KEYNOTE ADDRESS BY THE GOVERNOR OF THE CENTRAL BANK OF NIGERIA, CHIEF (DR.) JOSEPH SANUSI AT THE NATIONAL SUMMIT ON "REVAMPING SMALL AND MEDIUM INDUSTRIES" ORGANISED BY THE MANUFACTURERS ASSOCIATION OF NIGERIA (MAN) AT THE MAN HOUSE, IKEJA, LAGOS ON MARCH 4, 2004

Hon. Minister of Industry,
President, MAN,
Captains of Industry,
Eminent Bankers,
Members of the Organised Private Sector,
Distinguished Ladies and Gentlemen.

1. I feel highly honoured and privileged to be invited to present a keynote address at this National Workshop on, "REVAMPING THE SMALL AND MEDIUM INDUSTRIES (SMIs) SUB-SECTOR THROUGH CAPACITY BUILDING INITIATIVES". The topic is not only appropriate, but coming at a time when all stakeholders in the small and medium industries industrial sub-sector are eager to revitalise activities in the sub-sector. The thrust of the renewed interest is partly in response to the fact that the sub-sector has been widely known as the backbone of many economies and their engine of growth and development. We, therefore, intend to do all we can to revamp the sector in order to grow and develop the Nigerian economy.

2. It is my considered view that this type of forum that fosters interaction among various economic agents and, in particular, manufacturers and small scale entrepreneurs, would accelerate a broad-based buy-in to the Small and Medium Industries Equity Investment Scheme, SMIEIS.

3. The promotion of the growth of the sub-sector has been a major concern of various Nigerian administrations in the past three decades as evidenced by the various monetary, fiscal and industrial policy interventions introduced by successive governments since the 1970s. Specifically, Government intervened to shore up the sub-sector by:

(i) funding and setting up industrial estates to reduce overhead costs on SMIs;
(ii) establishing specialized financial schemes and institutions, including the Small Scale Industry Credit Scheme (SSICSs), and the Nigerian Bank for Commerce and Industry (NBCI) to provide long-term credit;
(iii) facilitating and guaranteeing external finance by the World Bank (including SME 1 and SME 2), African Development Bank and other international financial institutions;
(iv) facilitating the establishment of the National Directorate of Employment (NDE);
(v) establishing the National Economic Reconstruction Fund (NERFUND) to provide medium to long-term loans for small, and medium scale businesses, particularly those located in the rural areas; and
(vi) providing technical training and advisory services through Industrial Development Centers.

4. Special Guests, I do not want to bore you with an evaluation of the performance of these intervention measures other than to strongly underscore the major lesson that emerged from the implementation of these policy initiatives, that is, although finance is a major constraint to the development of SMIs in Nigeria, it is by no means the only important factor. Other critical success factors are:

(i) competent entrepreneurship,
(ii) technical and managerial skills; as well as
(iii) enabling environment for investment in small and medium scale industries.

Also, other constraints include:

(i) Poor access to money and capital markets
(ii) High rate of enterprise mortality
(iii) Shortage of skilled manpower
(iv) Financial indiscipline
(v) Lack of infrastructural facilities
(vi) Poor policy implementation
(vii) Poor management practices and low entrepreneurial skill base
(viii) Restricted market access
(ix) Overbearing regulatory and operational environment.

Nonetheless, it is our collective consensus that much needs to be done to realize the full potentials of SMIs in promoting economic transformation in Nigeria.

THE EMERGENCE OF THE SMALL AND MEDIUM INDUSTRIES EQUITY INVESTMENT SCHEME (SMIEIS)

5. In order to address some of these constraints and to revamp the sector on a sustainable basis, the Bankers' Committee conceived the Small and Medium Industries Equity Investment Scheme (SMIEIS), as a voluntary initiative for mobilising finance for the purpose. The Scheme was established not only to bridge the dearth in long-term finance, but also to deal with other bottlenecks limiting the development of small and medium scale industries in Nigeria. The previous arrangements concentrated more on debt financing on short-term basis, which was not enough to address the medium to long-term financial needs of operators which were critical to the growth and sustainable development of the sub-sector. More-so, most SMIs complained of high interest rates burden which actually reflected the level of risk in the economy.

6. You may recall, Ladies and Gentlemen, that the Bankers' Committee, at its 246th meeting held on December 21, 1999, took the decision to set aside 10 per cent of their profit before tax for equity investments in small-and-medium-scale industries (SMI). The operational guidelines and stakeholders responsibilities for the Scheme, along with the Guidelines for the Beneficiaries were approved by the Bankers' Committee on June 19, 2001. The Guidelines outlined the objectives of the Scheme, the definition of SMI, the mechanism for the management of the funds, and the coverage of its activities, among others.

SMIEIS was formally launched by President Olusegun Obasanjo on August 21, 2001. The main features of the scheme are highlighted below:

Objectives of the Scheme

7. The specific objectives of the scheme are:

   a. To facilitate the flow of funds for the establishment of new SMI projects; reactivation, expansion and modernization or restructuring of on going projects.
   b. To stimulate economic growth, development of local technology, and generation of employment.

Definition of A Small and Medium Industry

8. For the purpose of the scheme, a small-and-medium-scale industry is defined as any enterprise with a maximum asset base of ₦200 million, excluding land and working capital, with the number of staff employed by the enterprise not less than 10 and not exceeding 300.

Focus and Content of the Scheme

9. The 10 per cent of the profit before tax (PBT) to be set aside annually shall be invested in equity in small and medium industries. This will eliminate the burden of interest and other financial charges except those expected under normal bank lending operations. The Scheme also includes the provision of financial, advisory, technical, and managerial support from the banking industry.

Activities Covered by the Programme

10. The range of activities covered under the Scheme include those in the real sector of the economy and related services as listed below, excluding trading activities: agro-allied, information technology and telecommunication, manufacturing, educational establishments, services, tourism and leisure, solid minerals, construction and any other activity determined by the Bankers' Committee from time to time.

Eligibility for funding

11. To be eligible for equity funding under the Scheme, a prospective beneficiary should:

   (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 set out above.

Modalities of the Scheme

12. The following modalities apply:

(i) Funds invested by participating banks shall be in the form of equity investment in eligible industries.
(ii) Equity investment may be in the form of fresh cash injection and/or conversion of existing debts owed to a participating bank.
(iii) A participating firm may obtain more funds by way of loans from banks in addition to equity investment.
(iv) Eligible industries are free to approach any bank, including those they presently have relationships with for funding.
(v) Prospective beneficiaries are encouraged 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 during negotiations with the banks.

Options for Banks' Participation in the Scheme

13. Banks' participation in the financing of SMI shall be through the following methods:

(i) **Direct equity participation**: Under this arrangement, banks can acquire shares in new or existing businesses after putting in place necessary framework (financial, management, legal, etc). For this, the bank would be represented on the Board and/or management team, thereby ensuring the best possible practices for the project's success. **A bank may, instead, establish a subsidiary to operate the scheme on its behalf**.

(ii) **Equity participation through a venture capital company**: For this, banks will pool their 10 per cent pre- tax profit together and channel it through a venture capital company or fund managers. The bank may be represented on the board of the venture company, while the venture company will essentially be represented on the board and management of the SMI. Funds will only be released to the venture capital companies at the point of investment.

14. I wish to sound a note of warning to banks that are setting up subsidiaries and venture capital companies that they should:

(i) avoid creating cost centres that will eat into the funds available for the Scheme; and
(ii) take advantage of their branch network and spread to get close to various areas (rural/urban) in the country.

Committees on SMIEIS

15. Since the inception of the Scheme , the Bankers' Committee set up a Sub-committee on SMIEIS, comprising representatives of the Central Bank of Nigeria and the deposit money banks. This Sub-committee articulated the Scheme, interviewed and selected the consultant that carried out the study and prepared the guidelines for its operations. The Sub-committee has been responsible for monitoring the implementation of the Scheme. A Presidential Advisory Committee on SMIEIS, comprising representatives of the Federal Ministry of Industry, the Organised Private Sector, the Office of the Secretary to the Government of the Federation and the Bankers' Committee is charged with the responsibility of advising the Government and submitting periodic assessments on the Scheme.

Responsibilities of Stakeholders in SMIEIS

16. Stakeholders in the Scheme include, Government, Central Bank of Nigeria, Bankers' Committee, individual banks, independent fund managers, SMI promoters, and Securities and Exchange Commission (SEC).

Their responsibilities are as follows:

<u>GOVERNMENT</u>

(i) Ensure stable macro-economic environment
(ii) Maintain stable and reliable regulatory and legal framework
(iii) Provide adequate physical infrastructure
(iv) Ensure prudent fiscal regime
(v) Ensure capacity building
(vi) Pass enabling legislation to make the banks' contribution to the Scheme enjoy 100 per cent investment allowance; reduce tax paid by SMI to 10 per cent; provide 5 years tax holidays to the SMI under the Scheme; and exempt divested fund under the Scheme from capital gain tax.

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 SEC to facilitate and simplify the registration of venture capital operators
(vi) Ensure that banks comply with the guidelines of the Scheme and penalize erring banks in accordance with the penalty stipulated for non-compliance
(vii) Ensure Capacity Building
(viii) Disseminate information on the Scheme to SMI and the larger public
(ix) Prepare annual progress report
(x) Provide data for the review of the Scheme after 5 years

BANKERS' COMMITTEE

(i) Obtain the cooperation of major stakeholders
(ii) Disseminate information on the Scheme to SMI promoters and the larger public
(iii) Oversee joint collaborative efforts under the Scheme
(iv) Monitor the implementation of the Scheme
(v) Ensure Capacity Building
(vi) Review the Scheme after 5 years

INDIVIDUAL BANKS

(i) Provide funding for equity investment in SMI
(ii) Comply with the guidelines of the Scheme
(iii) Report the activities of the Scheme on a regular basis to the Central Bank of Nigeria
(iv) Ensure capacity building
(v) Exit the investment in an orderly manner

INDEPENDENT FUND MANAGERS

(i) Manage equity investment in SMI on behalf of banks
(ii) Report on the activities of the investment to the banks on a monthly basis
(iii) Provide strategic support to small and medium industries to minimize the risk of the investment
(iv) Exit the investment at the instance of the bank
(v) Comply with the guidelines of the Scheme
(vi) Register with SEC

PROMOTERS OF SMALL AND MEDIUM SCALE INDUSTRIES

(i) Ensure prudent utilization of funds
(ii) Keep up-to-date records on the companies' activities under the scheme
(iii) Make the companies books, records and structures available for inspection by the appropriate authorities (including banks, CBN, etc) when required
(iv) Comply with guidelines of the Scheme
(v) Provide monthly financial and operational reports to the investing banks before the 15th of the next succeeding month

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
(iii) Liaise with other arms of government to reform the capital market to ensure that SMIs have access to the market.

IMPLEMENTATION OF THE SMIEIS TO DATE

17. In order to facilitate the take-off of the Scheme, steps were taken to organize workshops to educate

and sensitize stakeholders on the Scheme at different cities in the country. The Bank, on behalf of the Bankers' Committee, organized public enlightenment workshops in 20 cities across the country. The CBN was also aware of the need for banks to acquire necessary skills in venture capital management to deepen the implementation of the scheme. Hence, last year it organized four batches of 2-day capacity building workshops on venture capital appraisal and operation for banks staff in Lagos. Similar workshops for branch staff of banks were organized in three geo-political zones, in Kano, Jos and Enugu between December 2003 and January, 2004. The other zones will soon be covered as well.

18. Distinguished Ladies and Gentlemen, we have observed a significant progress in the realization of the goals of the Scheme since its inception in June 2001. For instance, as at the end of January 2004, the sum of ₦22.3 billion had been set aside by 83 out of which N7.71 billion (35%) had been invested in small and medium industries by 52 banks representing 62.25 per cent of the investing banks. I am aware of the efforts being made by a number of the non-investing banks to ensure that their funds are invested.

19. Moreover, a breakdown of investments by sectoral distribution increased significantly in favour of the real sector (68.82 percent) while service-related investments accounted for only 31.18 per cent, a sharp reversal of the initial trends recorded under the Scheme. The emerging trend is in line with the Bankers' Committee decision to allow banks to invest 60, 30 and 10 percent, respectively, of their funds in the core real sector, service-related and microenterprises, respectively. The apparent lack of investment in the microenterprises sub-sector could be explained by the absence of an approved operational guidelines for micro enterprises to access the fund. Similarly, the geographical spread of the investments widened from Lagos (56.53 per cent) to 18 States and Abuja (43.47 per cent). To ensure transparency and accountability, as well as re-assure the general public that the Scheme is on course, the details of the amount set aside and investments made by each bank by location were published in January, 2004.

20. The reasons for the initial slow pace in investments are not far-fetched. First, equity investment requires skill-sets which are quite different from what the banks are familiar with in credit appraisal and management. Secondly, at the time the Scheme took off in 2001, the necessary structures for the investing banks to effectively administer the Scheme were not in place. However, it is encouraging to note that several applications are being processed by the Securities and Exchange Commission (SEC) for the registration of subsidiaries of banks as venture capital companies for the purpose of channeling investments under the Scheme. I encourage the MAN to register an investment vehicle to access the micro-credit component of the SMIEIS.

21. Thirdly, the dearth of attractive projects in which banks can invest, owing to poor record-keeping, poor managerial capability and lack of business packaging skills remains a limiting factor. Fourthly, there was resistance from the entrepreneurs who were reluctant to dilute their shareholding. It took them time to accept the idea of patronizing equity investment instead of loans. The main resistance was unwillingness to accept discipline resulting from sharing control. They wish to persist in the sort of indiscipline that made some of the SMEs fail in the first instance. It has taken some time to effect a paradigm shift. Let me reiterate that it is better to own 10 per cent of a successful and profitable business than to own 100 per cent of a moribund business. Last, but not the least, of course, is the issue of poor infrastructure, which is constantly recurring.

22. It is my firm belief that investments will soon increase to catch up with the accumulated fund as the capacity building efforts of the banks and other stakeholders begin to yield the desired dividends and the necessary structures are put in place.

23. In the continuing effort to improve the optimal utilization of the SMIEIS fund, the Central Bank of Nigeria initiated the Baseline Economic Study to develop an integrated information system for small and medium industries (SMIs). The information so gathered from the exercise will serve as a compendium for prospective investors in small and medium industries and will be widely disseminated. The study, which is being carried out by selected universities, based on their proposals, in seven economic zones into which the country was sub-divided for this purpose, will identify the various possible industries that can be established in each region, taking into account their natural, human and material endowments and proffer strategies for achieving them. Specifically, the study will compile a compendium on project ideas and profiles, effectively disseminate information so gathered to all stakeholders, including investing banks and prospective entrepreneurs, design a generic information system that would assist SMIs overcome their financing, management, marketing and other problems. As at end-February 2004, the fieldwork for the study had largely been concluded, while analysis of the data has started in earnest. We intend to share the results of the study with the general public in a national summit before the end of the second quarter of the year.

24. I will like to conclude my address by sharing with you my faith and optimism in the SMIEIS. With a concerted effort and renewed commitment from all stakeholders, this Scheme will surely succeed and realize its intended objective of revamping the SMIs as engine of growth in the economy and a veritable tool for the development of indigenous technology, rapid industrialization, generation of employment for our teeming youths and the pivot for sustainable economic development in Nigeria.

25. I must not end this address without making some general comments on the current Nigerian economic situation vis-à-vis the organised private sector of which MAN is a most important principal actor. A thriving and robust private sector has been accepted by this government as essential in improving the livelihood of the poor by moving the poor into the market either as entrepreneur or as employees. The private sector is expected to invest, transfer technology, expand the economy, and create wealth. The need for business to create jobs, drive growth and create opportunities for the poor is increasingly very urgent in order to reverse the lackluster performance of the economy. It is also critical to get the business environment right and this is principally, but not wholly the role of government alone.

26. I can say without any equivocation that the President is fully committed to promoting the private sector and he is ever ready to listen and act. The most recent action to protect the local productive base by banning the importation of products we can and should produce domestically again demonstrates Mr. President's commitment to the development of the private sector. MAN should take up this challenge so that the consumer needs are produced at an affordable price. In addition, there are several Presidential Special Initiatives (PSI) in various strategic sectors of the economy aimed at diversifying the economy. One of these initiatives focuses on agriculture (cassava, rice, cotton, groundnut, etc) and has strong linkages to value-added manufacturing and poverty reduction. The PSIs constitute a real challenge to the MAN and SMIEIS.

27. I thank you for your kind attention.

Chief (Dr) Joseph Sanusi
Governor, Central Bank of Nigeria
Abuja

4th March, 2004