



Reforming the Nigerian Sports Industry - Incentives for Sports Investment in Nigeria

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In 2018, the global sports market reached a value of US\$489 billion, growing at an annual rate of more than four percent (4%) since 2014, and is expected to grow at an annual rate of about six percent (6%) to almost US\$614 billion by 2022¹. Investors, private and public, across the globe are actively seeking opportunities to participate in and reap the rewards of the expanding sports industry.

The business of sports cuts across, and drives a number of commercial activities including media and broadcasting, merchandising, tourism, hospitality, real estate etc. Investors in the sports sector have the option to explore the dynamic commercial ventures available within and in relation to the industry. Investor participation may take the form of equity participation in sporting competitions and sporting entities, sporting events management, purchase or lease of a sports asset, commercial partnerships and collaborations with sports organisations etc. Sports is also a labour-intensive industry; thus, a thriving sports sector leads to additional employment.

In Nigeria, sport is a way of life with a large majority of Nigerians partaking in sporting activities as spectators or participants. It is not surprising that sport and sporting activities are major unifiers for Nigeria's heterogeneous population. The Nigerian sports sector has enormous, untapped business opportunities. However, despite many years of on-field success of her athletes and teams, sports as a business in Nigeria has failed to generate revenue commensurate with its mass appeal. This is a result of amongst other things, minimum to non-existent investment in the sector caused by a lack of an enabling environment for sports business. In order to drive investment in the predominantly government-driven sector, the Nigerian government needs to put incentives in place to encourage investors (foreign and domestic).

This article examines the extant investment incentives available in the sports sector (where available) and proposes additional incentives for private sector investment in the Nigerian sports industry.

Investment Incentives

Regulation

There is currently a dearth of legislation regulating the Nigerian sports industry. Federal laws regulating aspects of the Nigerian sports industry include the National Institute for Sports Act (1992) which establishes the National Institute for Sports, an academic institution charged with

¹ Source: BusinessInsider, www.markets.businessinsider.com

the responsibility to pursue the advancement of learning in specialised areas of sports development; and the Nigerian Football Association Act² (“NFA Act”). In addition, there is also a National Sports Policy. The NIS Act is geared towards sports learning and education, and the NFA Act is specific to football with several deficiencies of its own. None of these laws/policies adequately address the needs of a developing sports sector.

Flowing from the lack of sports laws and regulations is a lack of efficient and competent regulatory bodies. While virtually all sports in Nigeria is supervised by a regulatory body of some sort, these regulatory bodies are run inefficiently and have had to deal with several challenges related to funding, control etc.

Dispute resolution in the sports sector is also unaddressed by any laws. Thus, sports disputes are largely left to be resolved by the Nigerian litigation system. This is undesirable by international standards.

These problems severely limit investors’ confidence in the country and their willingness to invest in the sports sector. Sports development and investment require sector-specific laws and a regulatory environment which address the needs of individual sports and cover issues such as athletes’ rights, acquisitions and investments, image rights, media and broadcasting rights etc.

Finally, an alternate dispute resolution body, such as the Court of Arbitration for Sports, needs to be established for the speedy and efficient resolution of disputes within the sector.

Tax Incentives

The federal government may also grant tax breaks to companies in the sports industry. Tax incentives may allow for deductions from income tax payable by individuals and corporate entities where such individuals and corporate entities have made donations to or investments in acceptable sports ventures.

In Nigeria, the profits of any company formed for the purpose of promoting sporting activities, where the profits are wholly expendable for such purpose are exempt from companies’ income tax³. This is not a real business incentive as all profits have to be ploughed back into the business, thus rendering futile any possibility of returns on investment. This emphasises the general attitude

² The Nigerian senate has passed a bill for the repeal of the NFA Act and the replacement thereof with the Nigerian Football Federation Act. The NFF Act awaits presidential assent.

³ Section 23(1)(d) of the Companies Income Tax Act (CITA), Cap C21, LFN 2004

towards sports investments in Nigeria where such investments are seen as being solely for charitable or altruistic purposes and not for commercial purposes.

While there are no real tax incentives for the sports sector in Nigeria, there are tax incentives generally available to business entities which may be claimed by investors in the sports industry. Such tax incentives include tax deductions for research and development - there is a twenty (20%) per cent investment tax credit available to companies and other organisations engaged in research and development activities for commercialisation⁴. This may be taken advantage of by companies in the business of sports research and development.

There is also the grant of pioneer status under the Industrial Development (Income Tax Relief) Act⁵. Pioneer status is granted to companies in selected industries and products which exempts these industries and products from corporate tax for a minimum of three (3) years. It is suggested that sports development activities are categorised as special economic activities by the federal government in order to qualify investments in the sector for this preferential concession.

In Brazil, there is a Sports Tax Incentive Law under which allows individuals or legal entities to make deductions of their income tax payments and apply such deductions towards sponsoring sports projects. Sports projects under this law include any concerted sports action aimed at the practice, education, study, research or development of sports at amateur, professional or educational levels. Such deductions are subject to a cap of six per cent (6%) for individuals, or one per cent (1%) for other legal entities of the income tax due⁶.

In Nigeria, donations made by corporate organisations to the National Sports Commission and its state associations are tax-deductible. It is suggested that this “incentive” is extended to donations made to sporting organisations and sporting activities. Furthermore, tax credits may also be granted to organisations who choose to sponsor or invest in sporting activities to the tune of the sum invested or donated.

Special Economic Zones

Sports goods manufacturers may take advantage of the Export Processing Zones in Nigeria. Export Processing Zones in Nigeria offer several incentives to investors including 100% foreign ownership of investment, rent-free land at construction stage, full tax holiday from all federal, state

⁴ Section 26(3) of CITA

⁵ Cap 17, Laws of the Federation of Nigeria, 2004

⁶ Pinheiro Neto – Doing Business in Brazil

and local government taxes, waiver on all import and export licences, and duty-free, tax-free on import of raw materials for goods destined for re-export.

Other Investment Incentives

Investment incentives available in Nigeria also include protection from double taxation⁷; protection against nationalisation and expropriation; free transferability of capital and returns amongst others.

These incentives are available to all investors in the Nigerian economy and are thus applicable to investors in the sports industry.

Conclusion

The investment climate for sports investment in Nigeria is abysmal. There is inadequate legislation to address the needs of the sport in the country. To develop the sector, there is a need for an overhaul of the system as it currently is and a mindset shift from seeing sports as a purely altruistic endeavour to multi-billion dollar industry. There is a need for the following:

- Laws and regulations addressing all requisite areas of the sports including media and broadcasting rights, sponsorships, athletes' rights etc;
- An independent alternate dispute resolution institution for the resolution of legal disputes in the sports sector;
- Sector-specific tax incentives in the form of holidays, credits, deductions, and rebates, as appropriate; and
- Active promotion of special economic zones and other investment incentives available to investors in the sports sector.



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⁷ The protection against double taxation of income and capital gains is to the extent that Nigeria has entered into bilateral investment treaty or a double taxation agreement (DTA) with the other country. Nigeria has entered into DTAs with Belgium, Canada, China, Czech Republic, France, Italy, Pakistan, Philippines, Romania, Slovak, South Africa, The Netherlands, and the United Kingdom