

**SMALL AND MEDIUM ENTERPRISES EQUITY INVESTMENT  
SCHEME (SMEEIS)  
(AN INITIATIVE OF THE BANKERS' COMMITTEE)**

**REVISED GUIDELINES**

**FOR**

**OPERATION OF THE SCHEME**

## **GUIDELINES FOR BENEFICIARIES & BANKS**

### **1.0 Establishment Of The Scheme:**

- 1.1 The Small and Medium Enterprises Equity Investment scheme is a voluntary initiative of the Bankers' Committee approved at its 246<sup>th</sup> Meeting held on 21<sup>st</sup> December, 1999.
- 1.2 The initiative was in response to the Federal Government's concerns and policy measures for the promotion of Small and Medium Enterprises (SMEs) as vehicles for rapid industrialisation, sustainable economic development, poverty alleviation and employment generation.
- 1.3 The Scheme requires all banks in Nigeria to set aside ten (10) percent of their Profit After Tax (PAT) for equity investment and promotion of small and medium enterprises.

### **2.0 Purpose Of The Scheme:**

- 2.1 The 10% of the Profit After Tax (PAT) to be set aside annually shall be invested in small and medium enterprises as the banking industry's contribution to the Federal Government's efforts towards stimulating economic growth, developing local technology and generating employment.
- 2.2 The funding to be provided under the scheme shall be in the form of equity investment in eligible enterprises. This will reduce the burden of interest and other financial charges expected under normal bank lending, as well as provide financial, advisory, technical and managerial support from the banking industry.

### **3.0 Activities Covered By The Scheme:**

- 3.1 Every legal business activity is covered with the exception of
  - (i) Trading/merchandising
  - (ii) Financial Services

### **4.0 Definition Of A Small And Medium Industry:**

- 4.1 For the purpose of this scheme, a small and medium enterprise is defined as any enterprise with a maximum asset base of ₦500 million (excluding land and working capital), and with no lower or upper limit of staff.  
This is subject to review by the Bankers' Committee from time to time.

**5.0 Eligibility For Funding:**

5.1 To be eligible for equity funding under the Scheme, a prospective beneficiary shall:

- (i) Register as a limited liability company with the Corporate Affairs Commission and comply with all relevant regulations of the Companies and Allied Matters Act (1990) such as filing of annual returns, including audited financial statements;
- (ii) Comply with all applicable tax laws and regulations and render regular returns to the appropriate authorities; and
- (iii) Engage or propose to engage in any of the businesses as indicated in clause (3) above.

**6.0 Modalities Of The Scheme:**

6.1 Funds invested by participating banks shall be in the form of equity investment in eligible enterprises.

**7.0 Definition Of Equity:**

Equity is defined as ordinary and preference shares.

However, Preference Shares under the Scheme shall be non-cumulative and shall bear zero coupon rate.

**8.0 Limit Of Equity Ownership:**

Upper limit of 40% equity funding by banks shall apply.

**9.0 Maximum Amount Investible In Any Enterprise:**

Maximum amount investible in any enterprise is ₦200 million.

**10.0 Co-Investment By Different Banks:**

Co-investment by different banks is allowed subject to the maximum limit of 40%.

**11.0 Sectoral Allocation:**

Real/Service Sector – 90% maximum; and Microfinance–10% minimum

**12.0 Deadline For Investing Funds:**

The time limit to invest the funds set-aside shall be 12 months after the AGM of the bank.

**13.0 Incentives/Sweeteners:**

There shall be annual award in various categories to the best performing banks under the SMEEIS.

**14.0 Sanctions And Penalties:**

On expiry of period of grace, after the date of setting aside of the funds:-

- 14.1 The CBN shall debit the banks that have not invested and invest such funds in treasury bills for six(6) months after expiry of the deadline. The interest earned would be used to administer the scheme.
- 14.2 Thereafter, existing venture capital companies and banks could bid to manage and invest the funds through proposals made to the Bankers' Sub-Committee on the SMEEIS for final approval by the Bankers' Committee.

**15.0 Continuity Of The Scheme:**

The Scheme shall continue after the first five years but banks' contributions to SME reserves to thereafter reduce to 5% of Profit After TAX.

**16.0 Mode Of Investments And Other Related Issues:**

- 16.1 Equity under the scheme may be in the form of fresh cash injection and/or existing debts owed to participating bank.
- 16.2 A participating enterprise may obtain more funds by way of loans from banks in addition to equity investment under the scheme.
- 16.3 Eligible enterprises are free to approach any bank, including those they presently have relationship with, to seek funding under the scheme. Prospective beneficiaries should note that the banks may operate the scheme directly, through their wholly owned subsidiary venture capital companies or through venture capital companies floated by consortia of banks or through independent venture capital companies.
- 16.4 Prospective beneficiaries are advised to seek the opinion of third party consultants such as lawyers, accountants and valuers in determining the value to be placed on the assets and capital of their businesses in order to determine a fair price before or during negotiations with the banks.

**17.0 Requirements By Beneficiaries:**

- 17.1 Beneficiaries will be expected to:
  - (a) Ensure prudent utilisation of funds;
  - (b) Keep up-to-date records on the companies' activities under the Scheme;

- (c) Make the companies books, records and structures available for inspection by the appropriate authorities (including banks and the CBN) when required;
- (d) Comply with guidelines of the Scheme; and
- (e) Provide monthly financial and operational reports to the investing banks before the 15<sup>th</sup> of the next succeeding month.

17.2 The recommendations of industrial associations, particularly Manufacturers Association of Nigeria (MAN); National Association of Chambers of Commerce, Industry, Mines and Agriculture (NACCIMA); National Association of Small and Medium Scale Enterprises (NASME); and National Association of Small Scale Industries (NASSI) will be mandatory for members of these associations. Membership of recognised NGOs engaged in entrepreneurial development and promotion of small and medium scale enterprises will also be an advantage.

#### **18.0 Presidential Consultative Advisory Committee (PCC):**

A PCC comprising members from the following institutions shall be set-up for the scheme:

- (a) The Central Bank of Nigeria (Chairman)
- (b) The Bankers' Committee;
- (c) The Presidency;
- (d) Federal Ministry of Finance;
- (e) Federal Ministry of Industry ;
- (f) Manufacturers Association of Nigeria (MAN);
- (g) National Association of Chambers of Commerce, Industry, Mines and Agriculture (NACCIMA);
- (h) National Association of Small Scale Industries (NASSI); and
- (i) Development Finance Department of the CBN shall be the Secretariat of the Committee.

#### **19.0 Bankers' Committee Sub-Committee On The SMEEIS :**

19.1 There shall be a Standing Sub-Committee on the SMEEIS appointed by the Bankers' Committee to determine issues relating to the SMEEIS and report to it for final determination and approval. Ad-hoc Sub-Committees could also be appointed from time to time as the need arises to determine specific issues relating to the SMEEIS. Membership of the Bankers' Committee Sub-Committee on SMEEIS shall include:

- |       |                                     |          |
|-------|-------------------------------------|----------|
| (i)   | Bankers' Committee Representative - | Chairman |
| (ii)  | The Central Bank of Nigeria -       | Member   |
| (iii) | Selected representatives of banks - | Members  |

## **20.0 Secretariat For Bankers' Committee Sub-Committee On The SMEEIS:**

20.1 There shall be a Secretariat for the Bankers' Committee Sub-Committee on the SMEEIS and PCC on the SMEEIS at the Development Finance Department of the Central Bank of Nigeria.

## **21.0 IDENTIFIED KEY STAKEHOLDERS:**

The identified key stakeholders include:

- (i) The Federal Government;
- (ii) The Central Bank of Nigeria ;
- (iii) The Bankers' Committee;
- (iv) Individuals banks;
- (v) Independent Fund Managers;
- (vi) The Securities and Exchange Commission; and
- (vii) Promoters of Small and Medium Industries.

## **22.0 RESPONSIBILTIES OF STAKEHOLDERS:**

### **22.1 The Federal Government:**

- (i) Stable macro-economic environment;
- (ii) Stable and reliable regulatory and legal framework;
- (iii) Adequate Physical Infrastructure ;
- (iv) Prudent fiscal regime; and
- (v) Capacity building.

Specifically, the responsibility of the Government with respect to the implementation of the SMEEIS is to pass the enabling legislation to provide the following tax reforms and incentives:

- Make the bank's contribution to the Scheme enjoy 100% investment allowance;
- Reduce tax paid by SMEs to 10%;
- Provide 5 years tax holidays to the SMEs under the Scheme; and
- Exempt divested fund under the Scheme from capital gain tax.

### **22.2 The Central Bank Of Nigeria:**

- (i) Ensure sound financial system;
- (ii) Liaise with the Federal Ministry of Finance to ensure that the required tax incentives are granted;
- (iii) Monitor the implementation and gather statistics to quantify the impact of the scheme ;

- (iv) Articulate clear guidelines for the implementation of the Scheme;
- (v) Liaise with the SEC to facilitate and simplify the registration of venture capital operators;
- (vi) Ensure each bank's compliance with the guidelines of the Scheme and penalise erring banks in accordance with the penalty stipulated for non-compliance;
- (vii) Capacity building;
- (viii) Disseminate information on the scheme to SMEs and the larger public;
- (ix) Prepare annual progress report; and
- (x) Provide data for the review of the Scheme after 5 years for the Bankers' Committee.

### **22.3 The Bankers' Committee:**

- (i) Obtain the co-operation of the major stakeholders;
- (ii) Disseminate information on the Scheme to SME promoters and the larger public;
- (iii) Oversee joint collaborative efforts under the scheme;
- (iv) Monitor the implementation of the Scheme;
- (v) Capacity Building; and
- (vi) Review the Scheme after five (5) years.

### **22.4 Individual Banks:**

- (i) Provide funding for equity investment in SMEs;
- (ii) Comply with the guidelines of the Scheme;
- (iii) Report on the activities of the Scheme on monthly basis to the Development Finance Department of the Central Bank of Nigeria; and
- (iv) Capacity building.

### **22.5 Independent Fund Managers:**

- (i) Manage equity investment in SMEs on behalf of the banks;
- (ii) Report on the activities of the investment to the banks on a monthly basis;
- (iii) Provide strategic support to Small and Medium Enterprises to minimise the risk of the investments;
- (iv) Exit the investment at the instance of the bank;
- (v) Comply with the guidelines of the Scheme; and
- (vi) Register with the SEC.

### **22.6 Promoters Of Small And Medium Scale Enterprises :**

- (i) Ensure prudent utilisation of funds;

- (ii) Keep up-to-date records on project activities for inspection by the appropriate authorities when required; and
- (iii) Comply with the guidelines of the Scheme.

#### **22.7 The Securities And Exchange Commission (SEC):**

- (i) Facilitate and simplify registration of venture capital operators;
- (ii) Provide enabling environment, specifically, the development of the capital market; and
- (iii) Liaise with other arms of Government to ensure that SMEs have access to the market.

**BANKERS' COMMITTEE  
REVISED: APRIL, 2005**