreneurs have had to scale their startups while navigating infrastructure gaps, limited access to funding, and regulatory complexities.

This article aims to provide an analysis of the Nigeria Startup Act, 2022 (the "Act") in the context of its impact in the startup environment and its role in supporting the growth of startups in Nigeria.

An Overview of the Startup Act

Recognizing the immense potential of startups in driving the country's economic transformation the Federal Government enacted the Act to empower entrepreneurs and the growth of Nigerian startups. This landmark legislation creates a robust legal framework for key regulatory bodies to provide an enabling environment and support to startups in Nigeria. With the enactment of the Act, Nigeria became the third country in Africa to enact a startup law, following Tunisia and Senegal⁷. The Act serves as the primary regulatory framework for startups in Nigeria and some of its key provisions will be discussed below.

Under the Act, startups are officially recognized through the grant of a certificate called a "Startup Label"⁸ upon the fulfillment of the labelling requirements under the Act.⁹ In essence, startups can obtain a "Startup Label" from the National Information Technology Development Agency ("the Secretariat"), which is granted to companies meeting certain criteria. The Secretariat is also required

¹ StartupBlink "Startup Ecosystem Overview" <<https://www.startupblink.com/startup-ecosystem/nigeria>> accessed July 16, 2024.

² Temitayo Jaiyeola "Inside Starlink's rise as third largest ISP in Nigeria" <<https://businessday.ng/big-read/article/analysis-inside-starlinks-rise-as-third-largest-isp-in-nigeria/#:~:text=On%20January%2030%2C%202023%2C%20SpaceX,active%20subscribers%20in%2012%20months.>> accessed July 16, 2024.

³ The African Tech Startups Funding Report <<https://disruptafrica.com/wp-content/uploads/2024/01/The-African-Tech-Startups-Funding-Report-2023.pdf>> accessed July 16, 2024.

⁴ Vazi Legal "The Nigerian Startup Ecosystem-An Overview" <<https://admin.vazilegal.com/the-nigerian-startup-ecosystem-an-overview/>> accessed July 17, 2024.

⁵ *Ibid.*

⁶ *Ibid.*

⁷ Daniel Adeyemi "The Democratic Republic of Congo means business with its new Startup Act" <<https://techcabal.com/2022/12/02/the-democratic-republic-of-congo-business-with-startup-act/>> accessed July 16, 2024.

⁸ Section 13(1) of the Act.

⁹ Section 13(2) of the Act.

to ensure that the National Digital Innovation, Entrepreneurship and Startup Policy (NDIESP) of the Secretariat is implemented for the development of the startup ecosystem.¹⁰

The Act provides that the Secretariat shall enter into partnerships with local and international business incubators, accelerators, and digital innovation hubs to promote the establishment and growth of a startup in Nigeria.¹¹ Through these partnerships, startups would be able to benefit from the guidance of experienced entrepreneurs and industry experts as well as access to training programs and workshops. This would also increase funding and investment opportunities and facilitate partnerships and collaborations that can lead to new business opportunities and market expansion.

The Act further establishes the National Council for Digital Innovation and Entrepreneurship (the "**Council**").¹² The Council's main responsibility is to create and implement policies that promote and achieve the goals of the Act.¹³ Some other responsibilities include overseeing the activities of startups to ensure compliance with the regulations and standards set out in the Act; creating and managing programs that facilitate access to funding for startups; and facilitating the development of digital infrastructure that supports innovation and the growth of startups.¹⁴ The Council also has the power to appoint an agent to carry out its instructions and provide quarterly and annual reports on the progress of the programs.¹⁵

The Council is also tasked with creating a framework for the establishment and operation of startup innovation clusters, hubs, and physical and virtual innovation parks in each state of the Federation.¹⁶ However, this responsibility should not rest solely on the Council. States and private organizations should establish additional tech hubs, incubators, and accelerators across various regions and not just in major cities to provide comprehensive support to startups nationwide.

The Act also establishes a Startup Investment Seed Fund (the "**Fund**") to provide financing for startups. The Council is expected to establish the Fund, which will be managed by the Nigeria Sovereign Investment Authority.¹⁷ The Fund on the approval of the Council would annually be financed with at least ₦10 billion from sources approved by the Council.¹⁸ The Fund can provide startups with much-needed capital to help them grow and develop. This funding can be used to cover a range of expenses including hiring employees, purchasing equipment and materials, and developing new products or services.

On March 14, 2023, the Nigerian government, in the closing days of the Buhari administration, launched a \$617.7 million tech fund for young investors through the Investment in Digital and Creative Enterprises ("**i-DICE**") program. i-DICE aims to boost investments in information and communications technology and creative industries, fostering inclusive and sustainable job opportunities.¹⁹

The program, endorsed by the Tinubu administration, includes measures like enhancing regulatory policies, establishing an i-DICE Fund with an independently managed venture capital fund, and mobilizing over \$617 million in investment capital. The fund is made to cover the digital area, the creative area, and the entertainment area, especially the areas that the youth are interested in.²⁰

¹⁰ Section 9 (d) of the Act.

¹¹ Section 9 (e) of the Act.

¹² Section 3 (1) of the Act.

¹³ Section 7 (a) of the Act.

¹⁴ Section 7 of the Act.

¹⁵ Section 8 of the Act.

¹⁶ Section 40 (1) of the Act.

¹⁷ Section 19 of the Act.

¹⁸ *Ibid.*

¹⁹ FG to Launch \$617 Million Investment in Digital, Creative Enterprises Programme <<https://statehouse.gov.ng/news/fg-to-launch-617-million-investment-in-digital-creative-enterprises-programme/>> accessed July 16, 2024.

²⁰ *Ibid.*

There has however been no update on the implementation details of the fund, including disbursement modalities.

This policy on funding must be implemented as investors such as foreign venture capitalists and angel investors tend to invest more in companies that are already firmly established than in early-stage startups. In October 15, 2020 for instance, Stripe, an American financial services and software company acquired Paystack in a deal estimated to be at \$200 million, and presently, Paystack has raised \$10.4 million in funding²¹. By contrast, most startups that packed up in Nigeria stated lack of resources or high cost of running business in Nigeria as the reason for their failure²².

Furthermore, the Act offers certain tax reliefs and fiscal incentives to labelled startups. A labelled startup that falls within the industries captured by the Pioneer Status Incentives (the “PSI”) scheme may upon application, receive expeditious approval from the Nigerian Investment Promotion Commission for the grant of tax reliefs and incentives under the PSI Scheme²³. A labelled startup may be exempt from paying income tax or any other taxes chargeable on its income or revenue for three years, with an additional two-year extension if it remains labelled as a startup provided that the tax relief period begins on the date the startup label is issued.²⁴

A labelled startup can fully deduct research and development expenses incurred in Nigeria without the restrictions of the Companies Income Tax Act.²⁵ Non-resident companies providing technical, consulting, professional, or management services to a labelled startup will pay a final withholding tax of five *percent* (5%) on income from such services.²⁶ This incentive encourages foreign companies to collaborate with labelled startups, as they would pay a withholding tax of five *percent* (5%) as opposed to the standard ten *percent* (10%) payable. Additionally, labelled startups are exempt from contributing to the Industrial Training Fund if they offer in-house training to their employees during their labelled period.²⁷

Additionally, the Secretariat will establish, upon approval from the Council, the Startup Support and Engagement Portal as the primary platform through which a startup conducts registration and other processes with the government and other relevant stakeholders. These processes can vary from the issuance of permits or licences²⁸, the provision of tools, resources, and information to the receipt of complaints and recommendations.²⁹ The Secretariat will also appoint a Coordinator, subject to the approval of the Council, to manage the Portal.

The Startup Support and Engagement Portal

The implementation of the Act was substantially stalled until the launch of the Startup Support and Engagement Portal (the “Portal”) as the incentives provided under the Act are only available to labelled startups. In 2023, the Federal Government unveiled the Portal as a key requirement for the implementation of the Act. The aim of the Portal is to facilitate the labelling of Nigerian startups and the registration of other categories of investors involved in the advancement of technology and innovation. The Portal aims to facilitate the registration of (a) startups, (b) angel investors, (c) venture capitalists, and (d) accelerators, innovation hubs and incubators.³⁰

²¹ Ruth Olurounbi “Stripe Agrees to Buy Nigeria Startup Paystack for \$200 Million” <<https://www.bloomberg.com/news/articles/2020-10-15/stripe-agrees-to-buy-nigeria-startup-paystack-for-200-million>> accessed July 16, 2024.

²² Anibe Idajili “6 Nigerian Startups That Have Closed Up Shop In Recent Times” <<https://www.techcityng.com/6-nigerian-startups-that-have-closed-up-shop-in-recent-times/>> accessed July 16, 2024.

²³ Section 24 of the Act.

²⁴ Section 25 (2) of the Act.

²⁵ Section 25 (3) of the Act.

²⁶ Section 25 (4) of the Act.

²⁷ Section 25 (4) of the Act.

²⁸ Section 10(2)(a) of the Act.

²⁹ Section 10(2)(f) of the Act.

³⁰ Startup Nigeria <<https://startup.gov.ng/>> accessed July 23, 2024.

A review of the Act reveals that the Portal is currently limited to registration and labelling functionalities. However, the Portal has the potential to offer much more. Drawing inspiration from Startup Tunisia portal, which provides a comprehensive suite of services including labelling, funding, networking, a startup database, job listings, educational resources, etc,³¹ the Secretariat should enhance the Portal to serve as a one-stop shop for the full implementation of the Act. The Portal should feature dedicated sections for labelling, license applications, sandbox listings and applications, tax and fiscal incentives listings and applications, funding (including applications for the startup investment and seed fund, credit guarantee scheme, government grants, and loans), accelerators and incubators listings, partners network, intellectual property and technology registrations, and educational resources. While the Act currently envisions some of these functionalities, they have yet to be implemented on the Portal.

Besides the launch of the Portal, there has been no further activity on the part of the Secretariat to fulfill the provisions stipulated under the Act. These include the constitution of the Startup Consultative Forum³² which has the responsibility to (a) provide a platform for information sharing and collaboration in the Nigerian startup ecosystem (b) play a crucial role in selecting representatives for the Secretariat as required; (c) issue a framework for setting up innovation hubs in each state of the federation, (d) design and implement the training and capacity building initiatives, driving inter-agency collaboration and many others.

Although the provisions of the Act can impact the startup ecosystem in Nigeria, it would be impossible to do so if the provisions are not fully implemented. This would not only aid the growth of startups by providing easy access to all the functionalities needed but also boost the Nigerian economy.

Conclusion

The Act represents a significant milestone in promoting innovation, with the potential to enhance the startup legal ecosystem and advance the Nigerian economy both within Africa and internationally. Regrettably, tangible implementation steps have been limited to the inauguration of the 14-member National Council for Digital Innovation and Entrepreneurship (NCDIE) in April 2023 to oversee the implementation of the Act and the launch of the Portal. It is evident that the issue lies not in the absence of laws but in their execution. The Act must be an exception, as the potential for startups to contribute significantly to the national economy is undeniable.

Balancing regulation and innovation are crucial in supporting startups in Nigeria. Regulatory frameworks should prioritize transparency and ease of compliance for start-ups in their early stage by establishing regulatory sandboxes that allow for experimentation and growth without the burden of extensive regulations. Furthermore, government agencies must collaborate with start-ups and other industry stakeholders to develop sector-specific rules that foster innovation.

The importance of startups in boosting the Nigerian economy cannot be overstated. They contribute to economic growth and development through job creation, innovation, economic diversification, attracting foreign investments, promoting entrepreneurship, and enhancing living standards. However, without a well-implemented and robust regulatory framework, the growth of startups in Nigeria may be hindered. Thus, while it is essential to acknowledge the efforts that were made in the enacting of legislation and creating a portal, it is equally important to note that there is still much work to be done in implementing the Act effectively.

³¹ Startup Tunisia <<https://startup.gov.tn/en/home>> accessed July 17, 2024.

³² Section 12 of the Act.

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