SMALL AND MEDIUM ENTERPRISES EQUITY INVESTMENT SCHEME (SMEEIS) INSIGHT INTO ITS DRAWBACKS

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Abstract

Different governments is Nigeria have initiated many schemes to help small and medium enterprises (SMSs). Many of these schemes failed to achieve their full objectives. SMEEIS was recently initiated by the banking sector to render financial, managerial and technical support to SMEs. Like one of the other scheme, SMEEIS has not significantly met its objective because enormous funds are tied down undistributed to viable projects. We establish that banks inadequate understanding of equity and venture capital (VQ financing has been mainly responsible for the slow disbursement of the fund. Necessary steps must be taken otherwise the scheme might end without achieving its objectives. We suggest that the banks should concede the management of the fund to professional VC firms to avoid the failure of the scheme.

Introduction

Different government in Nigerian have made several attempts to assist the financing of small and Medium -Scale Enterprises (SMEs) but they could not achieved their policy thrusts for various reasons such as unstable macroeconomic policies poor credit guarantee policy, poor policy articulation of foreign currency denominated loans, lack of transparency in the regulatory agencies saddled with the responsibilities for administering the various scheme among others while some of the programmes were administered in conjunction with basis there was no risk mitigator put in place to protect the participating banks, example of such schemes are National Economic Reconstruction Fund (ERFUND) and World Bank SMEs Loan Scheme (Eigbe, 1995). The establishment of the Second-tier Securities market (SSM) to ensure of listing of SMSs on the stock market tends to be less attractive to SMEs, hence its poor patronage by them.

The reasons why various attempts have been made in the past, and still will be made in the future, to promote SMEs, are not unconnected with their propensity to create job opportunities, stimulate economic growth, and promote adoption of local content.

As different governmental initiatives to promote the viability of SMEs could not yield the much needed dividend, the Bankers' Committee in 1999 launched the Small and medium Enterprises Equity Investment Scheme (SMEEIS), which took effect from June 2001. It aims at assisting SMEs to get off the strain associated with loanable fund by allowing banks to participate as equity stakeholders in the portfolio SMEs.

The aim and objectives of this paper are do: demonstrate that SMEEIS is a venture capital (VC) show basic relevant issues of VC so as to give to better insight into how and why SMEEIS should be given VC attention; demonstrate whether banks the expertise to carry on VC financing highlight the challenges and drawbacks of SMEEIS: and suggest possible solutions recommendations for policy insight.

Conceptual Issues

SMEEIS fund is not only an equity but also a Venture Capital (VC) or risk fund. VC as defined by Akingbohungbe (3 991:2), shows that:

It involves capital investment in the form of equity or equity-convertible subscription to any start-up company and to its phases of development. Or that vital financing assistance that enables the translation of uncertainties into realities perhaps in shorts time than envisaged by entrepreneurs.

Thus, venture capital is strongly associated with start-ups, innovative firms, rapid-growth firms, etc. Such firms do not only have the propensity to earn high returns but also have high tendency to collapse. It captures finance theory of high-risk-high return relationship. In order to mitigate the high risk involved in such financing/investment mechanism adequate professional expertise is the imperative. It is quite, obvious from empirical findings that banks do not have the skills-set to undertake VC financing because it falls outside their scope of core competence (Becker and Hellmann, 2002: Egbon, 2005).

Features of Venture Capital i.

Equity Participation

Venture capitalists usually participate as equity investors. Such participation involves share purchase or equity-linked investments like convertible debts, preference shares tied to equity. This feature makes the venture capitalist a partner in the firm, though his equity is spiced with income receipt that is often accrued. Equity-linked participation is implicitly pseudo equity participation.

ii Long-term Investment

VC investment in an investee is usually held for a long period which ranges from 4 to 10 years when it becomes profitable to make huge capita! gains from the investment. Van Home (1998:500), regards such investment as letter stock because it is an illiquid investment. It is termed that way because it cannot be liquidated or sold unless at the time of exit from the portfolio firm, usually when initial public offering (IPO), or other sell out, is made.

Hands-on Management

This is the heart of VC participation in management is the norm, especially when the capitalist's investment. A controlling interest status does not need to exist before the capitalist can venture capitalists investment. A controlling interest status does not need to exist before the capitalist can veto the removal of management or founder, the clause is enshrined in the protective covenant ab-initio. This possibility keeps a gauge on the founder and management team to act in congruence with the capitialist's expectation.

The failure of the first German VC firm formed by German banks Wagnifinanzierungesellschaft (or WFG) was attributed to the divorce of the venture capitalist from the management of its portfolio companies (Becker and Hellmann, 2003: 16-17). They cited several statement by the beneficiaries and benefactor of the scheme. German entrepreneurs perceive hands-on management by the venture capitalist as exploitative and that what they the CEO of WFG. as saying: that is why the failure rate was high. We could not replace an incompetent management team. This sharply contrasts with what obtains in the US, where venture capitalists hold extensive control over the entrepreneurs they finance while some professional managers replaced more than half of all new entrepreneurs (Hellmann, 1998, Hellmann and Puri, 2000). WFG managers could not adopt this approach even while it was evident that many of the entrepreneurs were rookies.

Necessities for Venture Capitalism

For VC firms or industry to thrive, there are some basic elements or qualities that must prevail some of these necessities are considered in this section.

Skill of Hands -on Management

Industry into which he invests so that he can render hands-on support to entrepreneurs or his portfolio companies. According to becker and Hellmann (2003:16), hands-on support provide by venture capitalist was perceived as a hallmark in the US VC industry. Where the knowledge or skill for the support is non-existent, it precipitates the collapse of the portfolio firms (and subsequently that of the VC firm) especially where the entrepreneurs are not flexible or sophisticated enough to adapt to growth.

It is possible that an innovative investor may be a good manager. Besides, a well-performing start-up entrepreneur may have problem of scaling up his management capability requisite for putting a growing business into perspective (Hamm, 2002),

Sanusi (2003: I), reveals that, the establishment of SMIE1S was informed by... poor business management skills which have inhibited the realization of the potentials of the small; and medium-scale industries as engine of growth in Nigeria economy... we, however, doubt if Nigerian banks have the requisite skills to lend hands-on support to the SMBs technically and managerially.

Adequate Selection Process: The process of selecting promising entrepreneurial companies, helping them to develop their potential and participating in the rents generated by successful companies, has been identified as the heart of VC (Gompers and Lener, 1999; Bygrave and Timnons, 1992). If this process is not properly understood, the bank might allow the very promising SMEs to the crowded out.

High Growth Potential or Risk-Return Potential: VC is almost always synonymous with high growth capital. One reason for this is high level of risk associated with VC portfolio firms makes the venture capitalists to seek out only investments that can yield high return. Growth potential of a firm enables the venture capitalist to reap economic rent in the form of capital gains at his exit from the investee. VC-backed firms are more dynamic as they grow more rapidly and flexibly than do their public market counterparts (Hellmann, 2000).

Control Rights: Every contractual relationship involves at least two parties. A paper governance structure regulating the rights of the parties in a VC deal must be in place taking into rational cognizance environmental peculiarities. German WFC failed because there were no adequate protective rights given to investors (venture capitalists), which prevented them from exercising control over their portfolio companies. All the contracting restrictions and governance arrangements favoured the entrepreneur over the investor" (Becker and Hellmann, 2003: 20). Giving high level of uncertainties in Nigeria, protective rights

need to be given investors consequent on the level of risk they are to bear.

Active Stock Market: Back and Gilson (1997), suggest that VC cannot thrive in an environment where active capital market is absent. This they suggest as a vehicle that would help the investors to exit their portfolio firms and allow the entrepreneurs to regain control. However, Becker and Hellmann (2003:37), recognize that active stock market is necessary but not a sufficient condition for the development of an active VC industry. See also Akingbohungbe (1991:9-2). As the activities of the Nigerian stock market are growing by the day we cannot suggest that it is not active enough to support VC industry,

The will at **Commercializing Research Findings:** Research finding are very vital in the development of innovative industries. There must be in existence the purposive drive to commercialize viable research findings. It could arise by allowing research findings from research institutes, universities, or R and D units in big firms to be spun-off for commercialization. To achieve this, both the finances (VCs) and promoters (entrepreneurs) must be willing to dare. Empirical evidences show that many world-rated firms spun-off university researches with professors and other researchers acting as promoters (Zhang, 2004). He cited several firms that were promoted by professors and researchers especially in the Biotech and internet industries. It was found that venture capital companies funds are concentrated in California (US), which also accounts for about 50% VC-backed companies in the US promoted by academia.

Could banks have the courage to summon this will to invest in latent research finding, which to them may not be a good buy? Only venture capitalists that have diversity of knowledge in managing latent projects with high risks plus growth potential can dare to invest therein.

Appropriate Legal/Regulatory Framework: According to Akingbohungbe (1991:3), a suitable legal and regulatory framework is essential for encouraging constant VC inflow, besides stable macroeconomic policy framework, conscious effort at codifying the different legal and institutional structures that facilitate VC business should be articulated. Different legal conditions giving adequate protection to VC financing parties are to transparently and unequivocally be in place. Some of these are incentive rights, patents or proprietary rights, and other contract-related regulations, Also, the different institutions to facilitate the industry whether by control, regulation, monitoring or administering, must not run in conflict with the ideals of VC industry.

Entrepreneurship: The term entrepreneurship is almost always associated with innovativeness. Entrepreneurs have been classified in a myriad of ways, according to authors' perception Smith and Miner (1983), recognize two classes of entrepreneurs as craftsman and opportunistic entrepreneurs- While the craftsman builds a simple rigid organization he is not interested in losing control so that he does not seek elaborate expansion. But the opportunistic entrepreneur builds a flexible, adaptive organization with great quest for growth and strategic planning. The former cannot be said to have the potential to attract VC funds because of unwillingness to dilute control and expand- it may be conceived as a mere source of employment for the entrepreneur, or prestige.

Because there are numerous innovative entrepreneurs in Nigeria both in the industrial. Commercial and academic arena, we cannot say that a dearth of these innovators and promoters of SME is responsible for the drawback of SMEE1S.

Literature Review/Country Experiences

The Thrust of SMEE1S and Venture Capital Financing

SMEEIS is a scheme that emanated from the Bankers' Committee's decision in 1999 to enable banks to participate is the financing of SMEs through equity. The initiative was evolved to alley the problems of inability of these firms to meet the stringent lending requirements of the banks, and that of immediate inadequacy of liquidity to meet servicing of loans. Since no interest is paid on such investment, it is a great leeway for the SMEs to conserve fund for operations except to the extent of dividend declared, if any.

The fund is operated on VC basis in which the participated banks are to seek more of capital gains at the time divestment, which is normally done not less than three years after the investment. If banks conscientiously and transparently implement this scheme without evoking its hitherto bias towards the target beneficiaries (SMEs), the potential of SMEs as engine for economic growth and development would become far from illusion. However, this bais towards Ses might not extinguish especially if the fund is to be managed by a unity within the banks. A universally defined structure for administering the fund does not exist at the moment and this of course may be an albatross to its success and performance among banks. According to Sanusi (2001), the banks have the manage the fund, or authorize venture capital specialists/fund managers to manage the fund on their behalf. Setting up subsidiaries by the banks in the form of VC firms seems to portend greater benefits.

VC is an emerging form of financing window for highly risky ventures that have propensity for growth. It is one of the available means of financing adopted by fledging innovative entrepreneurs. besides their common sources of financing like personal saving, bootstrapping, venture angels, etc. Because the entrepreneurs, most times have their products' concept in the form of ideas and unproven commercial development, little would they appeal to banks for financial commitment. Thus, the. budding entrepreneur has to avail himself of other financing means that will help leverage the risk of imminent collapse and that which will help build a partnership relationship that brings with it. potential opportunities. Venture Capitalists (VCs) come handly in this rescue mission to bridge the' financing gap: where financing gap is the difficulty faced by SMEs in sourcing start-up and development funds. However, in readiness to partner in risk sharing, the VCs expect high return on their investment, especially in the form of capital gains

Besides the earlier definition of VC given by Akingbohungbe (1991:2), above, one more striking definition will expose banks' deficiency in managing VC directly. Gompers and Lerner (2001: 146), have VC defined as independent, professionally managed, dedicated pools of capital that focus on equity or equity-linked investments in privately held, high growth companies. Could we construe banks as professional venture capitalists? Do they have the skills-set to manage equity financing? Sanusi (2003), acknowledged that, equity investment requires skills-set which are quite different from what the banks are familiar with in credit appraisal and management. Also, Anyanwu et al (2003) revealed that, SMEEIS office (within banks- emphasis ours) has not got the required manpower and facilities to match the enormous tasks of mid-wifing and nurturing the scheme.

Government also, in 1993, promulgated Venture capital (incentives) Decree, which led to the establishment of the National Risk Fund (NRF), the first private VC firm in Nigeria. Not much has been heard or documented about the NRF; nevertheless, the confidence of the operators and regulators of the financial system in VC funding of SMEs is never abated. Such confidence might have influenced the engineering of SMEEIS as VC is a coveted financing mechanism that has stimulated the growth of innovative enterprises in several nations, both in developed and developing economies.

SMEs/SMEEIS in Nigeria

There is no universal definition of SMEs. A legion of reasons account for this, among which are: nature of the industry, state of development of the economy, the particular time period, and the technology employed. It also varies from one country to another. However, SME was defined under SMEEIS in 1999 as an enterprise with maximum asset base of N200m, excluding land and working capital with the number of staff employed by the enterprise not less than 10 and not more than 300. in the subsequent review in 2005, the maximum asset base that qualifies a firm as SMES was raised to N500m. other laudable programmes in the past defined SMEs to suit their context however, our emphasis in on SMEEIS.

The purposes of the scheme set out its guidelines includes:

The 10 (ten) percent of the profit after tax (PAT) was profit before tax (PBT) before the first review 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 (emphasis ours) and generating employment.

Funding to be provided under the scheme shall be in the form of equity investment in eligible industries. This will enable the beneficiaries reduce their interest and other finical charges as well as Receive Financial Advisory Technical and Managerial Support (emphasis ours) from the banking industry.

The guidelines also stated one of three ways in which banks can participate in financing SMEs under the scheme direct equity participation equity participation through subsidiary, and equity participation through venture capital company (VCC) fund managers. Majority of the banks have adopted the first option of direct equity participation.

As of February 2005, CBN report shows that about N30.99b of SMEEIS reserve has been created while only N8.9b has been confirmed disbursed to projects. However, these respectively stood at about N43b and N29b as at September 2008 (Fiakpa, 2008). Bank's lack of understanding of the working of VC and their hangover bias towards lending to SMEs are possible reasons for this outcome. To this end, the establishment of subsidiary venture capital companies by the banks, whether by individual banks or consortium of banks seems the best way out of this deep sea. This, of course, could be the reason why some leading banks have established subsidiary VC companies to. manage their SMEEIS. First Bank of Nigeria established First Funds Limited, while Union Bank' on Nigerian in conjunction with four other banks established Unique Venture Capital management Limited (Ajekigbe, 2004, Oboh, 2004). However, activities and performances of these companies beg for future empirical assessment

Going by the features and essentials of VC emphasized above one would logically conclude that banks do not have the expertise and facilities to administer venture capital fund for optimal benefit to the banks, portfolio SMEs and the economy at large. The empirical work of Beeker and Hellman (2003), obviously confirms the incompetence of banks to manage VC. The assertion by-tile former governor of the Central Bank of Nigeria Sanusi (2003). Cited earlier, shows again the management of equity financing

falls outside the scope of core competence of banks.

The competence of banks lies in the management of short-term securities and loan portfolios. VC is a different financing mechanics altogether, which requires special skill-set to management. Granted that SMEEs is an venture capital, management it through SME unit within banks will work diametrical to the thrust of the concept. This, of course, could be gleaned from banks' perception of SMEs as high investment risk, whether the banks are investing in them equity wise, they are still likely to transfer this age-long bias to them. Inegbenebor (2005), observes that there exists mutual suspicion between banks and SEEs entrepreneurs. While the SMEs entrepreneurs suspect that banks are not favourably disposed to grant them credit facilities, the bank also perceive them (SMEs) as risky investment. As these suspicious feed on each other, the gap of the trust they have for each other widens. So, whether the financing/investment window is tagged SMEEIS, equity. Loan, whatever name, many SMEs, promoters may still be reluctant to participate.

VC is almost always associated with High-tech. Do banks have the expertise to finance such projects with the readiness to supply both managerial and technical supports? Germany, a bank-based economy, had the problem of creating a formidable VC industry. Banks cannot do what VC firms can do. A one-time member of German Parliament, Joschka Fischer, remarked in the Economic (1995), that, if Bill Gates were German there would be no Microsoft.

Also, we (the researchers) carried out a survey on the cause of the slow pace of the disbursement o SMEEIS in 2005. Table 1, below shows the ranking in order of importance of the possible causes of the slow pace of disbursement of SMEEIS fund to SMEs.

Table 1: Ranking survey of Causes of the Slow Pace of the Disbursement of SMEEIS Ranking

1. unwillingness of SMEs entrepreneurs to share ownership with others.	I	2	.1	4	5	6	7	Total
2. low level of awareness of the scheme among promoters of SMI-s,		2		8	5		-	15
.1. The - bias of banks that investment in SME-s are high-risk investments.		13%				(33%)		
4 Management of equity scheme is outside the core competence of banks	-	517.1'!,,)	6	4		-(0%]	-	15
5. no. adequate government framework for regulating the scheme	2	.1	6	-	-	4	-	15
6. slow pace of registration of venture capital firms to administer the scheme		-(20%)			3	9 (80%)		15
7. insufficient number of growth SMLs capable of absorbing the fund		(20%	-			(80%)		15

Only 15 of !he 33 respondents attempted (his ranking exercise, which represents about 45% of the respondents. The respondents were sampled from staff of Central Bank of Nigeria, Commercial banks and Securities and Exchange Commission (SBC).

Having recongnized SMEEIS as a venture capital fund, the ranking exercise was used to elicit the perception of the respondents as to what might have been responsible for the slow pace of the disbursement of the fund to potential beneficiaries. This was done by setting in order seven (7) potential cause of this slow pace to which the respondents were required to rank in order of importance. However, the ranking result is not segregated by sample group because our focus here is not on groups perception but on the perception of these stakeholders as a whole.

Table 1, shows the breakdown of how the respondents the respondents ranked the seven (7) causes based on seven (7) scales for the purpose of our analysis, scale 1-3 is construed significant a reason for the slow pace of the disbursement of SMEEIS fund while scale 5-6 is construed insignificant. Scale or point 4 is regarded as neither here nor there, so is disregarded. The bias of banks that investments in SMEs are high-risk investment is perceived by 14 (93%) of the respondents as having a significant delay on the forceful disbursement of SMESSIS. A total of 11' (73%) of the respondents perceived no adequate governance framework for regulating the SMEEIS s chemc as the cause of the slow pace of the fund's disbursement while only 4 (27%) consider such as insignificant a reason.

Also, 11 (73%) of the respondents consider that management of equity scheme is outside the core competence of banks while no respondent considers such as insignificant. But 4 (27%) are at the middle of the road, so their indecision is not useful for our analysis

However, 12 (80%) of the respondents consider the slow pace of registration of venture capital firms to administer the scheme, and insufficient number of growth SMEs capable of absorbing the fund, as insignificant, while the remainder 3 (20%) consider them significant. Low level of awareness of the scheme among promote of SMEs has been ranked as insignificant by 10 (67%) of the respondents leaving 5 (33%) considering it significant. Unwillingness of entrepreneurs to share ownership with others has been considered as neither significant nor insignificant by the largest proportion of the respondents, 8 (53%). Only 2 (13%) and 5 (33%) of the respondents consider it significant and insignificant respectively.

In the final analysis, form this survey we deduce that the bias of banks against investing in SEMs, incompetence of banks in managing equity scheme and inadequate governance structure for regulating the

scheme, tend to have been significantly responsible for the slow pace of disbursement of SMEEIS fund in the order respectively. This analysis also tends to show that the slow pace of registration of venture capital firms, insufficient number of growth potential SMEs, and low level of awareness of the scheme among promoters of SEMEs, are not significant cause of the slow pace of the disbursement of SMEEIS fund.

Challenges of SMEEIS Nigeria

SMEEIS is faced with several challenges. It is an equity scheme evolved by the banking sector in Nigeria to be operated in the nature of VC. The core competence of banks is in managing loan portfolios, while the managing of equity portfolio is novel to them. It becomes even more cumbersome when SMEEIS is not only tagged equity fund but also VC. As the guidelines on SMEEIS specified (see section (IV) above the banks are to give financial advisory, technical and managerial support to SMEs benefiting under the scheme. This will tend to make banks to invest only in the industries or enterprises, they can offer these assistance at ease. This might influence banks to take steps that will crowed out the more viable prospective beneficiaries they may be able to offer technical and managerial assistance. Another important challenges of SMEEIS is the risk-avers attitude of banks. Banks risk-aversion cannot be totally condemned because of the fiduciary nature of their business. They have to protect customers' monies entrusted to them as prudently as possible. Although SMEEIS is a shareholder fund rather than that of customers, there tends to be hangover of risk aversion by banks even while they administer SMEEIS over time, the major customers banks tend to demonstrate high risk-averse behaviour toward are SMEEIS. This perceived behaviour of banks towards them might not be unconnected with the failure of many SMEs to make good the terms of credit facilities received from banks. Whether banks are to invest in SMEs equity-wise they Lend to still retain this fear of non-conformity by SMEs to credit terms.

Even while banks and the Central Bank of Nigeria (CBN) tend to aware that bank do not have the skills-set to administer VC, the CBN tends not to encourage the banks to set up subsidiary venture capital companies (VCCs). The guidelines of SMEEIS the use-of subsidiary VCCs as one of three possible options to administer SMEEIS, but the guidines and the CBN do not permit banks to spend any amount of SMEEIS fund as part of formation expenses of any such company. The direct equity participation (i.e administering the fund in-house) by banks irrespective of the difficulty they might have in carrying on VC function might not be unconnected with probable high cost of forming subsidiary VCCs.

Failure of the government to imitate legal and regulatory framework for the smooth operatiortalization of SMEEJS tends to be affecting it adversely. Since SMEEIS fund is a risk-fund, the contractual rights of the different parties under the scheme, when not codified or explicitly given of legal back up, the financiers will find it difficult to really invest in highly ventures directive of the enormous economic potentials. Some of the issues under legal framework are the control rights. Do the VC financiers have controlling power during the period in which their investment is held? Does venture capitalist have right to remove and replace members of management (including the founders of the SMEs) when necessary? Due to the absence of these rights, the German VCC failed. But VCCs thrive in the US because these rights are well legally codified and it was reported that many venture capitalists replaced the founders of the companies invested in (Hellmann, 1998; Hellman and Puri, 2000).

As many Nigerian entrepreneurs may not want their ownership to be diluted, the banks have enormous work to do in convincing them that SMEEIS is not schemed to snatch their companies from them but that they are only in partnership with them.

Recommendations and Conclusion

The SMEEJS/VC could stimulate the growth to SMEs to an enviable height is not doubtful. However, it might not achieve its articulated objectives unless committed steps are taken to put the scheme into proper perspective. To this end, we recommend that:

i. Banks should establish subsidiary VCCs to administer SMEEIS. Where a single bank cannot undertake this a consortium of banks could do so.

ii. Banks should be encouraged to set up subsidiary VCCs.

iii. The government should expand the VC (Incentives) Decree of 1993 to cover the rights, obligations, liabilities, etc, of various parties to VC business. This protectionist law is relevant because of the risky nature of VC. Besides, it is more relevant looking at our environmental peculiarity where many entrepreneurs tend to use business money as private money

iv. In addition to the law governing VC activities in Nigeria, the government should set up a VC regulatory Board to oversee VC activities. This will save the CBN the time of monitoring VC activities and concentrate on other areas of surveillance on the financial system, v. We advocate that the period the VC financiers could divest from the beneficiaries (SMEs) should be at least 5 years, as opposed to the 3 years specified in SMEEIS guidelines. This will be long enough time to midwife the SMEs for greater competitive

advantage through financial, managerial and technical support received from venture capitalists.

vi. Tax incentive should be given to both the VCCs and the benefiting SMEs. Tax holiday should be given to the SMEs during the VC period in order to plough them back for equity consolidation.

vii. Promising divestment outlet for the venture capitalists should be encouraged. Initial Public Offering (IPO) is one major divestment outlet used in the US. For this to be used in Nigeria, the listing of SMEs on the stock market with little difficulty should be encouraged. Preference should be given them to be listed on the first-tier of the market. The only currently active segment of the Nigeria Stock Exchange. The tax holiday the SMEs will enjoy will boost their equity to qualify them for listing on the first-tier market,

viii. Through IPO is more popular in the West as divestment mechanism, the Nigerian context could contemplate management buyout as priority. Where management buyout fails, IPO should be adopted.

ix. Where IPO is used, the venture capitalists should be checked so that they do not deceive prospective investors into buying overpriced shares. The capitalists must retain at least 50% of their shares for least 1 year after the IPO, This will boost public confidence in the value placed on such shares.

x. The administrations of VC fund should partner with research institutes and universities to stimulate quality research findings that could spin-off into commercial ventures. We therefore, conclude that the introduction of SMEEIS as a VC fund was not only well conceived, but was also timely. However, the scheme has left enormous funds undisguised to viable projects. We have established that the bias of banks against investing is SMEs, incompetence of banks in managing equity scheme; and inadequate legal/regulatory framework for the scheme, have been responsible for the slow disbursement of SMEEIS fund. As banks alone cannot make this grandiose project to succeed, government partnership is very imperative. So our recommendation highlighted what the stakeholders could be to make scheme realize an indelible success both in the short-and long run.

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