

# **GUIDELINES FOR THE SMALL AND MEDIUM ENTERPRISES EQUITY INVESTMENT SCHEME**

## **1.0 Establishment of the Programme**

- 1.1 The Small and Medium Enterprises Equity Investment Scheme was approved by the Bankers' Committee at its 246<sup>th</sup> meeting held on 21<sup>st</sup> December 1999.
- 1.2 (a) The Scheme requires all banks in Nigeria to set aside 10 (ten) percent of their profit after tax (PAT) for equity investment and promotion of small and medium industries.
- (b) Equity is defined as ordinary shares only.

## **2.0 Purpose of the Scheme**

- 2.1 The 10 (ten) percent of the profit after tax (PAT) to be set aside annually shall be invested in small and medium industries as the banking industry's contribution to the Federal Government's efforts towards stimulating economic growth, developing local technology and generating employment.
- 2.2 Funding to be provided under the scheme shall be in form of equity investment in eligible industries. This will enable the beneficiaries reduce their interest and other financial charges as well as receive 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 Small and Medium Enterprise**

- 4.1 For the purpose of this Scheme a small and medium enterprise is defined as any enterprise with a maximum asset base of N500 million (excluding land and working capital).

**5.0 Structure of Business**

5.1 The businesses funded under this Scheme shall:

- (i) Be registered 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; and
- (ii) Comply with all applicable tax laws and regulations and render regular returns to the appropriate authorities.

**6.0 Period of the Scheme**

6.1 The Scheme shall continue after 5 years but banks’ contributions to SME Reserve will thereafter reduce to 5% of Profit after Tax (PAT)

**7.0 Co-investment by different banks.**

7.1. Co-investment by different banks is allowed to enable banks syndicate in equity investment in large size projects (**that qualify under the scheme**).

**8.0 Sectoral Allocation.**

8.1. SME reserve fund shall be allocated as follows:

Real/Service sector	- 90% maximum
Micro enterprises	-10% minimum

**9.0 Limit of Equity Investment**

9.1 The maximum percentage of equity investment in a project by a bank is 40% subject to a maximum of N200 million in a project

## **10.0 Date of Commencement of the Scheme**

10.1 The Scheme commenced on June 19 2001

## **11.0 Investment Exit**

11.1 Timing of investment exit shall be a minimum of 3 years. Divested funds shall be ploughed back to shareholders funds and shall not be subject to tax.

## **12.0 Utilisation of the Scheme Funds**

12.1 The following restrictions shall apply to funds reserved for the Scheme:

- (i) The funds committed to the Scheme (i.e. 10% of PAT) shall be appropriated from the previous years profit and loss account as at the end of the banks' accounting year and maintained in a non-distributable reserve ( Reserve for SMEs Investments ) .
- (ii) The Reserve for SMEs Investments can only be distributed on liquidation of investments.
- (iii) The un-utilized SMEs funds are to be invested in treasury bills or other government securities.
- (iv) These assets shall be segregated from other assets in the balance sheet.

## **13.0 Time limit to invest funds set aside**

13.1 Funds set aside for the purpose of SMEs shall be utilized within 12months after the AGM of the bank.

## **14.0 Sanctions/ Penalties.**

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

- (i) The Central Bank of Nigeria, shall debit banks that have not invested their over due funds and invest such funds in treasury bills (interest earned will be used to administer the Scheme) for 6 months after expiry of deadline.
- (ii) Thereafter, existing venture capital companies, banks and other specialized institutions can 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 Incentives/Sweeteners.**

15.1 Central Bank of Nigeria to introduce annual award in various categories to best performing banks under the SMEEIS.

### **16.0 Audit of Funds**

- 16.1 The banks external auditors shall report on the compliance with the Guidelines as part of normal statutory audit of the bank.
- 16.2. The bank's financial statements shall clearly highlight reserves maintained for investment in SMEs. Specifically, 10 % of PAT shall be classified as reserve. The reserve shall only be paid out to shareholders on the liquidation of the investments.
- 16.3 The investments shall be valued in line with generally accepted accounting practices, thus, losses shall be recognised as soon as identified, while capital appreciation shall only be recognised when realized on liquidation of the investments.

### **17.0 Registration with Securities and Exchange Commission as Venture Capital Operators**

17.1 Fund managers shall register with the Securities and Exchange Commission as Venture Capital Operators.

**CENTRAL BANK OF NIGERIA**

**ABUJA.**

**1<sup>st</sup> April, 2005**