

FROM PITCH TO PROFIT: LEGAL MUST-KNOWS FOR BUILDING AND SCALING STARTUPS IN NIGERIA

Contributors



Praise Anyagaligbo
Trainee Associate



Mfonobong Ukpe
Associate Partner /HCP

Key Contacts



Mani Ojeah
Managing Partner

Immanioj@manifieldsolicitors.com

INTRODUCTION

Entrepreneurship has become the backbone of Nigeria's economy. A 2023 Forbes Africa statistics report stated that the number of startups in Nigeria surpassed 3,360, ranking among the highest in Africa.^[i] The report further states that these startups are responsible for a notable increase in employment in the Nigerian labour sector. This article highlights the key legal considerations every entrepreneur must know to build and scale a sustainable startup in Nigeria.

WHAT IS A STARTUP?

A startup is an early-stage business built on a scalable model with the aim of achieving rapid growth. According to the Nigeria Startup Act (NSA), 2022, a start-up is a company which has been in existence for a period not more than 10 years with its objectives being the creation, innovation, production, development or adoption of a unique digital technology innovative product, service or process.^[ii] The Companies and Allied Matters Act (CAMA) 2020 is the primary legislation governing the creation and establishment of businesses in Nigeria. However, in relation to startups in Nigeria, the Nigeria Startup Act 2022 has been enacted to make provisions solely for the regulation of startup businesses in Nigeria. This Act represents a novel attempt to centralize and streamline startup regulation in Nigeria, reflecting the government's recognition of tech startups as key economic drivers.

The Nigerian Startup Act 2022 establishes the National Council for Digital Innovation and Entrepreneurship (The Council), with representation from relevant Ministries and Agencies of the Federal Government and the Nigerian Startup Ecosystem, to support complementary policy-making and approve programs for the development of startups in Nigeria.[iii] The Act also provides for the establishment of the Startup

Investment Seed Fund, managed by the Nigerian Sovereign Investment Authority (NSIA), to support pipeline development and improve access to seed capital for tech-enabled startups. [iv] The Act simplifies registrations and access to government services through the Startup Support and Engagement Portal and introduces several incentives to improve the viability of startups and facilitate investment in Nigerian startups.[v]

LEGAL FRAMEWORK FOR BUILDING A STARTUP IN NIGERIA

Establishing a startup in Nigeria requires more than innovation and a capable team; it requires a strong legal foundation. While the Nigerian business environment offers vast opportunities, it is also heavily regulated. Compliance with the Companies and Allied Matters Act (CAMA) 2020, registration with the Corporate Affairs Commission (CAC), fulfilment of tax obligations, and acquisition of sector-specific licenses are critical for business sustainability. The Nigeria Startup Act 2022 further emphasizes the necessity of legal compliance by prescribing conditions for government recognition and incentives. Early understanding of these requirements enables entrepreneurs to safeguard their innovations, attract investment, reduce risks, and build scalable, resilient businesses. Some of the regulatory steps are considered below.

1. Business Structure

The Companies and Allied Matters Act (CAMA) 2020 makes provision for different business structures, including sole proprietorship, partnership, business name, and limited liability companies. The Nigeria Startup Act



2022 provides for the issuance of a certificate of startup label by the secretariat upon the fulfillment of labelling requirements.[vi]

While some founders start with sole proprietorships or partnerships, the Nigeria Startup Act, 2022 requires startups to register as limited liability companies within six months to retain their startup label.^[vii] A startup is therefore eligible for labelling where it is registered as a limited liability company.

Thus, in line with the provisions of the Nigerian Startup Act 2022, a startup should be registered as a private company to be eligible for a startup label^[viii]. This is complemented by section 18(2) of the Companies and Allied Matters Act (CAMA) 2020^[ix] the enabling provision for the incorporation of a private company. By doing so, it will serve as an exemption to the pre-label status of a startup in a proprietorship or partnership business structure.^[x]

2. Registration with the Corporate Affairs Commission (CAC)

The Corporate Affairs Commission is the regulatory agency for businesses under the Companies and Allied Matters Act (CAMA) 2020. The Corporate Affairs Commission (CAC) has the sole function of registering business structures stipulated under the Companies and Allied Matters Act (CAMA) 2020.^[xi] The legal operation of a startup business is guaranteed by its registration with the Corporate Affairs Commission (CAC), be it a sole proprietorship, partnership or a company without which it cannot be legally recognised.

3. Tax Registration and Compliance

Tax registration and compliance ensure that startups are free from legal liabilities. A startup must obtain a Tax Identification Number (TIN) from the Nigeria Revenue Service (NRS). Depending on its operations, a startup may also remit Company Income Tax (CIT), Value Added Tax (VAT), Personal Income Tax (PIT), and Withholding Tax (WHT).

Compliance not only prevents penalties but also positions startups to access available tax incentives

4. Sector-Specific Licenses & Permits

Certain sectors require regulatory licenses before operations can commence. For example, a Fintech will require a Payment Service Provider (PSP) license from the Central Bank of Nigeria to operate as a fintech company in Nigeria, a Bureau De Change License is required for a startup that seeks to engage in foreign exchange activities, a Real Estate Agent License is required for individuals to act as intermediaries in buying, selling, or renting properties. Obtaining the appropriate license and subsequent renewals, where necessary, is very important to avoid regulatory sanctions and penalties.

5. Foreign Ownership and Expatriate Requirements

Nigeria operates a free-market economy, allowing both citizens and foreigners to own businesses.

However, the Nigerian Investment Promotion Commission (“NIPC”) Act 2004 prohibits foreigners from participating or engaging in specific business fields through the **Negative list**.^[xii] While 100% foreign shareholding is permitted by the NIPC Act, a startup with foreign participation will not qualify as a ‘small company’ under Companies and Allied Matters Act (CAMA 2020). Such a company faces higher requirements at least two directors (as opposed to one for small companies) and a minimum issued share capital of ₦100,000,000.00 (One Hundred Million Naira) for incorporation. Moreover, under the Startup Act’s labelling criteria, at least one co-founder must be Nigerian, so a

wholly foreign-founded venture cannot obtain the official startup label.^[xiii] Thus, a company involving a foreign owner must have a minimum of 2 directors and must be registered with a minimum issued share capital of N100,000,000.00 (One Hundred Million Naira). This means that any business or company with active foreign participation may not be regarded as a startup business or a small company.

Founders welcoming foreign investment should note additional steps: registration with NIPC, securing a Business Permit, and compliance with expatriate quota and immigration requirements for any foreign staff or founders.

ONGOING LEGAL OBLIGATIONS AND BEST PRACTICES

Beyond the foundational registrations, founders must also consider how they run the company day-to-day – from governance and contracts to IP protection and beyond

1. Corporate Governance and Administrative Obligations

A code of corporate governance for startups outlines the principles, policies, and procedures for how a startup is directed and controlled, ensuring transparency, fairness, accountability, and responsibility. It can be wielded as a tool by a startup to protect the interests of its stakeholders or investors. While most governance codes are not compulsory for private startups, founders are wise to implement appropriate governance best practices for their stage of development.^[xiv]

Some corporate governance requirements can be found in the following:

- a. The Companies and Allied Matters Act (CAMA) 2020
- b. The Nigerian Code of Corporate Governance (NCCG), 2018
- c. The Code of Corporate Governance for Public Companies (CCGPC) 2011
- d. The Code of Corporate Governance for Banks and Discount Houses in Nigeria 2014.^[xv]

2. Intellectual Property (IP) Protection

Startups promote innovations, inventions, and entrepreneurial advancement. This necessitates the application of intellectual property law

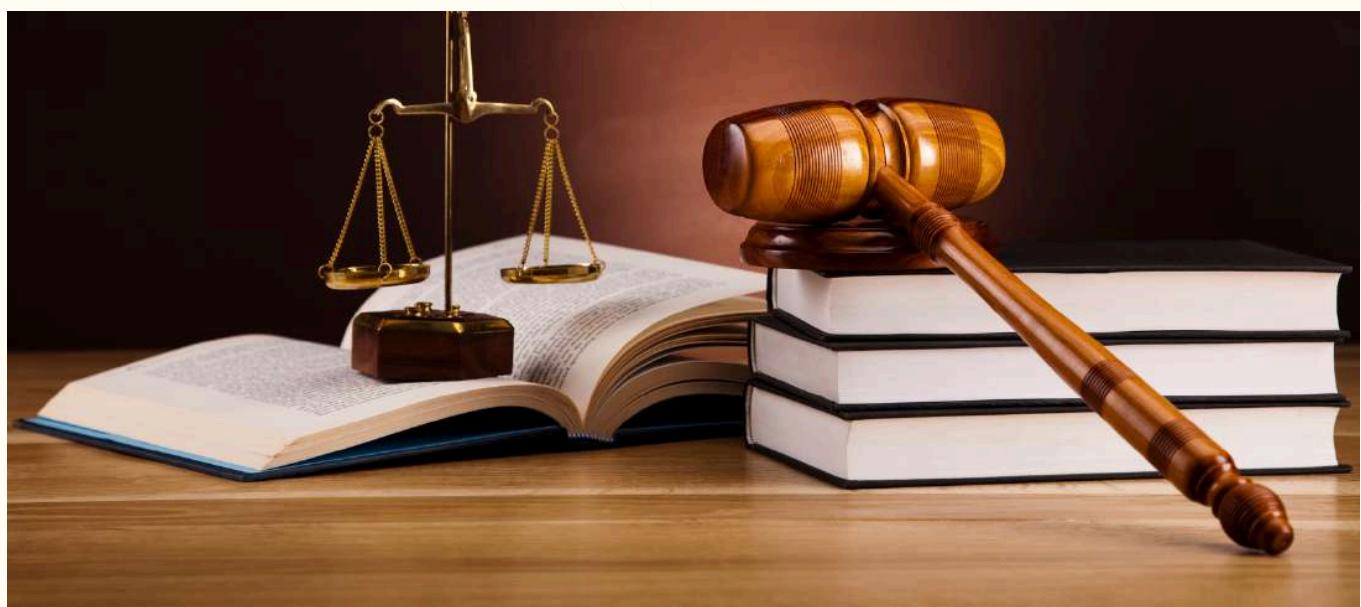
in protecting a startup business against intellectual property infringement. Startup business can protect their intellectual property rights by registering their creative works through trademarks, patents, designs, and copyrights with the Trademarks, Patents, and Designs Registry or the Nigerian Copyright Commission (NCC), respectively alongside the Federal Ministry of Industry, Trade, and Investment. It is also important (where applicable) to seek necessary approvals with the appropriate agencies, such as the National Information Technology Development Agency (NITDA) and Nigeria Data Protection Commission (NDPC) 2023.

3. Contracts and Dispute Resolution

The startup stage of a business is usually characterised by contracts/agreements to protect interests and ensure its smooth internal operation. Entering the right contractual agreements is essential for the success and sustainability of any

startup, as skipping formal contracts is a common mistake among startups, often leading to disputes. Essential agreements for a startup business in Nigeria include founders' agreement, employment contract, intellectual property agreement, investment/funding agreement, and non-disclosure agreements. As a legal safeguard in times of conflict, a startup business may incorporate dispute resolution provisions (such as arbitration and mediation clauses) into its contracts

4. Risk Management and Insurance
Nigeria's business environment is volatile and uncertain. A startup business at this initial stage is susceptible to different types of risks and challenges. Risk management is a critical component of any startup's strategy. Effective risk management helps anticipate potential threats, mitigate their impact, and turn challenges into opportunities. A Nigerian startup can encounter financial risk, legal risk, operational risk, market risk, and reputational risk.[xvi]



Insurance, therefore, serves as a risk management tool. Integrating insurance policies such as property, liability and health/employee insurance into the business plan helps to mitigate financial, legal and operational risks.

5. Environmental Compliance

Environmental compliance is not only a legal duty but also a sustainability strategy that builds public trust. Startups must therefore comply with environmental laws enforced by the National Environmental Standards and Regulations Enforcement Agency (NESREA).



indecisions are not legally incriminating. Compliance audits keep the business on the right side of the legal road, ensuring that the business follows finance, labour, or data security rules. A startup would be prudent to ensure compliance with labour laws on pensions, insurance, and employee taxation.

Compliance audits can be instrumental to a business's operational audits and assessment process. It can be used to identify areas where the business operations can improve, including boosting efficiency or reducing potential risk. The compliance checklist involves a strict process of examining different compliance functions including: preparation, performance, audit reporting, and follow-up.[xvii]

COMPLIANCE

6. Compliance Audit and Legal Readiness

A sustainable startup business should regularly audit itself through a compliance checklist.

A compliance checklist is a regulatory checklist that streamlines the process of an internal audit of a startup business. Compliance checklists enable a startup to meet both internal and external audits. Regular audit ensures that the startup's decisions or

Launching a startup in Nigeria can be an exciting and rewarding journey, but ignoring the legal side of business is one of the fastest ways to derail success. By laying the right legal foundation, from business registration and tax compliance to intellectual property protection, governance structures, risk management, and environmental obligations, founders create a business that is not just innovative but legally resilient.

The goal of the legal requirements is not to add unnecessary bureaucracy but to ensure that a startup business is positioned to grow without legal interruptions, attract the right investors, and withstand regulatory scrutiny. Working with qualified legal

and tax professionals at every stage can make the difference between a startup that thrives and one that struggles. In Nigeria's fast-evolving business landscape, legal readiness is the backbone of sustainable entrepreneurship.



KEY INCENTIVES FOR LABELLED STARTUPS

What benefit does a startup stand to gain from obtaining the labelled status? The Nigeria Startup Act 2022 was not enacted to impose rules on startups alone, but in doing so, it provides a handful of benefits for a startup founder and his business. Labelled startups can enjoy tax holidays and other government incentives, so meeting the criteria for the Nigerian Startup Act 2022 has tangible benefits. These benefits include:

1. A startup business qualifies for pioneer status incentive (PSI) Scheme
2. Startups are exempted from the Companies Income Tax Act's restrictions on deducting expenses for research and development (R&D). [xviii]

3. Startups enjoy priority government support programs such as the federal government's ability to simplify the requirements for startups to benefit from existing tax schemes. [xix]
4. A startup involved in exporting products or services is eligible for export incentives and financial assistance from the Export Expansion grant and the Export Adjustment Scheme Fund.[xx]
5. A startup registered under the Act will also have access to a credit guarantee scheme established in accordance with section 28(1) of the Act.
6. Labelled startups can raise funds through crowdfunding intermediaries and commodities investment platforms

licensed by the SEC, through an expedited process.[xxi]

7. The Secretariat will collaborate with the CAC to designate a separate section on the startup portal to facilitate seamless, expedited processes and transactions carried out by the labelled startups with the CAC. [xxii]

8. The Secretariat will collaborate with the Nigerian Copyright Commission and the Trademarks, Patent and Design Registries to ensure that the registration and protection of intellectual property of

labelled startup is seamless and expedited.

9. The Act mandates an annual allocation of at least ₦10 billion to the Startup Investment Seed Fund ("the Fund").[xxiii]

10. Also in relation to investors, angel investors, venture capitalists, private equity funds, accelerators, or incubators who invest in a labelled start-up are eligible for an investment tax credit equal to 30% of their investment in the labelled start-up. [xxiv]

KEY LEGAL TAKEAWAYS FOR FOUNDERS

1. Starting and maintaining a startup in Nigeria requires a solid legal foundation.

2. Entrepreneurs must choose the right business structure under the Companies and Allied Matters Act (CAMA) 2020 and, in line with the Nigerian Startup Act 2022, register as a company to qualify for a startup label.[i]

3. Registration with the Corporate Affairs Commission (CAC) is mandatory, alongside obtaining a Tax Identification Number from the Nigerian Revenue Service and complying with tax obligations.

4. Depending on the industry, startups must also secure sector-specific licenses and renew them as

required. Foreign participation is allowed but subject to minimum capital requirements and director rules.[ii]

5. Founders should adopt basic corporate governance practices, protect their intellectual property, and formalise key agreements (such as co-founder and employment contracts) to avoid disputes.

6. Risk management, insurance coverage, and compliance with environmental regulations are also very crucial for the sustainability of start-up businesses.

7. Finally, periodic compliance audits help startups stay legally ready, reduce risks, and ensure long-term sustainability.

CONCLUSION

The legal must-knows for a startup business are non-exhaustive. Startups at their initial stage may be susceptible to facing challenges such as regulatory and financial risk. Securing investment and funding is a time-consuming process. This is largely because most startups struggle to attract investors. Financial risk can be mitigated by sound business planning and financial forecasting. With the enactment of the Nigerian Startup Act 2022, startups have the ability to adapt to economic, legal and structural changes and scale rapidly into a conglomerate. They have also fostered a culture of innovation to solving specific problems and fueling the Nigeria's economic system.

TEL: 0802-740-5535, 0810-424-2598
Email: hello@manifieldsolicitors.com
Adewole kuku street, Lekki. Lagos, Nigeria.

REFERENCE LIST

- [i] Accelerating Startup Growth: Nigeria's Incubators, Forbes Africa by Oluwatomisin Amokeoja at <https://www.forbesafrica.com/entrepreneurs/2023/10/31/accelerating-startup-growth-nigerias-incubators/>
- [ii] Definition of a Startup- Section 47 Nigeria Startup Act, 2022
- [iii] Section 3, Nigeria Startup Act, 2022
- [iv] Section 19, Nigeria Startup Act, 2022
- [v] Section 10, Nigeria Startup Act 2022
- [vi] Section13(1) Nigeria Startup Act 2022
- [vii] Requirements for a registration of a startup business after six months Section 13(4) Nigeria Startup Act, 2022
- [viii] A startup label makes the startup business eligible to the benefits provided under the Nigerian Startup Act 2022 especially where it relates to the grant of startup investment seed fund.
- [ix] Section 18(2) CAMA 2020 “Notwithstanding subsection (1), one person may form and incorporate a private company by complying with the requirements of this Act in respect of private companies”
- [x] The Legal Business Structure for Startups In Nigeria. by Timothy Olamide on March 4, 2023 at <https://www.linkedin.com/pulse/legal-business-structure-startups-nigeria-timothy-olamide>
- [xi] Section 8 (1) (a) Companies and Allied Matters Act 2020
- [xii] Section 31 of the Nigerian Investment Promotion Commission (“NIPC”) Act
- [xiii] Section 20(4) Companies and Allied Matters Act (CAMA) 2020
- [xiv] A Guide to Adopting Corporate Governance for Startups by Ifeoma Ezeribe and Tolulope Oguntade at <https://www.mondaq.com/nigeria/corporate-governance/1462628/a-guide-to-adopting-corporate-governance-for-startups>
- [xv] Regulatory Compliance Checklist for Start-ups in Nigeria by Colin Egemonye and Shola Adekunle at <https://www.goldsmitshslp.com/regulatory-compliance-startups-nigeria/>
- [xvi] Understanding Risk Management and Dispute Resolution for Nigerian Startups' by The Trusted advisors on 26th August 2024, at <https://trustedadvisorslaw.com/risk-management-and-dispute-resolution-for-nigerian-startups/>
- [xvii] Essential Legal Compliance: Considerations for Startups in Nigeria by Adam Wakefield on 16th January 2025 at <https://www.foundersfactory.africa/blog/legal-compliance-considerations-startups-nigeria>.
- [xviii] As a result of Section 25(3) of the Act, a labeled startup can deduct entirely any R&D expenses incurred in Nigeria. What Are The Benefits of the Nigeria Startup Act to You? On Dec 21, 2022 At https://medium.com/@startupact_ng/what-are-the-benefits-of-the-nigeria-startup-act-to-you-58e4a3e87919
- [xix] Section 24 Nigeria Startup Act 2022
- [xx] What Are The Benefits of the Nigeria Startup Act to You? On Dec 21, 2022 At https://medium.com/@startupact_ng/what-are-the-benefits-of-the-nigeria-startup-act-to-you-58e4a3e87919
- [xxi] Empowering Innovation And Fostering Investment: The Nigeria Startup Act And Its Incentives by Udochukwu Akalezi and Elizabeth Olaghene on 31 May 2024 at <https://www.mondaq.com/nigeria/corporate-and-company-law/1462372/empowering-innovation-and-fostering-investment-the-nigeria-startup-act-and-its-incentives>
- [xxii] Ibid
- [xxiii] Ibid
- [xxiv] According to Section 29(2) of the Nigerian Startup Act 2022
- [xxv] Section 13(4) Nigeria Startup Act, 2022
- [xxvi] New Capital Requirements for Foreign Investors in Nigeria, by Kolapo Saka, Oghogho Makinde And Cephas Caleb on October 2022 at <https://www.aluko-oyebode.com/insights/minimum-share-capital-requirement/> “The Ministry of Interior has recently issued a revised Handbook on Expatriate Quota Administration 2022 (the “Handbook”) which has increased the minimum share capital requirement to NGN100,000,000 (One Hundred Million Naira).”