EFFECTIVENESS OF THE LUSAKA STOCK EXCHANGE ALTERNATIVE-MARKET IN CAPITAL FINANCE FOR SMALL AND MEDIUM ENTERPRISES (SMEs) IN ZAMBIA

BY

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A Dissertation submitted to the University of Zambia in partial fulfillment of the requirement for the Award of the Degree of Master of Business Administration in Finance

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DECLARATION

I, Chisanga Chisanga, do hereby declare that this work is my original work achieved through personal reading and research. This work has never been submitted to the University of Zambia or any other universities. All sources of data used and literature on related works previously done by others, used in the production of this dissertation have been duly acknowledged. If any omission has been made is not by choice but by error.

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APPROVAL

This Dissertation by Chisanga Chisanga is approved as partial fulfillment of the requirements for the award of the Degree of Master of Business Administration in Finance.

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ABSTRACT

The LuSE Alternative Market (Alt-M) was established in 2015 to create a more enabling platform or avenue for Small and Medium Enterprises (SMEs) or indeed any other emerging companies to participate on the Capital Markets and thereby raise capital for growing their businesses. As such the question arises pertaining to the effectiveness of the LuSE Alt-M. This research carried out an assessment of the effectiveness

of the Lusaka Stock Exchange Alternative-Market in Capital Finance for SME's. The research is designed under a broadly realist paradigm. In this study, a deductive approach was used. The research was quantitative in nature incorporating a descriptive design. The research targeted 53 SMEs that were oriented by DBZ /ZDA with regards to listing on the Alt-M and all of them were incorporated in the study. A structured questionnaire was used as a data collection tool. To analyse primary data, SPSS version 25 was used. The results indicate that SME capital finance is positively significantly correlated (all sig. ≤ 0.01) with each direct mechanism of financing ($r = 0.666$) and indirect mechanism of financing ($r = 0.613$). This implies that once established and operational (1) LuSE Alternative market indirect mechanism of financing will have the capability of being the source of capital finance for SMEs and (2) the LuSE Alternative market direct mechanisms will have the capability of being the source of capital finance for SMEs. The findings also indicate that the prominent challenges include; lack of data on creditworthiness, financial performance and financing track record of SMEs contribute to information asymmetries The study concludes that as it is Alt-M is not effective but has the potential of meeting its objectives provided it manages to have SMEs listed. The positive association recorded with the study variables gives an indication that despite the challenges that are associated with the alternative market, it has the capacity of being effective in capital financing for SMEs. It is recommended that LuSE should engage with key stakeholders to revise the listing rules to encourage a number of SMEs to be listed, this will allow the alternative market to serve its purpose.

Key words: ***Lusaka Securities Exchange, Alternative market, SME, Capital, Financing, Capital Market***

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DEDICATION

Firstly, I dedicate this work to my family, for all support and understanding during this journey.

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LIST OF ABBREVIATIONS AND ACRONYMS

ABCP	Asset-Backed Commercial Paper
ABS	Asset-Backed Securities
Alt-M	Alternative Market
BOZ	Bank of Zambia
CDO	Collateralised Debt Obligations
CDS	Credit Default Swaps
CLO	Collateralised Loan Obligations
CMU	Capital Market Utilization
DA	Designated Advisor
DBZ	Development Bank of Zambia
IPO	Initial Public Offering
JSE	Johannesburg Stock Exchange
LuSE	Lusaka Securities Exchange
NSE	Nairobi Stock Exchange
NSE	Nigeria Stock Exchange
NYSE	New York Stock Exchange
PLC	Public Limited Company
SEC	Securities and Exchange Commission
SME	Small and Medium-Sized Enterprise
SPSS	Statistical Package for the Social Sciences
VC	Venture Capital

CHAPTER 1

INTRODUCTION

1.0 Introduction

The largest portion of enterprises in the world are Small and medium enterprises (SMEs.) These consist of firms varying widely in size and characteristics, namely from very small start-up firms in an infant stage of development to established SMEs already listed on the stock market. Small and medium enterprises face significant financing gaps that stifle innovation and economic growth. The credit gap alone is estimated at $4.5 trillion as of 2017 for Emerging Markets and Developing Economies (EMDEs) only. This represents the unmet financing needs of 21 million SMEs. The inability of these enterprises to sufficiently fund their development threatens larger growth trends in EMDEs as formal SMEs constitute 45 percent of employment and 33 percent of gross domestic product (GDP) in EMDEs. One key reason for SMEs limited access to finance is due, in part, to the relatively higher risks associated with investing in them. The SME financing challenge has been particularly exacerbated following the introduction of significant financial regulatory reforms in the aftermath of the global financial crisis, heightening banks' risk aversion when extending loans. Capital markets, therefore, have an imperative role in bridging this financing gap through the provision of alternative funding sources for SMEs, particularly as their needs evolve over the different phases of their life cycle (Mukanaka, 2016).

As such this research carried out an assessment of the effectiveness of the Lusaka Stock Exchange Alternative-Market in Capital Finance for SME's. This chapter outlines the research background, the statement of the problem, the research questions and objectives. In addition, the significance of the study is delineated.

1.1 Research background

According to Schellhase and Woodsome (2017), many stock exchanges in developing and emerging markets have recently created specific market categories for small and medium-sized enterprises (SMEs). The major objective of these SME boards, as they are sometimes referred to, is to increase equity financing access for relatively small but expanding businesses with the potential to significantly contribute to economic growth and employment on a collective basis. SME boards can occasionally act as feeder exchanges, fostering businesses that will eventually

graduate to a stock exchange's main board. In emerging markets and developing nations, there are currently about 30 SME-specific boards, the most of which were founded within the previous ten years or so.

Improving access to credit for SMEs is a long-standing policy objective in both developed and developing countries due to the role small businesses may play in creating jobs and diversifying economies. Policymakers and industry organizations are now placing more emphasis on non-bank financing options for SMEs as banks have scaled back their lending to small and medium-sized businesses in the wake of the global financial crisis. One alternative for fast-growing SMEs with the ability to achieve the listing requirements is public equity financing. SME boards may assist in facilitating SMEs' access to public equity financing as well as indirectly encouraging listed firms to enhance their financial reporting and corporate governance procedures, which may make them more acceptable to credit-based lenders.

Over the years, capital markets remain the major contributor of development among nations of the world. This is because capital markets have acted as mechanism for economic development by providing alternative long term finance when other means have been exhausted. As the major engine of growth and development of third world economies, the capital market tends to accommodate certain institutions for the creation, custodianship, distribution and exchange of financial assets and management of long-term liabilities. One of the major beneficiaries of capital markets are the SMEs. SMEs are very important in any developing countries because of their magnitude and have the potential to create wealth through their creation of employment and the ability to enhance entrepreneurship opportunities. However their financing process still remains in their infancy stages as they still have difficulties in being incorporated with the capital market in less developed countries (Harwood and Konidaris, 2015).

Right at independence in 1964, Zambia was considered one of the most prosperous countries in Sub-Saharan Africa (SSA), having inherited very generously reservations of the British colonial government. However, after the policy independence the Zambian government adopted a command or state controlled type of the economy to accelerate development. The socialist policies were characterized by the nationalization of industries and the country witnessed the proliferation of companies controlled and run by the state in Zambia Industrial and Mining Corporation (ZIMCO), the Industrial Development Corporation (INDECO), the Mining Development

Corporation (MINDECO) and Financial Development Corporation (FINDECO). Because most of these state businesses were financed by the government using mostly taxpayer's money, they did not require the services of a capital market. Most of these government owned companies began to make losses leading to the decline of Zambia's economy, mainly due to government intervention, bad management and inefficiency. As a result, Zambia's economy since the 1980s has been characterized by an increasing burden of external debt, balance of payments difficulties and the lack of resources to support these state enterprises and to finance new investments, (LuSE, 2017).

In 1992, the new government that was instilled with the leadership of the late former president Fredrick Chiluba privatized most of the state enterprises as part of economic reforms under Structural Adjustment Programme (SAP). Now that the state enterprises were privatized, the government was no longer obliged to fund "these" enterprises but to find other alternative sources of funding. Hence, the government with the support of collaborating partners, found it necessary to form a capital market as an intermediation organization through which eligible companies would raise capital funds for investment in order to restore economic stability and growth.

LuSE remains one of the prominent institutions for the growth of small and medium businesses in Zambia and consequently promote growth through wealth and employment creation (LuSE 2018). Through the Lusaka Securities Exchange, it is possible for small and medium companies to diversify their sources of funds and also the stock exchange is a cheaper source of capital as compared to other traditional sources such as bank intermediation. The high levels of transparency and the centrality of the LuSE's mechanisms mean that SMES are more attractive to investors when they opt to use the LuSE mechanisms to raise finance, hence increasing their chances of tapping larger pools of capital. The MOF (2018) stressed that listed and quoted SMEs are better able to access commercial credit, because the high disclosure levels they have to adhere to make it easier for commercial lending decisions to be made; this is because a less thorough diligence process is required because there is already plenty of public knowledge of the companies by virtue of their being listed or quoted on the LuSE; and Companies are better able to raise additional long-term funds via subsequent issues of equity and debt securities once they are on the listed or quoted tiers of the LuSE.

In 2015, the Lusaka Securities Exchange established an Alternative Market with the objective of addressing the apparent failure of small businesses in accessing capital through the stock market.

This was in realization of the fact that no single SME had listed on the 'main board' in its 22 years of operation. The 'main board' had been dominated by large multinational companies while small businesses continued facing challenges in accessing finance largely due to prohibitive interest rates in financial markets. The failure to access credit in-turn meant that Zambian SMEs could not meaningfully contribute to job and wealth creation and facilitate the country's development. Despite their dominant numbers and importance in job creation, SMEs have traditionally faced difficulty in obtaining formal credit or equity. The Alternative Market was therefore designed with relaxed listing requirements LuSE (2018). This dissertation therefore aims at examining the efficacy of LuSE in terms of SMEs listing with LuSE.

Small and medium sized enterprises (SMEs) have always been the backbone of any economy, representing its largest employment providers, added-value contributors, as well as innovation and economic growth generators. Notwithstanding the indisputable significance for both economic and social welfare, SMEs have continuously faced a number of issues, where the financing gap has the most significant adverse effect on their current and future development and investment possibilities.

Historically, SMEs have been heavily reliant on traditional sources of funds, i.e., bank lending and overdraft facilities which appear to be inadequate to completely meet their funding needs. The problem is strongly exacerbated during periods of economic and financial crisis when the economy as a whole experiences downward trends while the financial sector faces liquidity issues. Given the importance of SMEs for national economies, both political establishments and regulatory entities have recently launched a number of initiatives with the aim of filling the SMEs financing gap and broadening the range of instruments and finance options available to SMEs. At the African Union level, one of the most important ones relates to the development of Capital Markets Union which should further facilitate cross-border investment activities and capital flows (Abor, 2015).

Capital market financing for SMEs is one of the policy challenges under the pillar of diversified financing modalities, which requires more sophisticated and innovative institutional arrangements in order to respond effectively to their real needs. Long-term financing for investment, including SMEs, is key for sustainable growth and job creation.

1.1 Statement of the problem

The research carried out an assessment of the effectiveness of the Lusaka Stock Exchange Alternative-Market in Capital Finance for SME's. In 2015 LuSE introduced LuSE Alt-M which is a market for small to medium companies that are in a growth phase which would act as a remedial measure for them to raise funds. This is for the reason that the major difficulties SMEs face is access to finance. However, from the time of its inception, no single SMEs has been listed on the Alt-M (LuSE, 2022).

According to Development Bank of Zambia (DBZ, 2022), in effort to make the SMEs understand the importance of Alt-M and how the listing process works, the Development Bank of Zambia in partnership with LuSE carried out an orientation exercise in 2021 in which 53 SMEs in various sectors were engaged. In addition, in the same year, The Growth Enterprise Market (GEM) online platform was launched. The main purpose of the portal is to allow SMEs to self-register, earn credit points that will enable them to be listed on the Alt-M. However, to date, a number of SMEs are registered on the GEM but non-has managed to score credit points enough to be listed on the Alt-M (LuSE, 2022). As such, unless something is done, Alt-M will continue to exist but without listed SMS's.

LuSE has the potential to develop small to medium companies because of its effectiveness in raising funds for business purposes, long term money and become a remedial measure to the challenge of SMEs in accessing funds. It follows that SMEs that could have benefited from the Market have continued experiencing stunted growth and possibly wound up on account of inability to access credit. Given especially that the Market remains in its infancy, there is need to establish the underlying causes and take corrective action before any such shortcomings compound and become entrenched. The results will be of benefit to LuSE, the SMEs and the various stakeholders on the probable benefits of Alt-M. This study therefore aimed at investigating the effectiveness of the Lusaka Stock Exchange Alternative-Market in Capital Finance for SME's.

1.2 Aim of the study

The study is aimed at establishing the effectiveness of LuSE Alt-M in Capital Finance for SME's.

1.3 Study Objectives

1.3.1 General objective

To investigate the effectiveness of the Lusaka Stock Exchange Alternative-Market in Capital Finance for SME's.

1.3.2 Specific objectives

i. To investigate the probable effect of indirect mechanisms of financing on SME capital Financing.
ii. To determine the possible effect of direct mechanisms of financing on SME capital Financing.
iii. To outline the challenges associated with Alternative Market SME listing.

1.3 Research questions

i. What is the probable effect of indirect mechanisms of financing on SME capital financing?
ii. How are the direct mechanisms of financing likely to affect SME capital financing?
iii. What are the challenges associated with the Alt- M listing for SMEs?

1.4 Significance of the study

There are a number of benefits arising from this study and the following deserves a serious noting. If the market is illiquid, this will ultimately have a bearing on how the market is utilised. The under-utilised market will not attract any investor as it will be difficult to recoup whatever investment has been made. Further, this study laid the foundation for further research on the factors that are influencing the utilization of the LuSE Alt-M and was aimed at generating discussion among various stakeholders on the subject. Some of the stakeholders are;

Government Policy Makers

The study findings will provide the policy makers with an opportunity of understanding issues and constraints that affect the utilisation of the Alternative market in Zambia. It will also help the regulators to determine good regulatory framework which will facilitate the faster development of the capital market through policies and regulations which will create and enhance an enabling environment.

Investors

The study findings will assist investors with an opportunity of knowing the constraints facing the Alt-M and its future prospects and how to tackle them.

Academicians

The study findings will provide academicians with information regarding the effectiveness of the LuSE Alt-M in capital financing of SMEs. The study will also add to the body knowledge by providing literature on the Zambian perspective. Also, it will provide insight and act as a base for future research concerning the capital market.

1.5 Scope of the study

The study was confined to the effectiveness of the Lusaka Stock Exchange Alternative-M (Alt-M) in Capital Finance for SME's. in this regard, the study focused on studies that were in line with the objectives i.e. looking the direct and indirect mechanisms of financing and the challenges of the Alternative Market SME listing. From the theoretical perspective, the study dwelled on Pecking order theory and the life cycle theory. Only the SMEs oriented by the Development Bank of Zambia with regards to Alt-M listing were engaged in the research.

1.6 Research outline

Chapter One-This is the Introductory Chapter: It contains the introduction part and shows the background of the problem, the statement of the problem, the aim of the study, research objectives, research questions, the significance of the study and the scope.

Chapter Two- Literature Review: Many literatures have been reviewed from the global, regional and local perspective Further it explains both theoretical and empirical evidence of the study. It gives different opinions from different authors pertaining to the subject in the question.

In addition, it outlines theoretical and conceptual framework. It gives details about a number of theories previously expounded by previous researchers. The conceptual frame work has looked at the 2 variables in details.

Chapter three- Research Methodology: gives details of the research design that was used in the study to obtain all the results from the study. It further shows the philosophies and how the sample size was arrived at. It also shows in detail the tools that were used for gathering all the necessary data for the research and how it was conducted.

Chapter four- Data Presentation and Analysis: Presents all the data that was gathered in form of tables, charts and graphs for analysis purposes.

Chapter five-Summary of Findings, Conclusions and Recommendations: gives a summary of the research findings and conclusions for the data that was collected and analysed. Suggestions for future study are also included.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

This chapter is a review of the literature on capital market, SMEs and capital finance. The chapter begins by giving an overview of the capital market in Zambia and then elaborates on other sections. Further, the chapter discusses the capital market solutions, the theories that are of importance to the study and the knowledge gap.

2.1 Origins, Development, and Evolution of Alternative Stock Markets

Large firms have traditionally financed in the stock exchanges, especially in developed countries, although the stock markets in Europe developed very significantly over 50 years ago. But the real challenge was to access companies with a smaller size such as small and medium firms with growth potential (Mac et al., 2011; Bolek et al., 2021). Thus, numerous second markets have shown up for these types of firms, and which have normally been established under the protection of traditional exchanges (Palacín-Sánchez & Pérez-López, 2016).

According to its founders, the definition of the Alternative Stock Market is "a market for small companies looking to expand, with a special set of regulations, designed specifically for them with costs and processes tailored to their particular characteristics". The origin of the alternative stock market is the result of previous experiences known as the second markets, which were created to set of companies with specific size and capacity, which were not able to enter to traditional stock exchanges due to the high access costs and the information requirements.

Alternative stock market helps small and medium firms to access the securities market efficiently with lower costs, adapted regulations, specialist professionals who advise the company in IPO process and investors who desire diversify their portfolios, consequently ASM can guarantee liquidity and minimum negotiation of securities. Also, secondary markets can be an attractive learning curve for many firms before they are admitted to trading on traditional stock exchanges. On the other hand, alternative markets bring to firms' new financial resources, corporate visibility, transparency, prestige and brand image, which allow improving their status with their worldwide clients, suppliers and financial institutions (Parsa & Kouhy, 2018).

In Spain, through Royal Decree 710/1986 and the Ministerial order of September 26, 1986, a second stock market was created in the Official Stock Ex- changes, which allowed to small and medium firms to access financing through the capital market. However, they never succeeded due to the demanding access conditions, the lack of market makers that created a very low market liquidity resulting in the postponement of the firms' decision to be publicly traded (Duréndez et al., 2014).

About 41 companies approximately are listed on the BME Growth (formerly Mercado Alternativo Bursátil). Firms seeking admission to alternative stock exchange must be public companies which meet the level of transparency demanded in all procedures as reporting the half-yearly and annual information required by BME Growth; and, contracting a registered advisor and a liquidity provider who will help the company in the process to be listed. In order to join exchange market, the stocks held by shareholders holding less than 5% of the share capital must have an estimated value of more than €2 million. Frequently, companies who do not initially meet this requirement, do so later via a share placement or a share sale upon admission to the market (BME Growth, 2022).

In addition, in the case of shareholders with a participation of more than €1 million euros representing less than 5% of the share capital, the portion exceeding €1 million euros shall not be considered for the purposes of calculating the total cash disbursed. Such shareholders will be quantifiable as minority shareholders (BME Growth, 2022). Also, there are requisites to consider the adequacy of the shareholder diffusion of enterprises.

Similar initiatives were also produced in other countries. The first experience is attributed to the American market with NASDAQ (National Association of Securities Dealers Automated Quotation) which was created on February 8, 1971 as a parallel acclimatization market for a future traditional stock exchange. Following the failure of the second stock markets, others markets known as "new markets", "third markets", "markets for SMEs", "secondary markets" or also known as "alternative markets" were created following the similar patterns and procedures from NASDAQ market for small companies with great growth potential related to innovative sectors such as science or technology industries.

Nowadays, there are numerous stock indices for small and medium companies. In Europe, the most recognized alternative stock market is AIM (Alternative Investment Market) of the London

Stock Exchange, which was the pioneer in 1995 and where there are more than 1.000 companies are listed, and Alternext, Nyse-Euronext, created in 2005, where 180 firms are listed. In June 19, 2017, Alternext changed its name and became "Euronext Growth"

There are a very vary of alternative stock exchange around the world (Table 2.1). Both, AIM (Alternative Investment Market) and Alternext/Euronext Growth (French alternative market), a significant part of the business flow comes from the traditional stock market. In the first case, AIM starts in 1995 with 40 firms which are passed from the London Stock Exchange. On the other hand, Alternext also adds numerous companies from the traditional stock exchange, Euronext Paris; in fact, 15 of 30 additional firms to Alternext come from Euronext (Giralt & González, 2012).

According to Figure 2.1, the largest number of listed firms on alternative stock market is in UK and represents 53% of the total European market, followed by Luxembourg through Euro MTF market, which represents 10%. Entry Standard (Germany) and Euronext Growth (France, Belgium, Netherlands and Portugal) represent 9% each one of the totals of listed companies on alternative stock market. On the other hand, the smallest markets are Ireland, Poland, Greece and Italy. Investors for these types of markets are qualified who compensate the lack of information with their own capabilities. However, by definition, the alternative stock markets should not be utilized just for qualified investors. And above all, they should ensure the success and benefit of most investors including investors with lower capacity.

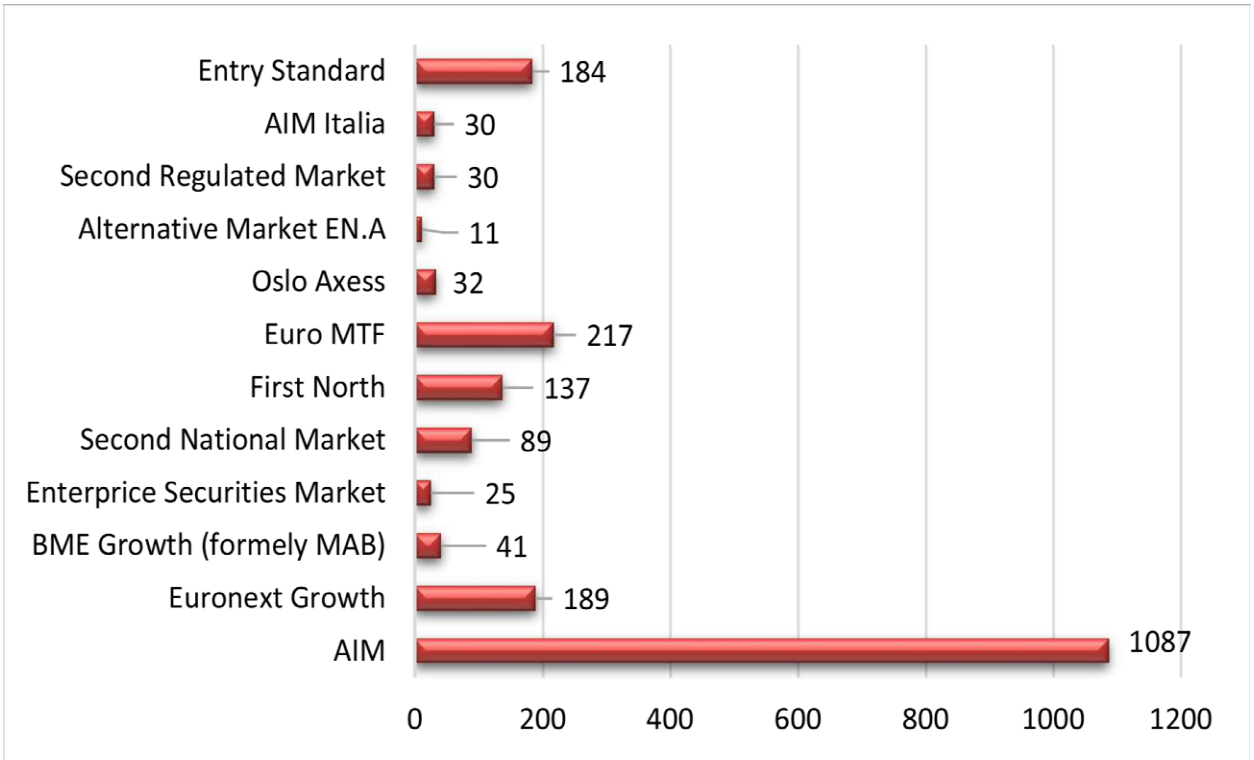
Table 2.1 Summary statistics

Stock Market	Country	Creation Date	Number of Companies
AIM	United Kingdom	1995	1087
Euronext Growth	France, Belgium, Holland y Portugal	2005	189
BME Growth (formely MAB)	Spain	2008	41
Enterprise Securities Market	Ireland	2005	25
Second National Market	Turkey	Nd	89
First North	Nordic Countries	2006	137
Euro MTF	Luxembourg	2005	217
Oslo Axess	Norway	2007	32
Alternative Market EN.A	Greece	2008	11
Second Regulated Market	Poland	2007	30
AIM Italia	Italy	2012	30
Entry Standard	Germany	2005	184
ChiNext	China	2009	492
SME Platform	India	2012	119
Emerge	India	2012	10
ACE Market (formerly MESDAQ)	Malaysia	1997	109

SME Board	Philippines	2001	4
NewConnect	Poland	2007	418
Innovations and Investment Market	Russia	2009	17
Market for Alternative Investment (MAI)	Thailand	1999	122
Emerging Companies Market	Turkey	2011	20

Source: World Federation of Exchanges, Informe Anual (2014)

Figure 2.1 Number of listed firms on alternative stock markets



Source: World federation of exchanges, annual report (2021)

2.2 Stock market development in Sub-Saharan Africa: trends and characteristics

According to Hahn et al., (2017) there has been a considerable development in the African capital markets since the early 1990s. In Africa, the first stock market was established in 1861, and 15 decades later, the region is now home to 36 stock exchanges serving 43 economies and representing 1,400 listed companies with a turnover of USD41.14 billion. These markets have grown steadily and demonstrated their capability to create prosperity on the continent. Successful fundraising initiatives by multilateral entities, such as the African Development Bank (AfDB) and the Trade and Development Bank, continue to borrow in domestic currencies from local capital markets, which demonstrates the growth and capacity of these exchanges. Proceeds of such fundraising are directed toward developmental projects in the respective jurisdictions. For instance, in 2014, the AfDB successfully raised NGN12.95 billion (approximately USD80 million) through its maiden local currency issuance in the Nigerian capital market. The proceeds of the successful NGN issuance went toward funding local small and medium enterprises (SMEs) and some infrastructure projects requiring local currency financing.

However, despite such encouraging success stories, African exchanges are still characterized as being illiquid and highly fragmented and as operating under weak regulatory environments. This categorization is supported by dismal activities on the stock exchanges and shrinking foreign investor participation across the markets. Conversely, the continent faces an infrastructure deficit of approximately USD108 billion, which could be easily accessed through the local capital markets.

Table 2.2 SME market segments in Africa

Country	SME market segment	Affiliated main exchange	Year launched	Number of listed companies (end- 2015
Botswana	Venture Capital Market	Botswana Stock Exchange	2004	8
Egypt	NILEX	Egyptian Exchange	2007	31
Ghana	Ghana Alternative Market (GAX)	Ghana Stock Exchange	2013	4
Kenya	Growth Enterprise Market Segment	Nairobi Securities Exchange	2013	4
Malawi	MSE AltX	Malawi Stock Exchange	2007	0
Mauritius	Development & Enterprise Market	Mauritius Stock Exchange	2006	44

Nigeria	Alternative Securities Market	Nigeria Stock Exchange	2013	11
Rwanda	Alternative Market Segment	Rwanda Stock Exchange	2013	0
South	Africa AltX	Johannesburg Stock Exchange	2003	52
Tanzania	Enterprise Growth Market (EGM)	Dar es Salaam Stock Exchange	2013	4
Uganda	Growth Enterprise Market Segment	Uganda Securities Exchange	2013	0
Zambia	Alternative Market	Lusaka Stock Exchange	2014	0

Source: Schellhase and Woodsome (2017)

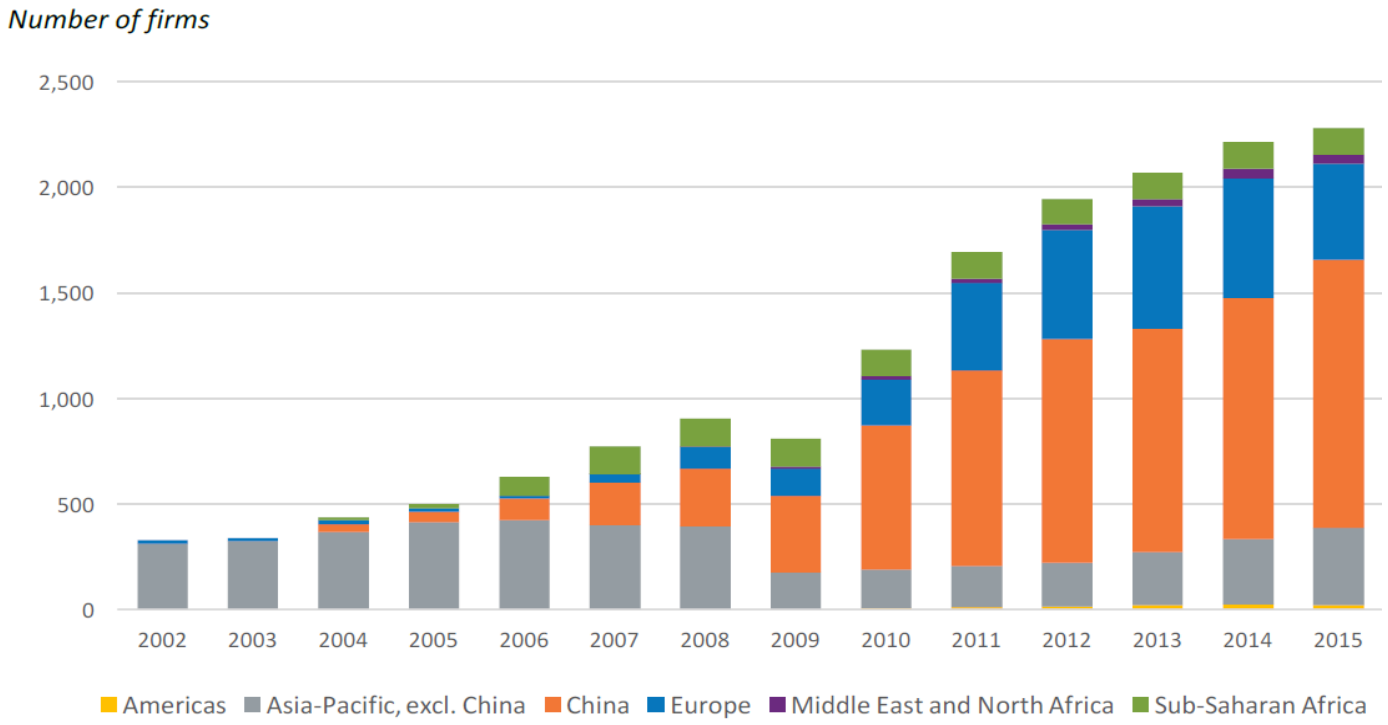
There were no SME boards in Sub-Saharan Africa prior to the opening of the AltX in South Africa in 2003. However, there were 127 listings across seven active SME boards in this region by the end of 2015.

Four exchanges in the dataset, the most of them more recent, did not disclose any listings as of the end of 2015. These included the Alternative Market Segment of the Lusaka Stock Exchange (founded in 2014), the Growth Enterprise Market Segment of the Uganda Securities Exchanges, the Alternative Market Segment of the Malawi Stock Exchange, and the Alternative Market Segment of the Rwanda Stock Exchange (founded in 2007). The Rwanda Capital Markets

Authority commented on the absence of listings in Rwanda by pointing out that the majority of SMEs there were family-run and unaccustomed to having outsiders evaluate their companies. The CEO of the Malawi Stock Exchange similarly blamed problems with corporate governance and entity control for the absence of listings.

Above all, the number of listed companies is interesting. Sustainability of the SME Board's business model. In a study on capital market finance for medium-sized enterprises, developed and developing countries (Rupeika-Apoga and Solovjova, 2016). The cost of setting up the SME platform to make the SME market segment sustainable requires significant costs. After 5 years, 100-150 entries will be collected. Only 6 total, less than a third of those tested. The SME board currently has over 100 entries (see Table 2.3). However, many SME boards main exchange; in such cases, it may not be necessary for these boards to be financially self-sufficient. Small business boards inevitably adapt business models to local conditions. The specific small business population they serve, but possibly even senior management in many small markets are struggling to attract a regular stream of new offers.

Figure 2.2 Total listings on SME boards in emerging-market and developing economies, 2002-2015



Source: Schellhase and Woodsome (2017)

Table 2.3 SME boards with more or less than 100 listings, as of end-2015

More than 100 listings	Listings Less than 100	No listings
▪ SME Platform, Bombay Stock Exchange ▪ ACE Market, Bursa Malaysia ▪ ChiNext, Shenzhen Stock Exchange ▪ SME Board, Shenzhen Stock Exchange ▪ Market for Alternative Investment (MAI), Stock Exchange of Thailand ▪ NewConnect, Warsaw Stock Exchange	▪ Emerging Companies Market, Borsa Istanbul ▪ Venture Capital Market, Botswana Stock Exchange ▪ Enterprise Growth Market, Dar es Salaam Stock Exchange ▪ NILEX, Egyptian Exchange ▪ Ghana Alternative Market (GAX), Ghana Stock Exchange ▪ Junior Market, Jamaica Stock Exchange ▪ AltX, Johannesburg Stock Exchange ▪ Innovations and Investment Market, Moscow Exchange ▪ Growth Enterprise Market Segment, Nairobi Securities Exchange ▪ Emerge, National Stock Exchange (India)	▪ AltX, Malawi Stock Exchange ▪ Alternative Market, Lusaka Stock Exchange ▪ Alternative Market Segment, Rwanda Stock Exchange ▪ Growth Enterprise Market Segment, Uganda Stock Exchange

	▪ Alternative Securities Market, Nigeria Stock Exchange ▪ SME Board, Philippine Stock Exchange ▪ Development & Enterprise Market, Stock Exchange of Mauritius ▪ Alternative Market, Tunisia Stock Exchange	

Source: Schellhase and Woodsome (2017)

2.3 Overview of capital market in Zambia

A capital market is an organised market in which both individuals and commercial entities such as pension funds and companies sell and exchange debt and equity securities (El-Wassal, 2013). This market is a key source of funds for an entity whose securities are authorised by a regulatory authority to be traded, as it can easily sell its debt and equity obligations to investors. Governments also use capital markets to raise funds, usually through the issuance of long-term bonds. Governments do not issue shares, so they cannot issue equity securities. A capital market is intended for the issuance and trading of long-term securities. When a public company sells its securities in capital markets, this is known as the main activity of the market. The subsequent trading of company securities between investors is known as secondary market activity (Sachs et al, 2017).

Economic growth theory is one of multiple contradictions. The only consensus in growth theory is that technological progress is a major determinant of economic growth. Both exogenous and endogenous growth theories postulate that technology influences economic growth. The only difference is that while the exogenous theories fail to model how technology influences growth the endogenous theories identify factors such as human capital, physical capital accumulation,

interest rate, government spending and taxes as determinants of growth through technology change (Meller, 2011).

Examples of highly organised capital markets are the New York Stock Exchange (NYSE), the United States Stock Exchange (USSE), the London Stock Exchange and NASDAQ. Values can also be negotiated "at the counter", rather than in an organised exchange. These securities are generally issued by entities whose commercial fundamentals such as income, capitalisation and profitability do not meet the minimum standards of a formal exchange, forcing investors to use other means to negotiate securities. Capital markets are highly interconnected, so a disruption in a capital market on the other side of the world is likely to affect trade in markets located in other countries (Solow, 2016).

Over the years, capital markets remain the major contributor of development among nations of the world. This is because; capital markets have acted as a mechanism for economic development by providing alternative long term finance when other means have been exhausted. As the major engine of growth and development of third world economies, the capital market tends to accommodate certain institutions for the creation, custodianship, distribution and exchange of financial assets and management of long-term liabilities (Johnson, 2018).

Right at independence in 1964, Zambia was considered one of the most prosperous countries in sub-Saharan Africa (SSA), having inherited very generously reservations of the British colonial government. However, after the policy independence the Zambian government adopted a command or state controlled type of the economy to accelerate development. The socialist policies were characterized by the nationalisation of industries and the country witnessed the proliferation of companies controlled and run by the state in Zambia Industrial and Mining Zambia Corporation (ZIMCO), the Industrial Development Corporation (INDECO), the Mining Development Corporation (MINDECO) and Financial Development Corporation (FINDECO). Because most of these state businesses were financed by the government using mostly taxpayer’s money, primarily this did not require the services of a capital market. Most of these government owned companies began to make losses leading to the decline of Zambia's economy, mainly due to government intervention, bad management and inefficiency. As a result, Zambia's economy since the 1980s has been characterized by an increasing burden of external debt, balance of payments difficulties

and the lack of resources to support these state enterprises and to finance new investments (Mbulawa, 2015).

In 1992, the new government that was instilled with the leadership of the late former president Chiluba privatised most of the state enterprises as part of economic reforms under structural adjustment programme. Now that the state enterprises were privatised, the government was no longer obliged to fund "these" enterprises but to find other alternative sources of funding. Hence, the government with the support of collaborating partners, found it necessary to form a capital market as an intermediation organization through which eligible companies would raise capital funds for investment in order to restore economic stability and growth (The World Bank Group, 2015).

The Lusaka Securities Exchange (LuSE) with the support of PSDIJ, developed the LuSE - Alternative Market (Alt-M), a Market meant for growth companies or small to medium enterprises (SMEs) in 2015. This Market was created to allow Zambian SMEs to access relatively cheap and long-term funds.

The concept of an Exchange or Market for small growth companies (SME's) is not a new phenomenon. Countries such as South Africa, Kenya, and Mauritius have already implemented such Markets. Zambia, like most countries around the world, has a large SME sector. The SME sector is earmarked for development by the Government under the Private Sector Development Industrialization and Job Creation (PSDIJC) as it recognizes that SMEs are vital for economic growth and development by playing a key role in creating new jobs.

According to Daka (2019), the Lusaka Stock Exchange (LuSE) on the 22nd April 2015, launched a fully functional second tier market which will allow Zambian growth companies (emerging corporates) to access relatively cheap and long-term funds on the LuSE based on the following criteria:

i. Have up to minimum 20 – Maximum 150 Employees
ii. Have a trading turn over – K250,000 Min and K20m maximum
iii. Subscribed capital prescribed
iv. (Options) Either 5 years in operation, or show increased revenues for the past 3years or one year audited financials or a Business Plan

v. Not less than 500,000 equity shares in issue.
vi. The public must hold a minimum of 10% of each class of equity securities and the number of public shareholders shall be at least 30
vii. Must have a Designated Advisor, DA

Listing Fees Equity - ALTM; Initial

0.125% of Market Value with the following considerations

i. Minimum fee of K25, 000

ii. Maximum fee of K40, 000

Listing Fees Equity - Subsequent years

0.125% of Market Value with the following considerations

i. Minimum fee of K12,500

ii. Maximum fee of K20, 000

Companies listed on the LuSE Alt-M need to comply with the rules and regulations of the LuSE and uphold high standards of corporate governance. The SME must therefore, among other things, meet the following criteria (LuSE, 2021):

i. The Director and Senior Managers of the SME must have completed the LuSE Alt-M Director Induction Programme (DIP) through the Institute of Directors in Zambia.
ii. A minimum of five board directors with majority being non- family members.
iii. The offices of the Chairman and Chief Executive shall be separated after five years following the issuer's listing.
iv. The SME must appoint an Accountant and the DA must be satisfied that the Accountant has the appropriate expertise and experience to fulfil his/her role.

The incentive created by LuSE Alt-M in attracting SMEs.

Incentives are outside factors that affect how people respond to efforts and programs. In order for equity financing programs to be successful, they must offer SME management worthwhile incentives that will encourage them to enter the market. Because policymakers lack information

on the financing requirements of SMEs, they end up giving them ineffective incentives Guiso and Jappelli (2015). The incentives currently available at LuSE Alt-M are mainly tax-based as follows;

i. Waiver of 15% withholding tax on dividends payable to individuals.
ii. Waiver of 10% property transfer tax on sale of shares.
iii. No capital gains tax payable.
iv. 3% waiver on corporate income tax and a further 5% discount in listed entities where 33% of shares are held by indigenous Zambians

2.4 Small and Medium Enterprises (SMEs)

There is no generally established definition of SME's even though many efforts have been made. Some define it in terms of the number of workers, annual revenue, capital engaged or size of the business. For example, the E.U. defines a medium size enterprise as "one with a head count of less than 250 and a small firm as one with a head count of less than 50".

According to Gibson and Van derVaart (2018), In their paper "Defining SME's: A less Imperfect way of Defining Small and Medium Enterprises in Developing Countries", defines SME as: "A formal enterprise with annual turnover in U.S. dollar terms, of between 10 and 1000 times of the mean per capita gross national income, at purchasing power parity, of the country in which it operates." Though, the constraint of this definition is that in our part of the world most businesses are reluctant to reveal turnover records.

The definition of SMEs differs depending on several factors such as the size of an economy and policies governing the makeup of businesses. Therefore, there is no uniformly acceptable definition of an SME. Firms differ in their level of capitalization, sales and employment. Hence, definitions that employ measures of size when applied to one sector could lead to all firms being classified as small, while the same size definition when applied to a different sector could lead to a different result. Various areas that are being used to gain a close definition and description for SMEs includes; the total number of employees in a firm, the firm's total worth, relative size of a firm within an industry and net worth of a firm (Florence, 2013).

The United Nation defines SMEs according to the number of employment with regards to industrialized and developed countries. The Bolton committee formulated an economic and statistical definition of SMEs. Under the economic definition, a small firm is that that has small

market share and it is independently managed by owners in a personalized way. Under statistical definition, they are firms that contribute to Gross Domestic Product (GDP), employment, exports, etc. (Florence, 2013).

The Zambian government through the small enterprise development act of 1996 prescribed the definitions for Micro Small and Medium Enterprises. However, in 2003 government realized that the definitions of the 1996 Act were no longer effective in addressing the emerging challenges in the SMEs sector and as such were revised. Therefore through revised definitions of 2003:

A small business enterprise meaning any business:

a) Whose amount of total investment excluding land and building does not exceed

i. In the case of manufacturing and processing enterprises, five hundred thousand (K500,000) in plant and machinery

ii. in the case of trading and service providing enterprise one hundred thousand (K100,000)

b) Whose annual turnover does not exceed eight hundred thousand(K800,000)

c) Employing up to forty five (45) persons.

A medium business enterprise meaning any business:

a) a)Whose amount of total investment excluding land and building does not exceed

i. In the case of manufacturing and processing enterprises, five hundred thousand (K1,800,000) in plant and machinery

ii. in the case of trading and service providing enterprise one hundred thousand (K600,000)

b) Whose annual turnover does not exceed eight hundred thousand(K800,000)

c) Employing up to one hundred (100) persons.

According to Antoine et al., (2013) SMEs use a combination of innovation and improvisation to develop local products and services for local needs using local resources. Their impact on the poorer in the community is greater simply due to their local activity radius through employment,

procurement and sales. Small businesses often succeed in transforming informal activities into formal ones, directly contributing to economic health of the market environment.

2.5 Characteristics of SMEs in Developing Countries

Fisher and Reuber (2020) enumerate a number of characteristics of SMEs in developing countries under the broad headings: labour characteristics, sectors of activity, gender of owner and efficiency. Given that most SMEs are one-person businesses; the largest employment category is working proprietors. This group makes up more than half the SME workforce in most developing countries; their families, who tend to be unpaid but active in the enterprise, make up roughly another quarter. The remaining portion of the workforce is split between hired workers and trainees or apprentices. SMEs are more labour intensive than larger firms and therefore have lower capital costs associated with job creation (Anheier and Seibel, 2017; Liedholm and Mead, 2017; Schmitz, 2015).

In terms of activity, they are mostly engaged in retailing, trading, or manufacturing (Fisher and Reuber, 2020). While it is a common perception that the majority of SMEs will fall into the first category, the proportion of SME activity that takes place in the retail sector varies considerably between countries, and between rural and urban regions within countries. Retailing is mostly found in urban regions, while manufacturing can be found in either rural or urban centres. However, the extent of involvement of a country in manufacturing will depend on a number of factors, including, availability of raw materials, taste and consumption patterns of domestic consumers, and the level of development of the export markets. In Ghana, SMEs can be categorised into urban and rural enterprises. The former can be sub-divided into “organised” and “unorganised” enterprises. The organised ones mostly have paid employees with a registered office, whereas the unorganised category is mainly made up of artisans who work in open spaces, temporary wooden structures, or at home, and employ few or in some cases no salaried workers (Kayanula and Quartey, 2020).

They rely mostly on family members or apprentices. Rural enterprises are largely made up of family groups, individual artisans, women engaged in food production from local crops. The major activities within this sector include:- soap and detergents, fabrics, clothing and tailoring, textile and leather, village blacksmiths, tin-smithing, ceramics, timber and mining, bricks and cement, beverages, food processing, bakeries, wood furniture, electronic assembly, agro processing, chemical-based products and mechanics (Osei et al., 2013; Kayanula and Quartey, 2020).

Taking sole-proprietorships and microenterprises into consideration, it can be said that the majority of SMEs are female-owned businesses. Female-owned SMEs more often than not are home-based compared to those owned by males. That is, they are operated from home and are mostly not considered in official statistics. This clearly affects their chances of gaining access to financing schemes, since such financing programmes are designed without sufficient consideration of the needs of businesses owned by females. These female entrepreneurs often get the impression that they are not capable of taking advantage of these credit schemes, because the administrative costs associated with the schemes often outweigh the benefits.

Measures of enterprise efficiency (e.g. labour productivity or total factor productivity) vary greatly both within and across industries. Firm size may be associated with some other factors that are correlated with efficiency, such as managerial skill and technology, and the effects of the policy environment. Most studies in developing countries indicate that the smallest firms are the least efficient, and there is some evidence that both small and large firms are relatively inefficient compared to medium-scale enterprises (Little et al., 2017). It is often argued that SMEs are more innovative than larger firms. Many small firms bring innovations to the market place, but the contribution of innovations to productivity often takes time, and larger firms may have more resources to adopt and implement them (Acs et al., 2019).

2.6 Contributions of SMEs to Economic Development

There is a general consensus that the performance of SMEs is important for both economic and social development of developing countries (Levy et al., 2019). From the economic perspective, SMEs provide a number of benefits (Advani, 2017; Leidhom and Mead, 2019). SMEs have been noted to be one of the major areas of concern to many policy makers in an attempt to accelerate the rate of growth in low-income countries. These enterprises have been recognised as the engines through which the growth objectives of developing countries can be achieved. They are potential sources of employment and income in many developing countries.

SMEs seem to have advantages over their large-scale competitors in that they are able to adapt more easily to market conditions, given their broadly skilled technologies. They are able to withstand adverse economic conditions because of their flexible nature (Kayanula and Quartey, 2020). SMEs are more labour intensive than larger firms and therefore have lower capital costs associated with job creation (Anheier and Seibel, 2017; Liedholm and Mead, 2017; Schmitz,

2015). They perform useful roles in ensuring income stability, growth and employment. Since SMEs are labour intensive, they are more likely to succeed in smaller urban centres and rural areas, where they can contribute to a more even distribution of economic activity in a region and can help to slow the flow of migration to large cities. Due to their regional dispersion and their labour intensity, it is argued, small-scale production units can promote a more equitable distribution of income than large firms. They also improve the efficiency of domestic markets and make productive use of scarce resources, thus facilitating long-term economic growth (Kayanula and Quartey, 2020).

SMEs contribute to a country's national product by either manufacturing goods of value, or through the provision of services to both consumers and/or other enterprises. This encompasses the provision of products and, to a lesser extent, services to foreign clients, thereby contributing to overall export performance. In Ghana and South Africa, SMEs represent a vast portion of businesses. They represent about 92% of Ghanaian businesses and contribute about 70% to Ghana's GDP and over 80% to employment (Villars, 2014). SMEs also account for about 91% of the formal business entities in South Africa, contributing between 52 and 57% of GDP and providing about 61% of employment (CSS, 2018; Ntsika, 2019; Gumede, 2020).

From an economic perspective, however, enterprises are not just suppliers, but also consumers; this plays an important role if they are able to position themselves in a market with purchasing power: their demand for industrial or consumer goods will stimulate the activity of their suppliers, just as their own activity is stimulated by the demands of their clients. Demand in the form of investment plays a dual role, both from a demand-side (with regard to the suppliers of industrial goods) and on the supply-side (through the potential for new production arising from upgraded equipment). In addition, demand is important to the income-generation potential of SMEs and their ability to stimulate the demand for both consumer and capital goods (Berry et al., 2012).

2.7 Type of Financing Required at Each Stage of an SME Life Cycle

According to Zeidy (2018), the following are financing required at each stage of an SME life cycle:

(i) At the start of a small business or during the seed stage, personal savings of entrepreneurs, family and friends (among others). are often the most important sources of financing, as these firms tend to be highly risky with intangible assets, a lack of

trading history and informational opacity. These features pose difficulties for small businesses to secure loans from financial institutions, such as banks.

(ii) At the second phase of survival during the start-up stage, personal funds become depleted and external sources of funding become necessary. At this stage, the investment in small businesses is still regarded as high risk and the business is not large enough to attract the attention of venture capitalists. Wealthy individuals like business angels (as defined below) can fill the gap between personal funds and institutional venture capital funds. The other appealing factor with regards to business angels is that they contribute their expertise, knowledge and contacts.

(iii) After the small business has passed through the early stages, it requires a further injection of capital to fund growth. At this stage, the SME may still not qualify for debt financing due to its reliance on intangible assets, inability for investors to assess its future growth prospects, low profitability and short track record, thus making the SME unsuitable to raise equity through a public listing. Venture capitalists play a role in alleviating such financing obstacles faced by young firms at this stage. Venture capitalists scrutinize such firms intensively before providing capital and then monitor them closely afterwards.

(iv) In the more advanced stages, such as the emerging and the development stages, the firm has established a track record, has the ability to provide collateral and information regarding its performance and has become more transparent, such that it may access securitised debt and publicly listed equity markets. The firm can access debt financing such as bank loans, mezzanine funding, and debt securities.

2.8 SMEs and Gaps in Access to Finance

SMEs receive limited external funding compared to large firms and face a financing gap - even if they deliver employment to a large share of the workforce in developing countries. Further, SMEs are less likely to have a formal bank loan or other lines of credit compared to large firms, according to the World Bank Enterprise Survey (Abraham and Schmukler, 2017). Instead, they depend on internal funds, or cash from friends and family, to start and initially operate their businesses. About 65 million firms, or 40% of formal micro, small and medium enterprises (MSMEs) in developing countries, have an unmet financing need of US$5.2 trillion every year - according to estimates by the International Finance Corporation (IFC). This is equivalent to 1.4 times the current level of the

global lending to Micro, Small and Medium Enterprises (MSMEs). East Asia and Pacific region accounts for the biggest share (46%) of the total global finance gap and is followed by Latin America and the Caribbean (23%) and Europe and Central Asia (15%). The gap volume differs significantly region to region. Compared to potential demand, Latin America and the Caribbean and the Middle East and North Africa regions have the greatest proportion of the finance gap - measured at 87% and 88%, respectively. About half of all formal SMEs do not have access to formal credit (World Bank, 2019).

The financing gap is even bigger when micro and informal enterprises are considered.

Informal SMEs may especially be unserved or underserved by financial institutions. Moreover, financial sources are inclined to dry up more quickly for small firms than for larger firms during recessions. The scarcity of finance faced by SMEs makes the economic and social impacts of economic crises more difficult and long-lasting. While many SMEs face difficulties in acquiring bank finance, access to non-bank financing is even more limited (Koreen et al., 2018).

Unlike large firms that may take advantage of different types of finance, SMEs have difficulty securing sources of financing beyond straight bank debt. These challenges are more pronounced for SMEs in economies where private capital markets are immature and SMEs lack the scale, knowledge and skills to move towards alternative sources of finance (e.g. in LICs and LMICs). Since bank financing will remain vital for the SME sector across all economies, there is a persistent need to develop a more diversified set of choices for SME financing, so as to decrease their susceptibility to changes in credit market conditions, reinforce their capital structure, grab growth opportunities and increase long-term investment. This will also add to the buoyancy of the financial sector and the real economy and to promoting new sources of growth (Koreen et al., 2018).

Studies have shown that having access to finance is correlated with higher job growth rates at the firm level (Dinh et al., 2010, World Bank, 2019; Abraham and Schmukler, 2017; IFC, 2013). Governments, development finance institutions, financial intermediaries and other private sector actors should all intervene to close the financing gap and to lessen the financing constraints. Improved financial infrastructure, regulatory reforms, higher competition in the financial sector, and support measures to financial intermediaries (including to unserved and underserved groups) are some of the measures that can enhance access to finance, and in turn help to create jobs. For

instance, programmes targeted at reducing costs of financial services for underserved and unserved SMEs can promote job creation. Financing SMEs by pursuing underserved groups such as women, youth, or the poor can deliver help where it is needed the most (IFC, 2013).

Maintaining the proper balance between bank debt and capital market (equity) financing is crucial for businesses. Debt and equity financing play a complementary role in a fi rm's growth. Just piling more debt onto SMEs without a balanced capital structure may prevent them from securing or repaying the bank debt and make them vulnerable to business downturns and changes in interest rates. Carrying little or no debt may be an indicator of risk aversion. Too much equity, on the other hand, dilutes fi rms' ownership interest. The IFC experience suggests that lack of equity finance is a binding constraint for many SMEs, in particular for larger SMEs, in developing countries, while extending additional debt financing for undercapitalized SMEs may be counterproductive. Unlike the large-buy-out funds in developed markets, typical SME funds in emerging markets rarely try to use leverage to increase their returns, focusing instead on making money by assisting with operational, management, and marketing improvements (IFC, 2020).

2.9 Capital Market Solutions that Help Mobilise Financing for SMEs

Equity finance can be a good financing instrument for SMEs in their early lifecycle stages, i.e. when their cash flow is not yet regular. For these businesses, bank debt is usually not accessible in adequate amounts for a range of regulatory reasons - making equity their key source of finance. Nevertheless, even well-established and successful SMEs face several difficulties when trying to access local or international capital markets. The cost of raising capital is often significantly higher for SMEs, not just because of the apparent greater risk linked to investing in such businesses, but also due to the smaller relative amounts of financing that SMEs need. Since most of the compliance costs associated with accessing capital markets are fixed (e.g., listing and rating agency charges, legal fees, prospectus preparation costs, etc.), SMEs often find that the cost of using the capital markets is expensive (IFC, 2020).

SME stock exchanges have been created by some countries to facilitate access to public funds, even if the performance of these exchanges has been mixed. Many countries have tried to address the issues faced by SMEs by launching dedicated stock exchanges, junior market segments, or distinct trading platforms solely for the SME sector, with the goal of easing access to capital markets more quickly, with less strict eligibility criteria and at a lower all-in cost. Nevertheless,

the performance of many of these junior exchanges, especially those in lower- income countries, has been poor. At times, only a handful of SMEs choose to list in certain markets and with little or no new capital actually being raised on these platforms (IFC, 2010).

2.9.1 SME stock exchanges

SME-focused stock exchanges have surfaced as an important option for SME fundraising. They have been set up with the objective of allowing SMEs to obtain public equity capital. The main feature of such venues is that listing conditions have been relaxed. This may bring lower issuance costs for SMEs. But in contrast to large enterprises, SMEs often face certain difficulties in raising funds via stock exchange. Largely, this involves high transaction costs, listing requirements and often very complex legal and regulatory frameworks. SMEs face greater obstacles and costs to raise capital from equity markets than larger issuers due to the lack of visibility of SME markets, the lack of market liquidity for SME shares and the high costs of an initial public offering (Sestanovic 2016; Baker and McKenzie 2012).

2.9.2 Implication of Firm Size

The performance of many (junior) SME stock exchanges, particularly those in lower-income countries, has been unimpressive, with only a few SMEs choosing to list on certain markets and with little or no new capital being raised (IFC, 2012).

Examples and Lessons

- In Kenya, where there is an informal and mostly unregulated capital market that serves SMEs, several small firms have been able to raise capital from local investors such as private equity firms. The securities market regulator in Kenya does not regulate the activity in this market. On the other hand, the regulator is hesitant to see the market closed (IFC, 2011).

- In Vietnam, the Hanoi Stock Exchange has a trading venue for unlisted public businesses named UPCoM (Unlisted Public Company Market), which was established in 2009. This market is not a dedicated SME market but an equity finance venue that SMEs can access. The UPCoM has no listing fees (Adb and oecd, 2014).

- Indonesia has no SME capital market but some enterprises that are regarded as SMEs (under the capital market rule) have conducted initial public offerings in the Indonesia Stock

Exchange. SMEs are given special treatment to tap the Indonesia Stock Exchange, such as simplified disclosure documents as opposed to other (non-SME) businesses (Adb and oecd, 2014).

- In India, two devoted SME exchanges have been launched since 2012: i.e. the SME Platform under the Bombay Stock Exchange and the National Stock Exchange (Adb and oecd, 2014).

- The Philippines launched the SME Board under the Philippine Stock Exchange in 2001. However, only a handful of firms have been listed. No preferential treatment is available for firms applying for listing in this board (Adb and oecd, 2014).

According Titman and Wessels (2018) capital market solutions that help to mobilise financing for SMEs are categorized into two main groups, namely (a) indirect and (b) direct mechanisms.

2.9.3 Indirect Mechanisms for SME Financing

Indirect mechanisms refer to capital markets solutions that are used by Medium and Small Scale Enterprise (MSME) lenders to improve their funding structure so that the lenders can compete more effectively in the credit markets. These could in turn result in an expansion of SME financing; the provision of credit to SMEs on better economic terms; or both (Wald, 2019).

Indirect mechanisms, which are implemented in some emerging and developing economies are:

i. Plain vanilla issuances by specialized SME lenders; and
ii. SME loan securitization.

(i) Plain Vanilla Issuances

Plain Vanilla issuances by specialized SME lenders are defined as equity and debt issuances by entities different from banks that provide financing to microenterprises and SMEs. These include microfinance institutions, cooperatives, factoring and leasing companies, and, more recently, fintech companies that specialize in providing financing online. Some of these entities cater to SMEs that are not served by banks. In addition, some of them require less collateral than that required by banks. This is of particular importance to SMEs because many of them lack the type of collateral (real estate) that banks prefer. Plain Vanilla issuances by specialized SME lenders are a viable solution for many Emerging and Developing Economies (EMDEs). Recent examples in

Africa include issuances in Zambia (Bayport), Kenya (Faulu), and Tanzania (Pride), which attracted interest from both global and local institutional investors (Myers, 2014).

Nevertheless, in some countries, access has remained relatively restricted to larger, well established nonbank financial institutions (NBFIs). Smaller NBFIs have struggled to tap the local markets for various reasons - including the cost of listing requirements relative to the size and sophistication of the NBFI, weak governance structures, and the inability to meet minimum credit ratings (in the case of bond issuances), among other constraints. That is why, for example, initial bond issuances by less-established NBFIs have typically required credit enhancements or anchor investments from reputable banks or DFIs.

According to BoZ (2018), Bayport is Zambia's largest microfinance lender, serving more than 100,000 customers across 30 branches, with a net loan book of US$216 million. As a market leader in payroll-based lending, Bayport wanted to expand its services to small businesses and low and middle-income borrowers. With support from the International Finance Corporation (IFC), Bayport established a medium-term note program that would enable it to regularly raise funds in the domestic capital markets to fund the expansion of services. In 2014, Bayport became the first nonbank financial institution in Zambia to tap local capital markets, with the issuance of a four-year medium-term note of ZMW172 million (US$26.5 million at the exchange rate at the time). The initial ZMW150 million offered was increased by ZMW21 million in response to strong investor demand. The IFC provided an anchor investment of ZMW60 million (US$9.3 million at the exchange rate at the time) and the African Local Currency Bond Fund, a unit of Germany's KfW, committed to invest 13 percent of the issuance. These anchor investments enhanced Bayport's profile and attracted other investors, including pension funds and insurance companies, to the transaction. Bayport has since issued a second five-year corporate bond worth ZMW300 million in the local capital markets. The issuance was approved by the Securities and Exchange Commission of Zambia in 2017.

ii) SME Loan Securitization

SME loan securitization is a financing technique that allows the transformation of SME loans, which are illiquid in nature, into tradable securities. To this end a bank or SME lender (the "originator") bundles a package of SME loans into a pool ("portfolio") and sells the portfolio to capital market investors through the issuance of securities by a special purpose vehicle (SPV). The

securities are backed by the loan portfolio (asset-backed securities (ABS). They potentially enable banks to achieve economic and regulatory capital relief. Also, this solution could reduce the cost of financing for SMEs (Myers, 2017).

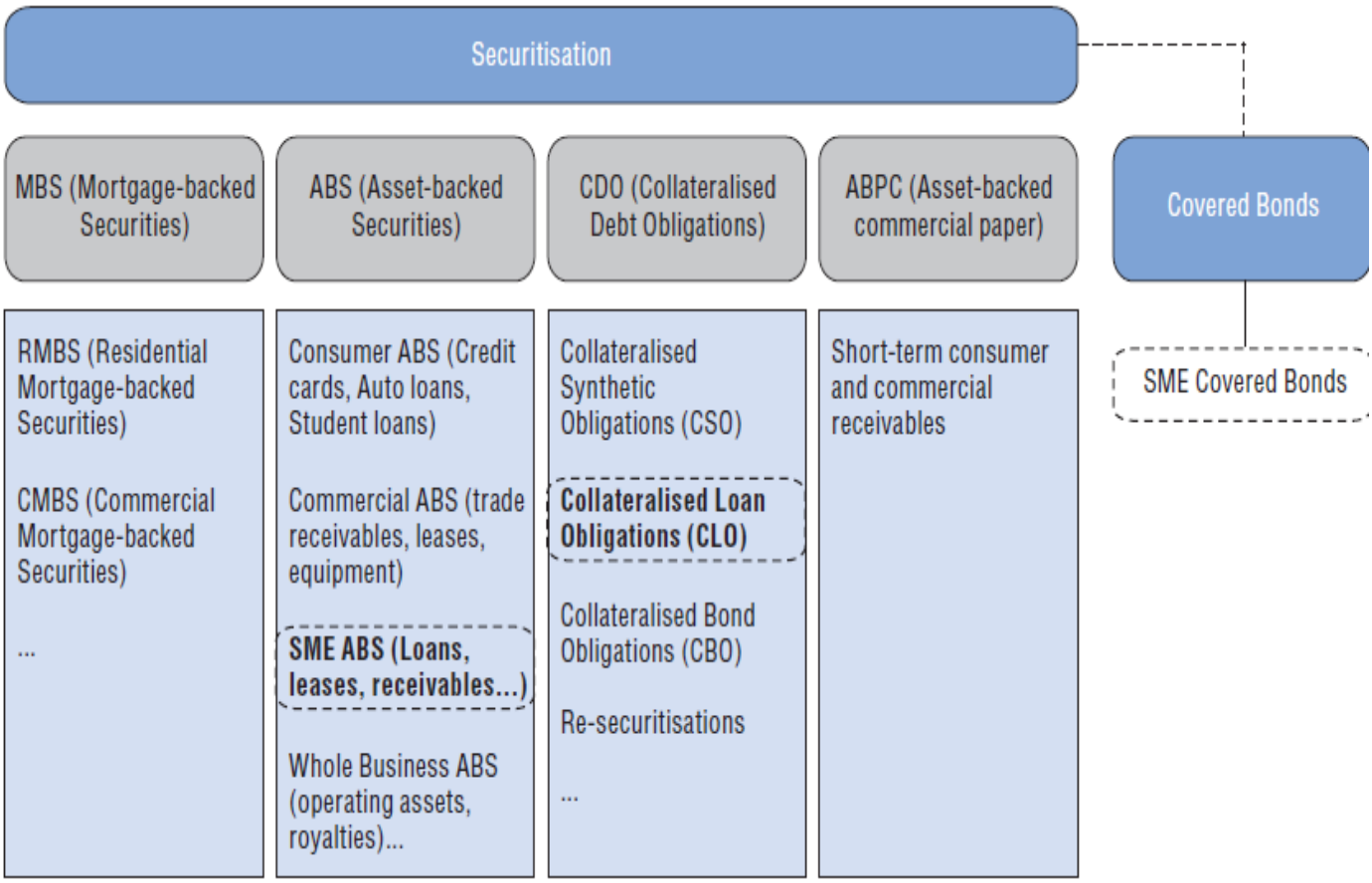
Further, SME securitization can potentially have a multiplier effect in the funding available to SMEs if the lender uses the capital "freed" through the transaction to lend again to SMEs. From an investor's perspective, SME loan securitization could have many benefits. First, it enables investors to gain access to an asset class whose performance is tied to the whole economy. While other asset classes can do that, the attractive feature of SME securitization is that it has the potential to include a portfolio of more diverse and granular (smaller individual) assets, thus allowing investors to better diversify their risk. India is one of the few countries where SME loan securitization is used consistently. To a large extent its use has been driven by regulatory requirements imposed on banks, which are required to meet certain targets for SME financing either through their own lending or via holdings of ABS in which the underlying assets are SME loans. This requirement has prompted securitizations by microfinance institutions. Specialized lenders are using the securitization markets as their first step to access the capital markets (Michaelas et al., 2019).

SME securitization seems more viable for larger EMDEs, since development of SME loan securitisation requires a corporate bond market to already be in place. Further, given the risk imbedded in SME loans, the existence of a public guarantee program might be a critical element to align the risk appetite of investors with SME securitization. The other critical challenge affecting the viability of the product is the need for a sufficient volume of quality SMEs.

Abor (2017) posits that depending on the nature of the underlying pool of assets and the resulting securitised cash flows of the portfolio, securitised transactions can be categorised into broad groups of structures typically found in the market (see Figure 2.2). As implied by their name, mortgage-backed securities (MBS) are backed by pools of mortgage loans (commercial or residential), while the range of collateral that backs asset-backed securities (ABS) is more diverse and includes credit card receivables, auto loans, whole business securitisation, leases and other receivables. Collateralised debt obligations (CDO) are backed by debt instruments (senior secured bank loans, high yield bonds or credit default swaps [CDS]), while collateralised loan obligations (CLOs) are backed by pools of leveraged loans.

Asset-backed commercial paper (ABCP) programmes are of short-term nature and are used to finance the acquisition of receivables with the proceeds of short-term commercial notes placed in the capital markets. Covered bonds are on-balance sheet instruments (i.e. they remain on the issuer's balance sheet) with similarities to ABS given they are collateralized by a dedicated portfolio of assets.

Figure 2.2 Main types of securitisation



Source: OECD (2015)

Securitisation techniques that involve SME-related claims may be broadly classified as ABS or CDOs. The majority of SME securitisations involve the pooling of medium and long-term SME credit exposures by financial intermediaries and the issuance of securities backed by cash flows of the underlying SME loan portfolios originated by financial institutions. SME claims are also securitised through ABCP programmes involving the funding of SME trade receivables on a short-term basis, referred to as a "SME Conduit" (Jobst, 2015). Other claims, such as cash flows deriving

from the whole operating revenues generated by the entire SME or segmented part of a larger business, are also securitised (whole business ABS).

Prior to the financial crisis, issuers of securitisation instruments became ever more creative in finding innovative ways of "slicing and dicing" the cash flows coming from the pool of assets to fine-tune risk/return profiles and achieve enhancements through risk-modelling techniques. The resulting instruments became complex and difficult to analyse, such as re-securitisations and CDO-squareds, backed by pools of CDO tranches. But the models upon which the structuring was based were not sufficiently crisis-tested (e.g. in a crisis correlations increase). Ratings agencies may have contributed to the problem by producing ratings that in hindsight were clearly more positive than they should have been. It is then also not surprising that some investors failed to comprehend the mechanics underlying the most complex structures prior to the crisis, or the disparity/divergence in the performance of different types of structured instruments during the crisis. When the US housing downturn caused unprecedented losses for investors in MBS and CDOs, and the crisis spread more widely causing default rates in related instruments to exceed expectations, this added to the post-crisis stigma surrounding securitisations.

SME securitisation structure

Despite the diversity of types and underlying assets, the basic mechanics of a securitisation transaction are common to nearly every transaction and the basis of the structure is to a large extent similar (Figure 2.3).

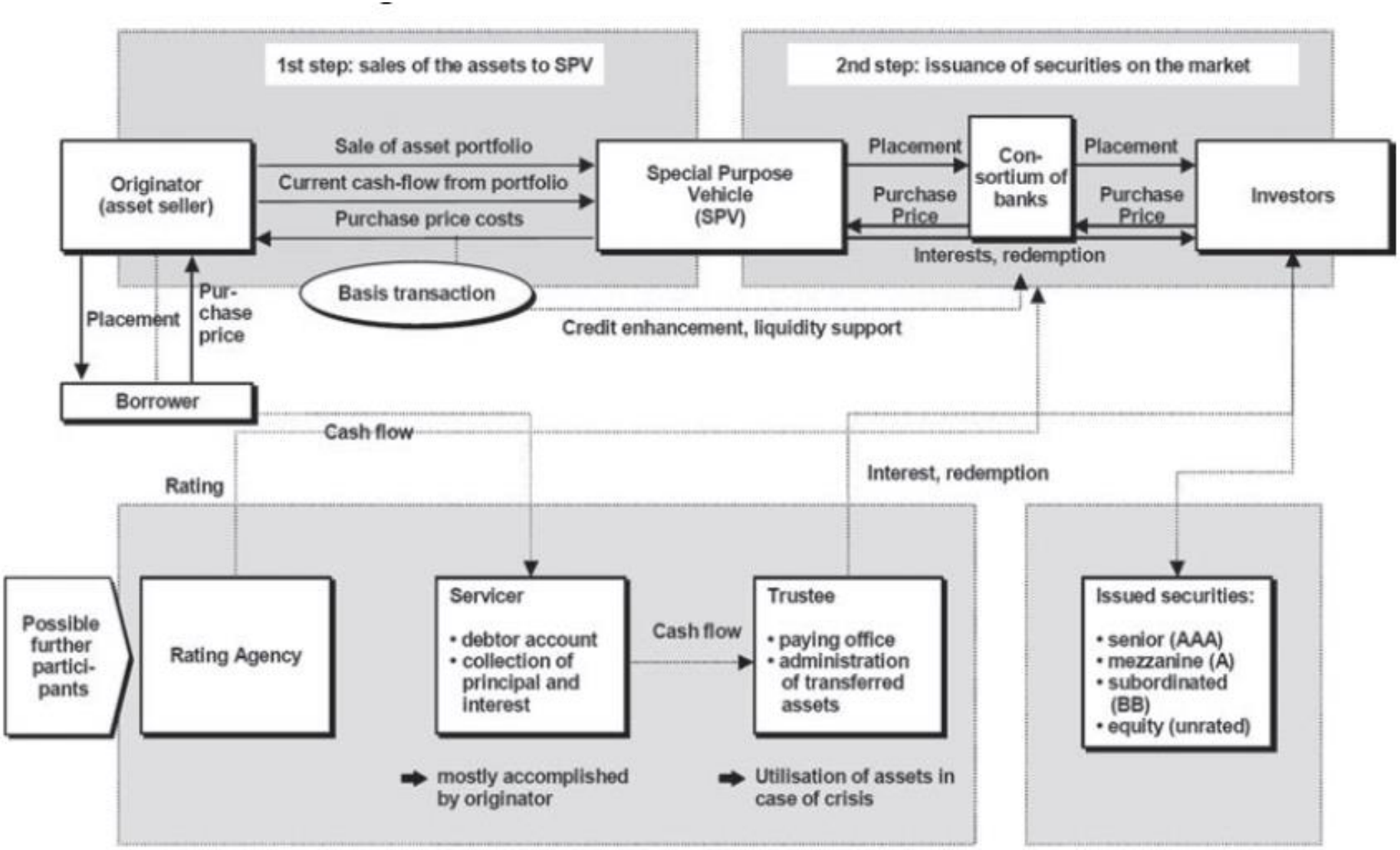
1. Structure and participants

   According to OECD (2015), SME-related securitisations are produced through the pooling of a number of SME assets by a financial intermediary, typically the originator of the loans. Due to the small size of SME loans, the number of pooled assets is relatively large. Drawing on the example of an SME CLO, the ultimate goal of the transaction is the transformation of a portfolio of SME loans originated by a financial intermediary into a publicly-issued debt security. The resulting security is not only tradable, transferrable and liquid but also ring-fenced and isolated from their originator.

   To get there, a sizable number of SME loans needs to be granted by the lender, typically a bank (*originator*) to different SMEs. The resulting portfolio needs to be large enough to reach a minimum critical size for the securitisation to be economically viable. The

Originator then transfers the loans to a bankruptcy-remote special purpose entity or vehicle (SPE or *SPV, the issuer*), created for the limited purpose of acquiring the underlying loans and issuing securities on the back of the claims on the portfolio of loans (principal and interest payments). These claims are sliced in different tranches of risk/quality and seniority, ranging from senior secured to residual, equity-like tranches ("*first loss position*") and possibly with varying maturities.

Figure 2.3 Structure of an ABS transaction



Source: OECD (2015)

2. True sale vs. synthetic securitisations and the pass-through structure

   The use of finite-lived, standalone SPVs allows the originator to offload the SME loan portfolio off its balance sheet, with significant benefits (OECD, 2019). It allows the fulfilment of one of the primary objectives of securitisation from the originator's standpoint: regulatory capital relief through the transfer of the assets off the balance sheet. At the same time, as the economic cost of capital associated with those loans is reduced, the originator benefits from refinancing advantages. The liquidity produced by the transaction can potentially be used for further on-lending to the real economy. Post-crisis, the benefit is restricted by retention requirements for issuers.

3. Credit enhancement techniques

   Unlike plain vanilla corporate bonds, securitised instruments are credit enhanced in that some of the securities' credit quality can be higher than that of the underlying asset pool. Various types of credit support or "credit enhancement" can be supplied by internal or external sources in order to achieve the desirable credit quality, some of which are mentioned in the following. As a result of such techniques, non-investment grade pools of SME loans or parts of SME loan portfolios can be enhanced and transformed into investment grade instruments (OECD, 2019).

2.9.4 Direct Mechanism for SME Financing

Until recently SMEs had very few mechanisms to access the markets directly. In general, two mechanisms have been used: venture capital (VC) and private equity (PE) funds and small securities offerings via private or public placements. However, VC funds have been restricted to start-up companies and PE funds to more established/larger companies, and small securities offerings have been an option mainly for the larger SMEs. Since the recent financial crisis, other solutions are emerging that have the potential to serve a wider range of SMEs. These include among others receivable based solutions, receivable platforms, lending platforms, and equity solutions (King and Levine, 2021).

(i) Receivable-based solutions:

King and Levine, (2021) adds that even before long-term finance, what most SMEs need is working capital. Although many factors affect the cash flows of SMEs, a key element refers to the contractual terms under which SMEs sell their goods and services, terms which in many cases

require them to sell at credit and under extended payment terms. While late payment terms help buyers optimize their own working capital, from the SME perspective late payments increase their costs and financial uncertainty and could result in bankruptcies of otherwise viable businesses. In practice, this situation forces many SMEs to sell their receivables (credits) and under extended payment term to banks or factoring companies to obtain liquidity. However, in many cases, the spreads are high, because of lack of competition.

Financial technology has opened space for competition to the factoring industry and have improved the conditions under which SMEs obtain short-term funding via different types of solutions. Some of those solutions aim to bring capital markets investors to the table. These solutions have the potential to expand SMEs' access to working capital, both by expanding the range of SMEs that could get access to financing and by providing better conditions than those offered by more traditional solutions, in terms of the spreads paid. The key to obtaining such benefits lies in increasing competition in the factoring industry via the entrance of additional "financiers".

(ii) Receivable platforms:

Receivable platforms are defined as electronic platforms that enable SMEs to sell their receivables directly to a wide range of investors. The platform acts exclusively as an intermediary that prescreens the receivables using proprietary technology, but ultimately the credit risk is borne by the investor. The platforms create a market place for receivables by allowing the entrance of a plurality of investors. Available data indicate that volumes traded on this type of platforms are growing significantly. From 2013 to 2017, the volume of financing raised in these platforms grew from $0.3 billion to 6.7 billion. Most of these volumes were raised in China. Other countries in the top 20 include Chile, Czech Republic, Mexico, Slovenia, Estonia, United Arab Emirates and Poland. In EMDE's, some of the platforms have been developed with government support. In some cases, domestic development banks have been directly involved in the creation and implementation of the platforms. The operators of the platforms vary in some cases, the platforms are operated by "traditional" exchanges, while in others they are operated by fin-tech companies (Jalilvand and Harris, 2014).

(iii) Lending platforms:

SME lending platforms are defined as platforms that consumers and businesses can use to obtain loans directly from a wide range of investors. The platforms act exclusively as intermediaries. Their role is to prescreen the loans through a low cost information technology that allows them to collect standardized information from dispersed borrowers to assess the credit risk, but the ultimate decision to invest relies on the investors who bear such credit risk. Lending platforms have been growing at a very fast pace and currently concentrate the bulk of the volume raised via fintech solutions for fundraising. From 2013 to 2017 volumes raised in lending platforms grew from $8.8 billion to $ 345.3 billion. Although most of the funding has been raised in China, other countries in the top 20 include Korea, Georgia, Poland, India, Latvia, and Brazil (Jalilvand and Harris, 2014).

(iv) Equity and venture Solutions

Equity funds are pooled investment instruments that invest in unlisted equity, quasi- equity and, sometimes, debt securities. There has been a rise in the involvement of SME equity funds in emerging markets in recent years. Over the last decade, Development Finance Institutions (DFIs) have expanded their participation in SME equity funds, and evidence suggests that there are hundreds of investment funds supporting small and growing businesses (SGB) in emerging markets (IFC, 2012).

In general, market opportunities (deal flow and exit) in most of the smaller emerging countries are too limited to support dedicated single-country funds. Consequently, successful SME fund models typically cover more than one country, with a small central team and local management teams in each country. This structure permits the local teams to focus on investments while spreading overhead costs over as broad a base as possible. The central platform reduces the learning curve for the local teams and offers necessary services and support in an efficient and cost-effective way (IFC, 2012).

A 'venture capital' (VC) usually comprises of private equity investments usually in young firms that exhibit potential for high growth (equity funds, which are similar instruments to VC but not restricted to new/start-up businesses). Such firms are in need of funds to pursue their initial growth targets (Berger and Schaeck, 2012).

Venture Capital (VC) has been a key mechanism for equity financing of innovative firms. In EMDEs VC is at an earlier stage of development. The public markets, on the other hand, have not been accessible to SMEs. Companies that want to raise equity financing from the public are subject to not only disclosure requirements but also corporate governance obligations, both aimed at protecting investors. It is required that investors have all the necessary information to make their investment decisions. In addition, corporate governance obligations are imposed on the companies seeking equity investors to ensure that the company works to the benefit of all its shareholders. In practice, the imposition of disclosure and governance requirements has had consequences for SMEs' use of the public equity markets. Governance requirements constitute a tremendous challenge for SMEs. Most SMEs are family owned and lack the governance that outside investors require, from a board with independent directors who are able to exercise effective oversight of management to a management structure that is supported with robust internal policies and procedures across all activities (Booth et al., 2012).

Furthermore, because they are often family owned, many SMEs are reluctant to open their capital to outside shareholders and be accountable in their decisions to such shareholders. Increasingly, countries are looking at mechanisms to ease SME access to equity financing via the capital markets. In general, two types of developments are taking place. First, countries are revisiting the definitions of public and private offerings in an effort to reduce the requirements for companies to access the capital markets under specific conditions. Equity crowdfunding is a key example of such adjustments. Second, countries are developing specialized SME equity exchanges, with the objective of fostering the liquidity of SME equity issuances.

(v) Equity Crowdfunding:

Is defined as electronic platforms that allow companies to raise equity, or equity like funding directly from investors. The platform acts as a conduit, putting together investors and companies in need of resources. The platforms are obliged, however, to conduct due diligence on the companies that want to raise capital through them, in order to ensure that the companies do exist and that the information they provide to investors is true, thus mitigating the risk of fraud. Equity crowdfunding provides retail investors access to an asset class that in the past was restricted to sophisticated investors. Previously, the main vehicle to invest in start-ups was VC funds to which institutional investors and high net worth individuals had access. Retail investors were mostly

confined to the public markets, which in most countries target companies that have a track record and are already profitable. Available data indicate that equity crowd funding is growing. From 2013 to 2017, equity raised via crowd funding grew from $0.2 billion to $1.3 billion. Although China was responsible for most of that amount, other EMDEs, namely India, Korea, Malaysia, Brazil, The United Arab Emirates and Indonesia also made the top 20 countries by total volume (Bayless and Diltz, 2012).

(vi) Equity Issuances and Specialised SME Markets:

Over the past 10 years, many countries have sought to develop specialized SME exchanges, based on proportionate requirements, on which SME equity offerings could be listed and traded. Such exchanges seek to alleviate the burden and cost of regulatory compliance that may deter SMEs from listing. The proportionality principle usually applies to performance, disclosure, and governance requirements. As of 2018, there were 37 exchanges classified as SME equity exchanges or alternative equity markets globally, with 25 of them in EMDEs, listing over 7,000 companies (World Federation of Exchanges database). In spite of the relatively large number of SME equity exchanges, the bulk of listings are concentrated in a few exchanges. Of the top 10 SME exchanges measured by market capitalization, seven are located in six advanced economies, while the remaining three are located in two EMDEs— China (which has two SME exchanges, ChiNext and the Growth Enterprises Market) and Romania. In most cases, the SME exchanges operate as a second board within the structure of a traditional exchange. In only a very few cases are there stand-alone SME exchanges. A 2018 report by the World Federation of Exchanges (WFE, 2018) based on information from 33 exchanges showed that in two-thirds of the markets covered, the capitalization of the SME board is less than 1 percent of the total market capitalization of the main exchange.

2.10 Equity financing of SMEs: challenges and practice

The capital market is regarded as the centre of any financial system. In their research of the importance of the level of capital market development and its impact on economic growth, Levine and Bencivenga et al. concluded that financial and stock market liquidity reduces transaction costs, which has a positive impact on investments in long-term development projects that should result in economic growth (Bencivenga et al., 2015). Other research concluded that greater connectedness by and between international financial markets has an impact on changes in the

portfolio structure of institutional investors towards more substantial investments in more risky instruments, thus having a positive impact on productivity growth (Devereux, Smith, 2014, Obstfeld, 2014). Levine and Zervos concluded that financial market liquidity and banking system development have a positive impact on economic growth (Levine, Zervos, 2018). A developed financial market is, thus, important for achieving economic growth, but it is also an important investment potential because of high funding volume, in this case for the SME sector.

Institutional investors are one of the key investors on the capital market as the result of the advantages they offer to individual investors. Institutional investors invest clients' funds as professional managers in the interest of the client and based on a pre-set investment strategy, but not in their own interest (Davis, 2016). The growth of institutional investors' assets and their growing trading presence in total trade on the financial market lead to the institutionalisation of the financial market, which is often mentioned as a disadvantage. Theoretical considerations conflict in terms of the impact of institutionalisation on the volatility of the price of securities. Some hold that block trading favours volatility, while others believe that institutionalisation improves financial market liquidity and efficiency. In their analysis of G7 countries, Davis and Steil observed that more developed financial systems (measured by the indicator of the share of total assets of the financial system in GDP) present a higher level of financial market institutionalisation. Higher institutionalisation of the financial market follows a higher share of stock in total financial assets; and there is no record of a statistically significant correlation between the level of institutionalisation and financial market volatility. In stable financial market settings, institutional investors should ensure and accelerate the process of reaching the price of securities that corresponds to their fundamental value.

This should be achieved because institutional investors hold and process existing information, but also reduce transaction costs (Davis, Steil, 2012). The said role of institutional investors is important and relevant for investments in the SME sector. The significance and role of institutional investors on the financial market is also analysed by a comparison of capital market indicators and institutional investors' assets. In his research, Krišto concludes that the development of institutional investors and of the financial market is most intimately intertwined. Markets with a higher indicator of institutional investors' assets in GDP are also characterised by better financial

market development and liquidity. Thus, it can be concluded that institutional investors have systemic significance for the effective functioning of the financial market (Kristo, 2012).

Once they are listed on a regulated capital market, the future collection of capital via the issuing of additional stock or other types of securities becomes simpler for SMEs and requires lower costs of capital in comparison to other forms of financing. Further, considering that the financial crisis of 2007 and 2008 showed that fast-growing enterprises with insufficient material assets that would serve as debt collateral have major difficulties accessing debt financing, equity capital collected via the capital market would increase the likelihood of meeting their funding needs during the periods of economic crisis (World Federation of Exchanges, 2017).

Benefits from financing via the capital market for SMEs also arise from their very presence on the capital market, which contributes to their reputation and presence among potential buyers, suppliers, business partners, as well as prospective investors. Additionally, new opportunities for retaining and motivating key employees are secured via the offer of equity bonus, participation in the results, which is particularly important for enterprises at the beginning of their development, in which human capital is the key generator of growth, innovation, and progress (Roman and Rusu, 2015).

Taking into consideration the significance of SMEs in national economies, measured by their share in added value of the economy, employment, and export, the positive effects of capital market development for SMEs spill over into the economy as a whole, creating preconditions for more pronounced economic growth and the creation of new jobs. The analyses conducted show that efficient capital markets for SMEs increase their contribution to total annual growth of GDP by 0.1% – 0.2% (Oliver Wyman, 2014).

One of the most significant factors that deters SMEs from capital market financing is the loss of complete control over the operation and decision-making in the enterprise as a result of the appearance of new investors in the ownership structure. Furthermore, disclosure requirements primarily relating to information on business operations, results and planned investments rise considerably following the listing of securities on organised capital markets, which is not something that SMEs have experience of in most cases. Another restricting factors for SMEs to get listed on the capital markets are significant time and monetary costs incurred during the

preparatory phase as well as future reporting requirements imposed by regulatory bodies and new shareholders (Freeman, 2015).

Enterprises are also subject to numerous regulatory procedures and they must develop and present to the investment public attractive investment prospects, business model, qualified management team, and provide for an effective system of control and compliance with all regulatory provisions. Another obstacle is a lack of knowledge about the functioning and mechanisms of the capital market, a shortage of qualified staff, and fear that the perceived risk of operation of SMEs will lead to higher stock price discounts at the time of inclusion on the market. Further, insufficient market liquidity for SMEs and the absence of stock demand on the part of investors greatly determine the success of inclusion on the capital market. The success of the inclusion and listing of SMEs on the capital market also depends on the engagement of market mediators, i.e., brokers, who can lack interest to provide support to SMEs because of lower commission fees and inappropriateness of their distribution channels for the stock of smaller enterprises (IOSCO, 2015).

2.11 Capital structure

Capital structure refers to 'the mix of debt and equity maintained by the firm' (Gitman and Zutter, 2012, p. 508). It could be defined as a mix of sources of financing that appears in the balance sheet (Keown et al., 2015). Romano et al. (2020) categorise capital structure into four main parts: capital and retained profits, family loans, debt, and equity. Alternatively, Gibson (2012) suggests five types of source of finance, namely owner equity, related person debt, trade credit, bank loan, and other debt or equity such as credit cards, venture capital, and government loans. On the other hand, Burns (2012) classifies sources of finance into two categories: long-term finance such as equity from private investment and other people's money, bank loans, leasing, and hire purchase, and short-term finance, for instance, bank overdrafts, short-term loans, and factoring. Marlow et al. (2013) categorise it into three types: private investment (e.g. personal monies and funds from friends and families), public investment (e.g. government loans, grants, and public equity finance) and private external finance (e.g. bank loans and overdrafts, asset finance and asset-based finance).

Frank and Goyal (2015) suggest three sources of finance accessible to firms: retained earnings, debt, and equity. In addition, Rozali et al. (2016) categorise it into selffinancing, the government scheme, short-term loans from banks, medium term loans from banks, long-term loans, venture capital, and financing from non-bank financial institutions. Irwin and Scott (2012) classifies

sources of finance into personal savings, personal and business bank loans, private and business credit cards, redundancy, remortgage family and friends, leasing, hire purchases, microfinance, grants and others.

Deakins, Whittam, and Wyper (2012) recommend two main categories of sources of finance: internal and external. An internal source of finance comprises of internal debt and internal equity. The main internal sources of finance for sole proprietors are as follows: retained earnings5 , personal finance (e.g. savings, credit cards, internal equity, sale of assets or inventories, working capital, and funds from family and friends) (Titman, Keown, and Martin, 2012). Ou and Haynes (2016) assert that retained earnings are the main source of finance for SMEs. It was also considered to be the most preferred source of finance in most of the countries. Other than retained earnings, personal savings were also found to be the primary source of finance for SMEs (Fraser, 2014; Scott, 2012; UNDP, 2017). Personal savings means the owner's financial sources, whether in terms of cash, personal credit cards, personal loans, winnings, inheritance, or investment income (Scott, 2012).

In addition, funds from family and friends mean savings or assets of the family members or friends. These types of sources of finance are very important for SMEs, especially in supporting ethnic minority businesses (Smallbone et al., 2013; Robb and Fairley, 2017; Fairley and Robb, 2017) or family businesses (Romano et al., 2020). Sale of asset is a sale which generates profit or loss (Woods, 2019). This usually happens in a situation where firms are unable to get finance from any other sources. Sometimes, firms may decide to stop offering certain goods or services in order to sell the fixed assets. Moreover, working capital is 'the capital that is used to finance the day-to-day operations of a company' (Oxford Dictionary of Accounting, 2012, p. 437). It is also defined as current assets minus current liabilities. According to McCosker (2020), SMEs should ensure that they have adequate working capital to avoid any problem related to working capital, especially during an expansion period. This is because, if the working capital is small, it will cause a cash flow problem. The firms may fail to pay suppliers on time or be unable to claim discounts for on-time payment (Basu and Altinay, 2012).

On the other hand, external sources of finance means funds obtained from an organisation from an outside source (Oxford Dictionary of Finance and Banking, 2018). It comprises of debt and equity. Debt consists of bank loans, bank overdrafts, foreign loans, leasing6 and hire purchases, trade

credits, factoring8 , and loans from non-bank financial institutions. Financing with external equity is relatively expensive and may create problems of control and decision making. Most small firms were found to be averse to using this type of finance (Berger and Udell, 2018). When seeking external finance, bank loans appear to represent most of the businesses' primary choices (for example Boocock and Wahab, 2017; Romano et al., 2020). According to EOS Gallup Europe (2015), about 79% of SMEs used bank financing, followed by leasing companies. The lowest source used by these EUbased SMEs was a source from venture capital companies (2%).

2.12 Determinants of capital structure

A review of previous studies on the determinants of capital structure helped the researcher to identify some key issues. Most of the previous studies reveal that the firm characteristics are the most influenced determinants of capital structure, while relatively few studies examine the effect of managers' behaviours. In a qualitative study, Michaelas et al., (2018) ascertain that owners' behaviours also determine the financial structure of the firm. The recent study by Borgia and Newman (2012) also established that the financial structure is not only influenced by firm level characteristics such as firm age, size, asset structure and profitability; rather it is also influenced by the managerial strategy, psychology and human capital.

2.12.1 Characteristics of the owner-manager

Characteristics of the owner-manager were found to influence the capital structure of the firm (Cassar, 2014; Low and Mazzarol, 2016). Previous studies, by Irwin and Scott (2012) for instance, suggest that the personal characteristics of the SME owner- managers (education, gender and ethnicity) influence their capability in raising business finance. Likewise, Mac an Bhaird and Lucey (2012) classifies it into owner's age, race, gender, education and experience, preferences, goals and motivations. Newman (2012) suggests four categories of determinants related with the owner-managers, namely managerial strategy, managerial psychology, managerial human capital and network ties. In addition, a recent study by Borgia and Newman (2012) categorises it into managerial characteristics (i.e. education, experience, and network ties) and managerial attitudes (i.e. risk-taking propensity, control aversion and growth intentions).

The following sub-sections discuss reports of earlier studies on the owner-manager's characteristics (e.g. age of the owner, human capital, ethnicity, relationship, networking, goals,

perceptions and attitudes to debt, and culture), which were selected for this particular study of owner-managers' characteristics, for different sources of financing.

i. Age of the owner-manager

Age of the owner-manager appears to be an important factor determining the capital structure choice. Previous studies found that older owner-managers would be less likely to be concerned with gaining wealth. They are reluctant to invest additional finances into their firms (Vos et al., 2017; Bell and Vos, 2019). Instead, they focus more on financial independence and control (Cassar, 2014; Vos et al., 2017).

Van der Wijst (2019) established that older owner-managers are more averse than younger owner-managers in accepting outside participation (i.e. use of debt or external equity). Exceptions are older owner-managers who have a lack of successors from the family (Ward, 2017). Researchers like Scherr, Sugrue, and Ward (2013) also report a negative association between leverage and owners' age. Scherr et al. (2013) suggest that the older owner-managers are more risk averse than younger ones since they are most likely to be more educated, more experienced and wealthier than the younger ownermanagers. They prefer to use more of their personal finance to finance their business operations than younger, less experienced and less educated managers.

In contrast, Carter and Rosa (2018), Wu et al. (2018) and Song et al. (202), who found conflicting evidence, reported that the age of the owner was positively associated with the leverage of the firms. On the other hand, Romano et al. (2020), Cassar (2014) and Buferna (2015) found no significant relationship between leverage and age of the owner-manager.

Human capital Hatch and Dyer (2014) define human capital as a combination of knowledge and skills possessed by the owner-managers. Knowledge and skills can be obtained through formal education or managerial experience (Scherr et al., 2013; Romano et al., 2020; Cassar, 2014). Educational attainment and managerial experience would increase the creditworthiness of the firm to the potential financiers, which indirectly reduces the adverse selection costs (Storey, 2014; Bates, 2017; Zhang, 2018). They are expected to persuade the banks that they have a practical proposition (Scott and Irwin, 2016, 2019; Othman, Ghazali, and Sung, 2016; Wu et al., 2018). High-educated owner-managers were found to prefer using debt since they have better access

to external financing (Bates, 2017; Coleman and Cohn, 2020; Robb and Robinson, 2021). Similarly, experienced owner-managers prefer debt over equity. This is confirmed by the study of Borgia and Newman (2012) who found positive association between experience of the owner-manager and leverage.

From the lenders' perspective, they may consider the human capital of owner-managers when deciding whether or not to lend to SMEs. A better human capital may signal a better quality of firm, and thus increase accessibility to external financing (Storey, 2014; Bates, 2017). Osei-Assibey, Bokpin, and Twerefou (2020) affirm a significant association between owner's educational achievement and firm's financing preferences. Loan repayment ability of the firm might be collateralised by education achievement, especially during business start-up. A study by Scott and Irwin (2019) also found that educational level of the owner-managers would help the firm in raising external finance.

In addition, Cassar (2014) and Romano et al. (2020) found limited evidence of the association between human capital of the owner-manager and leverage. The human capital of the owner-manager might also influence their preferences for risk and control, and therefore affect their borrowing needs. Cassar (2014) finds that although it is easier for high educated owner-managers to access debt, they might not do so because of their tendency to be more control and risk averse.

On the other hand, some researchers (Diener and Seligman, 2014; Vos et al., 2017) assert that highly educated individuals may show more signs of financial contentment as they are wiser and better able to recognise what is valuable to them in the long term. They would be benefited through financial freedom, relationship building, and exercising caution in decision-making and consequently would make less use of debt. Other researchers such as Buferna (2015), Watson (2016), Roper and Scott (2019), Irwin and Scott (2012) and Borgia and Newman (2012) found no significant association between leverage and human capital.

2.12.2 Relationship with banks and networking

The 'relationship and networking' that SMEs form have been evidenced to influence the financing decisions of the firms in previous studies (Uzzi, 2019; Nguyen and Ramachandran, 2016; Le and Nguyen, 2019; Newman, 2020; Borgia and Newman, 2012). This factor is related to people who

are involved in the business such as business owners, lenders, suppliers, and workers, as well as customers. However, when dealing with financial sources, it is more focused on the business owner and the lender/supplier (Nguyen and Ramachandran, 2016).

The wider the networking or the closer the relationship between the lender/supplier with the firm, the lower the difficulties firms will experience in raising external finances (Scott, 2016; Saleh and Ndubisi, 2016). Firms will utilise more debt if they have easy access to that particular finance, and vice versa (Nguyen and Ramachandran, 2016). As a result ofa lack of publicly-available data on SMEs to outsiders, SMEs often experience a problem of agency cost and information asymmetry (Le and Nguyen, 2019). However, this problem can be reduced through a strong relationship and network ties between SMEs and financiers (Nguyen and Ramachandran, 2016). When the relationship between firms and financiers is strong, it can indirectly reduce the agency cost problems since there will be less conflict of interest (Petersen and Rajan, 2014; Cole, 2018). Problems of adverse selection and moral hazard may also decrease since the financier knows the firm (Van der Wijst, 2019).

2.12.3 Objectives and goals

The individual goal of the SME owner-managers is playing a greater role in the firms' capital structure decisions in comparison with the individual goal of the larger firms' owner-managers (Barton and Matthews, 2019; Romano et al., 2020). The objective(s) might be single or multiple (McMahon and Stanger, 2015). According to McMahon and Stanger (2015), objectives mean the intentions of the owner-manager in operating or running the business. These should be clear, concise, and coherent (Kaisler et al., 2015) to help the owner-manager in making any important decisions for the firm. Barton and Gordon (2017) assert that most textbooks presume that the goal of shareholders' wealth maximisation is the only goal for top management. However, studies by Grabowski and Mueller (2012) and Pfeffer and Salancik (2017) state that managers might have other goals than profitability such as growth and maintaining control.

Dewhurst and Horobin (2018) proposed that small firms' owners have commercial and lifestyle goals at some stages of the firm's life cycle. The lifestyle goals are also suggested by Morrison et al. (2019, p. 13) as being that the 'owners are likely to be concerned with survival, and maintaining sufficient income to ensure that the business provides them, and their family, with a satisfactory level of funds to enable enjoyment of their chosen lifestyle'. The example of lifestyle goals can be

to earn sufficient money from the business to support family (Getz and Carlsen, 2020), or to enjoy being a host, i.e. to receive some earnings from home-stay guests (Lynch, 2015). In another study, Ou and Haynes (2016) assert that the owner's objective such as career independence or wealth accumulation could also influence their way of exploring finance options.

2.12.4 Culture

Culture has been evidenced to influence the financing decisions of the firms in previous studies (e.g. Sekely and Collins, 2018; Breuer and Salzmann, 2019; Shao, Chuck, and Guedhami, 2020). Schwartz (2014) categorises culture into two dimensions: conservatism and mastery. According to Schwartz (2014), conservatism is related to employees and the owners who aim towards a harmonious relationship, preservation of public image, or uncertainty avoidance. The 35 items in this factor have also been recognised as a major cultural factor in other studies (Sekely and Collin, 2018; Li et al., 2021). Chui et al. (2012) found that firms in conservative societies use a relatively less debt in their capital structures. The main reasons were because they place emphasis on preserving public image, social harmony, harmonious working relationship, as well as security, conformity, and tradition. Individuals would act in line with the group's interests regardless of their interest. For instance, according to Titman (2014), the liquidation costs of a firm comprise of costs on its workers, customers and suppliers. High liquidation costs on the stakeholders will lead to lower financial leverage of the firms.

2.12.5 Characteristics of the firm

In this study, selecting characteristics of the firm were executed through reviews of past studies. The following sub-sections discuss factors related to firms' characteristics.

i. Age of the firm

Firm's age refers to the age of the firm at the time of the survey (in years). This variable has been found to follow the life cycle approach in which different capital structures are optimised at different points in the cycle (Dollinger, 2015; Gersick et al., 2017; Berger and Udell, 2018). At start-up, SMEs mainly raise funds internally (Helwege and Liang, 2016; Berger and Udell, 2018; Avery, Bostic, and Samolyk, 2018; Fluck et al., 2018; Ampenberger et al., 2013). The main reason is that external sources are limited during that stage (Kimki, 2017). Collins and Moore (2014) assert that first-generation owners did not favour external borrowings because of discrimination and difficulties

in accessing intermediate external finance (Huyghebaert, 2012). When the business grows, they then look for external capital such as debt or external equity, as the amount of capital needed becomes higher.

ii. Size of the firm

Firm size can be measured based on (i) the natural logarithm of total asset, (ii) the natural logarithm of sales (Deesomsak et al., 2014), (iii) the logarithm of total turnover (Rajan and Zingales, 2015), (iv) the natural logarithm of employees (Ampenberger et al., 2013), and (v) a multi-criteria measure which is the result of applying factor analysis 39 using the principal-components factor method on the last three proxies (Arogan-Correa, 2018).

2.13 Differences Between the Capital Structure of Listed Firms and SMEs

It is well-known that small businesses are not 'scaled-down versions' of large businesses. The process by which a large business has achieved its current size is, of course, one of evolution rather than scaling, and this process of evolution will involve major changes in management structure and functioning, in particular in the methods by which the business is financed (Penrose, 2019). Petersen and Rajan (2015) and Berger and Udell (2015) have identified four significant differences between the capital structure of SMEs and that of large public companies. One major difference is the fact that, whereas large public companies are able to access various resources for debt financing, SMEs tend to use short-term debt financing from commercial lenders, especially institutional lenders and, in essence, convert them to long-term debt financing through renewing these short-term lines of credit (Berger and Udell, 2015).

Also, SMEs appear to have more severe information asymmetry problems compared to large, publicly listed firms, and as such the traditional solutions to asymmetric information problems are not as effective as in public firms. Thus, traditional finance literature dealing with credit in small businesses (Petersen and Rajan, 2014; Berger and Udell, 2015, 2018) distinguishes debt financing in small businesses from that in large public companies using long-term relationship between lenders and firm owners to deal with the agency problems caused by information asymmetry. Berger and Udell (2015) provide a detailed review of the relationship lending literature. Signaling

and monitoring are both considered important ways to deal with agency problems between commercial lenders and SME borrowers. Another important feature of monitoring in SME debt financing is that bonding, such as a guarantee provided by the entrepreneurs and collateral, is widely used due to the high cost of monitoring (Harris and Raviv, 2012).

Another difference is that, in SMEs, governance structure and type of business have a significant influence on capital structure, especially the accessibility to debt financing due to the private information generated and the use of debt in SMEs' capital structure (Stiglitz and Weiss, 2018). SMEs are mostly family-owned and tend to be sole-proprietorship businesses. The ownership structure is therefore likely to affect capital structure decisions. It is argued that family business owners, especially founding family CEOs, tend to take a higher risk by adopting a highly levered capital structure because of their limited growth capabilities, desire to maintain control and a high degree of employee well-being, and the preservation of selfesteem (Davidsson, 2019; Mishra and McConaughy, 2019).

The discrimination in debt financing of SMEs tends to be more serious than in financing large, publicly listed companies (Cavalluzzo et al., 2013). The issue of gender appears to be a major point of discrimination. Female-owned businesses, which mostly fall in the category of SMEs tend have greater difficulty accessing external debt finance compared to male-owned SMEs.

Some other features of SMEs have been identified to include: (a) lower fixed to total assets ratios; (b) a higher proportion of trade debt in total assets; (c) a much higher proportion of current liabilities to total assets (and in particular a much greater reliance on (especially short–term) bank loans to finance their assets); (d) heavily reliance on retained profits to fund investment flows; (e) obtain the vast majority of additional finance from banks (with other sources, in particular equity, very much less important); (f) financially more risky, as reflected in their relatively high debt-equity ratio and in their higher failure rates (Storey et al., 2017; Cressy, 2019b).

2.14 Implication of capital financing on Firm Size

The size of firms (or industries) supported with private equity investments grow faster in terms of production, value added, and employment, while at the same time exhibiting more resilience to industry shocks. Employment and sales growth rates reported for random samples of exited deals in South Africa, Tunisia, and Morocco confirm that private equity fund- backed businesses grow faster and create more jobs than those without private equity fund support. South African

businesses that were backed by private equity funds grew their sales by 20%, outperforming Johannesburg Stock Exchange (JSE) listed companies and companies included in the All Share Index ALSI by 2 and 6%, respectively. Likewise, these private equity fund-backed companies reported employment growth rates significantly superior to regional rates estimated at 2.88% for North Africa and 2.98% for sub-Saharan Africa. The involvement of private equity funds in African businesses seems to foster innovation as well. For instance, 69% of private equity fund-backed companies introduced new products and/or services. The annual growth rate of Research and development (RandD) in private equity fund-backed businesses was 7%, seven times the rate reported for JSE listed companies over the same period (IFC, 2012:42; Beck et al., 2012a).

Berger and Schaeck (2021:20) note that using venture capital has a positive effect on performance of small firms. SMEs that have had venture capital observe significantly higher employee growth than they would if they had not received funds from venture capital providers. Specifically, Berger and Schaeck (2021) argue that using venture capital is associated with a more than 21% increase in the probability of a growth in the number of employees.

Examples and Lessons

In Lebanon, the World Bank supported Innovative Small and Medium Enterprises (iSME) project is a US$30 million investment lending operation providing equity co-investments in innovative young firms in addition to a grant funding window for seed stage firms. As of August 2019, iSME's co-investment fund has invested US$10.23 million across 22 investments and has been able to leverage US$25.47 million in co-financing, demonstrating its ability to crowd in private sector financing and expand the market for early stage equity finance in Lebanon. To date, 60 out of 174 grantees had leveraged the iSME funding to raise a total of US$13.1 million from various funding sources, a leverage ratio of 5.3 times. The iSME project could play an even larger role in the future financing of the Venture Capital (VC) sector by supporting existing VCs and emerging players, including increasing attention on a fund of funds approach, which could also cover growth funds (later stage and private equity) (World Bank, 2019).

The Jordan Enterprise Development Corporation is financing an innovation fund with the Government of Jordan, the European Investment Bank, and Abraaj Capital. The Oasis 500 early stage and seed investment network offers small amounts of start-up capital linked to intensive mentoring and business incubator support, while the US$500 million (target size) RED Growth

Capital Fund set-up by Abraaj Capital is complemented by mentoring, networking, and informational support to high-potential and innovative growth SMEs. Further source of funding can be from Diaspora (IFC, 2021).

- The Inovar Programme in Brazil was designed in 2001 by Financiadora de Estudos e Projetos (FINEP), which provides funding to strengthen technological and scientific development in Brazil, in coordination with the InterAmerican Development Bank. The objective of the programme is to support the development of new, technology-based SME companies through the establishment of a venture capital (VC) market and to enhance private investment in technology businesses. Inovar created a research/knowledge and information dissemination platform and develops managerial capacity for channelling and accelerating VC investments in small company funds in Brazil. The programme successfully achieved the creation of a VC portal with information on how to register for different programme components, with thousands of registered entrepreneurs, and hundreds of investors. It also established a Technology Investment Facility where investors can perform joint analyses and due diligence on VC finds, which resulted in over 50 joint due diligences with approximately US$165 million committed/approved in 15 VC funds. The programme has also established 20 venture forums for SMEs to interact with potential investors and present business plans, resulting in 45 SMEs receiving over US$1 billion in VC/ PE investments (IFC, 2011).

In Malaysia, non-bank financial institutions (NBFIs) such as venture capital, factoring, and leasing companies also cater to SME financing needs. At present, the Malaysian Venture Capital Association serves a small number of SMEs or early stage firms through agriculture funds (Adb and oecd, 2014).

In India, the World Bank's MSME Growth, Innovation and Inclusive Finance Project improved access to finance for MSMEs in three vital but underserved segments: early stage/startups, services, and manufacturing. A credit line of US$500 million, provided to the Small Industry Development Bank of India (SIDBI), was designed to provide an affordable longer-term source of funding for underserved MSMEs. Technical assistance of about US$3.7 million complemented the lending component and focused on capacity building of SIDBI and the participating financial institutions (PFIs). In addition to directly financing MSMEs, disbursing a total of US$265 million in loans, the project pushed the frontiers of MSME financing through the development of

innovative lending techniques that lowered turnaround time, reached more underserved MSMEs, and crowded in more private sector financing. It also reached new clients, women owned MSMEs, and MSMEs in low-income states. The project supported SIDBI to scale-up of the Fund of Funds for Startups, which aims to indirectly disburse US$1.5 billion to startups by 2025. SIDBI's "contactless lending" platform, a digital MSME lending aggregator and matchmaking platform, has crowded in US$1.9 billion of private sector financing for MSMEs, making it the largest online lender in India (World Bank, 2019).

2.15 Factors preventing SMEs from registering on LuSE Alt-M

2.15.1 SME owners' aversion to equity

Equity aversion, according to Mason and Kwok (2010) in Kamfwa (2018), gauges an entrepreneur's readiness to take advantage of equity financing. Fear of losing control of their company to others and high equity aversion have been the key deterrents for entrepreneurs from going public on alternative markets to raise equity capital. Because of this, it is possible that risk-averse business owners will not list on an alternative market that compels its applicants to raise the number of people who control the business.

Their lack of knowledge of the program's incentives and the value of adopting other kinds of funding for the growth of firms can be attributed to this mindset, according to Kadariya et al (2012) in Kamfwa (2018).

2.15.2 Equity financing program listing requirements

Alternative stock exchanges like LuSE Alt-M and AIM aim to make it easier for SMEs and start-ups with growth potential to get equity finance to support the expansion of their enterprises. However, because the SMEs are unable to meet the conditions of the financing programs, the majority of SMEs financing programs go unused.

Failure to seek knowledge on how to enhance the management strategy and financial considerations of the firm to help increase its profitability, sustainability, and growth is one of the factors contributing to this weakness, according to Mason and Kwok (2010). Because the cost of engaging professionals to provide these services is high and SMEs cannot afford it, SMEs and start-ups are unable to seek assistance.

Kadarya et al. (2012) suggest that start-ups may fail to develop credible revenue models. B. How to attract paying customers and sell the goods and services they produce. Equity finance markets are primarily aimed at companies with growth potential, making it impossible for such companies to go public (Mason and Kwok, 2010).

2.15.3 Presentational Failure of SMEs and Start-ups

SMEs and start-ups are unable to sell themselves, which prevents them from obtaining equity financing. Even if a firm is reasonable, viable, and has growth potential, investors may still reject it if the pitch is weak. This is due to the possibility that the management team may come off as incompetent (Kamfwa, 2018). The main areas where SMEs fall short are in the writing of admission documentation, which shows their incapacity and ignorance of the program.

The London Alternative Investment Market (AIM), a successful SME equity financing program, adopted the nomad system as a result, requiring each applicant to have a nomad official to advise management on how to meet the requirements of AIM. Based on the report provided by nomad, the SME is then accepted on the exchange Rosseau (2016).

Investors are sometimes unconvinced by entrepreneurs' ability to show a need for their product, which makes them doubt how they will draw clients to support the business in the long run. Entrepreneurs are most likely to secure equity financing if they can tell engaging and convincing tales about their companies.

2.15.4 Information dissemination to reach the target group

SMEs can decide to accept SMEs funding programs when they have access to information about the program, and policy makers can only comprehend the financial needs of SMEs when they have access to information. Information was defined by Wallis and Migiro (2016) as any input that lessens uncertainty and affects people's aversion to rules and structures. Alternative stock markets can be successful if those who created them can learn what incentives are most likely to draw SMEs and how to effectively communicate these incentives to them.

It is the duty of policymakers to make sure that the appropriate information reaches their target audience and that the proper channels of communication are employed to assist in reaching the SMEs. According to research, the majority of SME operators mostly rely on in-person interactions, billboard advertisements, and magazine adverts to acquire information rather than emails and the

internet Migiro and Wallis (2016). Poor information dissemination limits consumer understanding of the incentives that a substitute market has to provide, which impedes consumer acceptance Guiso and Jappelli (2015). Additionally, SMEs find it challenging to determine current financing alternatives, whether options are appropriate, the requirements of the options, and how to apply for the options when there is a dearth of information.

2.15.5 Awareness of the program to the program's intended targets

When SMEs learn about the market's laws and regulations, they can recognize the incentives that are beneficial to their company and base decisions on those findings. Guiso and Jappelli's (2015) research showed a correlation between stock market participation and awareness that is favorable.

This indicates that the likelihood of SMEs joining equity financing programs increases as their awareness of the programs increases. Entrepreneur awareness assesses exposure to information about the market and how decisions are made using that knowledge, according to Kadariya et al (2012).

Because alternative market policy makers are unable to effectively sell their incentives to entice SMEs, the majority of SMEs are unaware of the present SME finance markets. Other times, policymakers promote the incorrect incentives because they lack sufficient knowledge of the financial requirements of SMEs. The value that an entrepreneur places on an incentive pushes the entrepreneur to use that financial source, therefore these incentives do not draw the attention of SMEs (Szabo, 2012).

2.15.6 Rewards to motivate the program's designed target

Incentives are outside factors that affect how people respond to efforts and programs. In order for equity financing programs to be successful, they must offer SME management worthwhile incentives that will encourage them to enter the market.

Policymakers end up offering incentives that are useless to SMEs because they lack knowledge about the financing requirements of SMEs. As a result, these incentives fail to draw SME operators, which causes the market to fail Guiso and Jappelli (2015). Relaxed regulations, support networks, and the involvement of SME operators are some essential components of an effective alternative stock market.

Policy makers must ensure that the norms and requirements of the market are attainable and reasonable enough to secure the sustainability of the market. An alternative stock market is more appealing when entrance standards are based on principles rather than rules (Rosseau, 2016).

For instance, there is no minimum declared capital requirement for applicants to the AIM. However, it guarantees that the application has a competent management team, has the potential to grow, and the firm is feasible with the assistance of nomad authorities (Rosseau, 2016).

Also, SME operators must be engaged during the design stage of an alternative market to help policy makers design programmes that will meet the needs of its target group. This will help policy makers develop obtainable and valuable incentives that will meet the needs of SMEs, create awareness and motivate SMEs to patronize equity finance programmes.

2.16 Theoretical framework

2.16.1 Pecking order theory

Pecking order theory was initially proposed by Donaldson (1961), who found that owner-managers prefer to finance investment using retained earnings instead of external funds, regardless of the size of the firm. Debt would be repaid if retained earnings exceeded investment needs. Alternatively, if external funds were required, external equity would be the last option chosen by the firms after the safest security and debt.

Myers (1977, 2012) then developed a hierarchical pecking order of preferred sources of firm's finance. Accordingly, retained earnings are used whenever possible. Debt financing will be used if there are insufficient retained earnings. Alternatively, equity will be used in exceptional circumstances since it involves relatively high constraints in the management of the business. The debt tax shields encourage the use of debt as opposed to equity financing (Kemsley and Nissim, 2012) as a tax shield may reduce the income tax payments.

The theory also affirms that following particular financing hierarchy will maximise the value of the firms (Myers, 2012; Myers and Majluf, 2014). The theory assumes there is no optimal debt-to-equity ratio. Firms will utilise all available internal funds before choosing an external finance, especially external equities, in order to avoid dilution of control of the firm (Holmes and Kent, 2012). However, in reality, some companies issue equity even when other sources are not fully exhausted (Baker and Wurgler, 2012).

In terms of debt finance, banks were thought to be the most favourable external sources of finance. The main reason was because bank finance results in no loss of equity and little dilution of ownership control and, obviously, managers are concerned with independence (Read, 2018) and financial freedom (Cressy, 2015). They do not want to lose control of their business and properties (Hamilton and Fox, 2018). This situation mostly happens in small firms as external equity is considered as being a relatively uncommon source of financing in small firms. The main reason is that few owners have the means to absolutely own their firms, and small firms are less likely to share markets; thus, debt financing is a requirement for most SMEs (Batten and Hettihewa, 2019).

Another critical issue in this theory is that of how capital structure is affected by the relationship between the capabilities to generate internal funds (i.e. retained profits) and the viewpoint of getting new investment projects. According to the theory, only companies that are expecting to generate profitable growth options will need external financing if internally generated funds are not large enough. The aforementioned arguments confirmed the findings of Hutchinson (2013) who asserted that those with a lower level of earnings will make use of external funds. According to Hutchinson (2013), it is more likely that smaller firms will need to borrow than larger firms when faced with investment opportunities. Alternatively, Shyam-Sunder and Myers (2019) stated that the debt would only be issued when there was a shortage of internal funds. This is because, logically, if there is readily available internal financing, firms will prefer to settle up the debt instead of borrowing it. However, Cowling et al., (2012) maintained that owners who are reluctant to consider external equity under any conditions will not move down the pecking order to that point.

The problem of 'information asymmetry' is quite inter-related with the hierarchical system of pecking order theory (Newman et al., 2012). In fact, Myers and Majluf (2014) had considered the issue of information asymmetry when developing the pecking order model. They assumed that asymmetric information problems drive the capital structure of firms. According to Myers and Majluf (2014), common stocks would be undervalued by the market since owner-managers possess more information about the firm than the investors. Leverage would increase concurrently with the level of information asymmetry when greater risk is attached to a firm. Moreover, according to Lopez-Gracia and Sanchez-Andujar (2017), businesses will start financing their project using

the internal source of financing as there was no information cost. The second choice was debt or borrowing, and the final choice was external equity, which has the highest information costs.

This theory is relevant to SMEs as they are opaque and carry high information costs (Psillaki, 2019), especially those with a relatively short historical performance (Cressy and Olofsson, 2017a). SMEs are averse towards losing control over their firms (Berggren et al., 2020) which leads them to prefer financing options that minimise imposition into their business activities. According to Jordan et al., (2018), the primary explanatory factor for SMEs to stick to the pecking order theory of financing is the desire of the owner-manager to maintain independence and retain control of the firm. Additionally, Cosh and Hughes (2014) and Frank and Goyal (2013) found that SMEs are likely to be affected by adverse selection and moral hazard (Jensen and Meckling, 2016). According to Stiglitz and Weiss (2011), moral hazard and adverse selection can be overcome only by providing collateral to the banks.

2.16.2 Life cycle theory

Life cycle theory originates from economics literature (Penrose, 1952). The theory is generally used to describe the development of the firm through growth phases or on consumption and savings behaviour. In addition, Timmons (2014) asserts that the life cycle model has been advanced in explaining the development of financing needs and capital structure of the firm. The model assumes the firm in its early stage of development relies significantly on internal finance. As the firm develops, it is able to obtain more external finance due to less information asymmetries (resulting from the ability of outsiders to scrutinise its creditworthiness). However, firms will use less debt in the later stages of development since they use retained profits to finance investment.

This theory is relevant to SMEs as they are opaque and carry high information costs (Psillaki and Daskalakis, 2019), especially those with a relatively short historical performance. There are quite a number of previous studies supporting the applicability of the life-cycle model in explaining the financing decisions of SMEs (e.g. Petersen and Schuman, 2017; Fluck et al., 2018; Mac an Bhaird and Lucey, 2019).

2.16.3 The Efficient Market Hypothesis

Garcia et al., (2019), point out that the concept of the Efficient Market Hypothesis (EMH) states that prices of financial assets reflect all relevant information. Therefore prices in average are accurately, that means financial markets are efficient. A direct consequence is that an active

investor cannot continuously beat the market and a passive investor can achieve the same profit in average as the active does. Overall, market values are always true and future prices are randomly depending on randomly incoming news (information).

The EMH theory was developed by Eugen Fama in the early 1960. He and other authors corroborated a largely ignored thesis from a French mathematician, Louice Bachelier. Moreover, Eugen Fama extended and refined the theory with a definition of three forms of market efficiency (Fama, 1970) - the weak form, the semi-strong form and the strong form.

The weak form efficiency contains that security prices reflect the past security prices and volume trading information. It is comparatively easy to validate empirically this hypothesis by autocorrelation or statistical tests of independency among past time series. The direct consequences would be, that no technical analysis is able to forecast future prospects, since past profit pattern are not correlated and therefore it cannot used for interpreting the future. Future prices contain only future information and the present price changes are irrelevant for the next period. Since future information is randomly, future prices are also randomly. To sum it up, the direct consequences from the weak information efficiency are:

i. no abnormal profits can be reached by using strategies based on historical stock information,
ii. technical analysis (time series analysis) cannot not explain future prospects and
iii. independent time series implies that future stock prices are randomly.

Friedman and Claire (2016) point out that the semi-strong form contains additionally to the weak form public available information like dividend payment or fusions. Consequently, that form is weak efficient as well, since past information are a subset of the current public information. In addition to the technical analysis would also the fundamental analysis fail in predicting future stock prices. If prices react only slow to new public information, then the market is not semi-strong efficient in this way. Finally, the semi-strong form means:

i. stock prices adjust quickly to new available public information,
ii. technical and fundamental analysis fail to produce future returns and
iii. the validation test could carried out on the base of event studies, where the effects of news to the share price have to be evaluated.

At the end the strong-form efficiency states that even profits are impossible that based on private information, which are not available for all market participants, because this insider information leak out and will taken into the share price. This extreme hypothesis is not supported very well by scientists and therefore it won't be carried out here. Moreover insider trading is strongly forbidden.

2.17 Empirical review

2.17.1 Global

Fernández (2022) carried out a study "Insights into Alternative Stock Markets: A Systematic Review of Academic Literature" This study analyzes alternative stock markets (ASM) literature trends from 2008 to 2021 through a systematic review of the different research approaches, views, and positions to map the global scientific production. Over the last decade, alternative stock markets have become relevant as a different financing form from the traditional to small and medium enterprises which are usually restricted to bank loans affecting the raising of funds for their investments and growth. In fact, international studies have identified that alternative stock markets have not had the expected results for enterprises and investors due to their lack of interest in participation. The results of the review indicate an important amount of literature on alternative stock markets (ASM) related to some of the themes studied access and permanence, regulation, IPOs performance, etc. and a lack of research on a wide range of areas, especially in geographical areas such as Latin America. In addition, the study reveals that for the Alternative market to be effective, there should be continuous improvements in the direct and indirect mechanisms of financing.

Brown et al., (2017) carried out a study "SME capital finance effectiveness: A comparative study of AIM and AltX" the study was performed using panel data collected from various listed SMES. The findings revealed that the cost of listing on AltX is in the region of R185 000 with an additional amount of R100 000 per annum for compliance. AIM's listing requirements, are in the region of R219 000 with an additional amount of R170 000 per annum for compliance (London Stock Exchange, 2020). Even at these costs, AIM remains a successful Alternative Exchange and a means of SME capital finance. However, these listing costs may be too high for SMEs in emerging markets such as South Africa and deter them from listing. AltX should consider lowering these costs to a price that accommodates SMEs in South Africa.

The study by Revest and Sapio (2021) provides an overview of the historical evolution, the organizational forms, and the performances of the stock exchanges and market segments catering to small and growing companies, set up in Europe in the last thirty years. We mainly focus on the Alternative Investment Market (AIM), created by the London Stock Exchange in 1995. This case study yields useful insights about the role of public and private interests in market emergence and in shaping market architectures, the costs and benefits of light stock market regulation, and the use of stock markets to support technology-based small firms. A review of the existing empirical evidence shows that dimensional growth of the AIM has been fueled by companies characterized by low values of long-term returns, growth rates, R&D productivity and solvency.

2.17.2 Regional

The study carried out by Semenya and Dhliwayo (2018) establishes why small and medium enterprises' (SMEs) are not listing on the Johannesburg Stock Exchange to raise the much-needed capital to grow. Financing at this stage should transform the firm from small or medium sized to large. Literature from journals, books, theses and dissertations was reviewed and content generated to crystallise the research question and findings. The study established that SMEs undergoing rapid growth often lack the capital required to grow into large firms. The Johannesburg Stock Exchange offers capital worth millions of dollars on the Alternative Exchange (AltX) platform, created specifically for SMEs, but the uptake is low. The study found that challenges exist on both the supply and demand sides of public equity finance, and these include high listing costs, lack of marketing and the negative attitude of SMEs towards the bourse.

The study carried out by Acquah-Sam (2019) explored the factors perceived to be inhibiting the realisation of the objectives of the GAX, and its target of listing fifty firms by the end of 2020. Frequency distribution, bivariate correlations and multiple regression techniques were explored in this study. The correlation analysis shows that "extent of objective realisation" is significantly associated with "achievement of target by the end of 2020", "perceived importance" of GAX, and"inadequate information" on GAX, but is not correlated significantly with the other variables at 5% level of significance. Also, indirect and direct methods of financing provided by GAX were found to be positively correlated with capital financing of SMEs. The regression analysis revealed that fear of failure of small and medium businesses and startups and the low-income situation of prospective investors make negative influences on the degree to which the objective of GAX could

be met. Thus, the degree to which the objective of GAX is met decreases as investors' fear of failure and low-income situations increase.

Taken into consideration the fact that only five (5) companies have been listed on the GAX since its inception, and the fact that only a few months remain till the end of 2020, it seems very difficult for the authorities of GAX to attain its target of listing 50 firms by the end of 2020. It is recommended that more time and efforts are needed for the realisation of its objectives. The officials of Ghana Stock Exchange (GSE) and GAX must intensify education on the sector to boost the confidence of owners of SMEs and startups in the operations of the sector. Again, the government of Ghana must improve economic conditions in Ghana to increase the real incomes of workers in Ghana so as to help more people buy securities of listed SMEs and startups. The costs and requirements for listing on the GAX must be scaled down further. The government of Ghana must find the possibility of synchronizing the activities of National Entrepreneurship and Innovation Plan (NEIP), Microfinance and Small Loans Centre (MASLOC) and GAX to reduce duplication of efforts and to ensure efficient allocation of financial resources to SMEs and startups in Ghana.

2.17.3 Local

The study by Daka (2019), "an empirical study of the performance of the Lusaka Securities Exchange (LuSE) and its impact on the Zambian economy" set out to empirically investigate the performance of the Lusaka Securities Exchange (LuSE) and its impact on the Zambian economy over the time period from 1997 to 2018. This was done by establishing the nature and extent of the relationships between the proxies of LuSE's market performance, which are the Market Capitalization and the LuSE All Share Index (LASI), and that of Zambia's economic performance, in this case the Gross Domestic Product (GDP). The study used secondary data obtained from the LuSE and the World Bank. The study used correlation test to establish linear association among the variables, with Granger causality tests conducted to confirm the direction of causality between them. A Simple Linear Regression Model was used to then establish the extent to which the linear association between GDP and LASI can be determined, with diagnostic test confirming non-spurious results.

It was found that these proxies are highly correlated, though market capitalization causing the LASI was the most significant of these relationships. Between GDP and LASI, there exists a

positive linear relationship such that the market index can be cautiously used as an indicator of economic activity, particularly over short periods of time where GDP data might not be available. The study found that LuSE has performed reasonably well enough given that it is relatively (by international standards) young and emerging stock market. This is so because the proxies of its overall market performance can be used to make predictions on near term economic outcomes. The study does however urge caution in doing so as the LuSE cannot categorically be viewed as being efficient due to the lack of causality running from the LASI to GDP. With the LuSE significantly undervalued, it should be expected that the returns on listed stocks continue to grow, especially once the actual value of those stocks is realized or risk losing touch with overall economic activity.

Raising finance is a critical and complex job both for large companies as well as small and medium sized companies. Relatively SMEs face lot of hardship when trying to get funds during the growth stage of their life-cycle. Due to the studies conducted by many financial market regulators, it was well documented fact that providing access to the capital market route of financing would solve the fund raising problems of SMEs. The LuSE Alternative Market (Alt-M) was established to in 2015 create a more enabling platform or avenue for Small and Medium Enterprises (SMEs) or indeed any other emerging companies to participate on the Capital Markets and thereby raise capital for growing their businesses. However, to date no single SME has been listed on Alt-M hence the need to look at the potential that Alt-M holds in capital financing. In addition, extensive literature search give an indication that no prior research has been done to ascertain the probale effective LuSE Alternative Market (Alt-M) in SME capital financing.

Previously published research on the Zambian capital Market has primarily focused on macro-economic factors affecting SME financing in an attempt to bridge the knowledge gap in the Zambian Capital Market and address some practical issues with the LuSE like upgrading the trading, clearing and settlement processes. For example, the work of Mulendema (2010) is relevant for the amendment of the Securities Act Chapter 354 of the Laws of Zambia.

The research study carried out by Kamfwa (2018) was aimed at investigating why the alternative investment market in Zambia has been without SMEs listings since its launch. The study was guided by specific objectives that sought to: determine factors that constrain the SMEs from listing on the alternative market, examine the existing conditions and regulations for listing SMEs on the

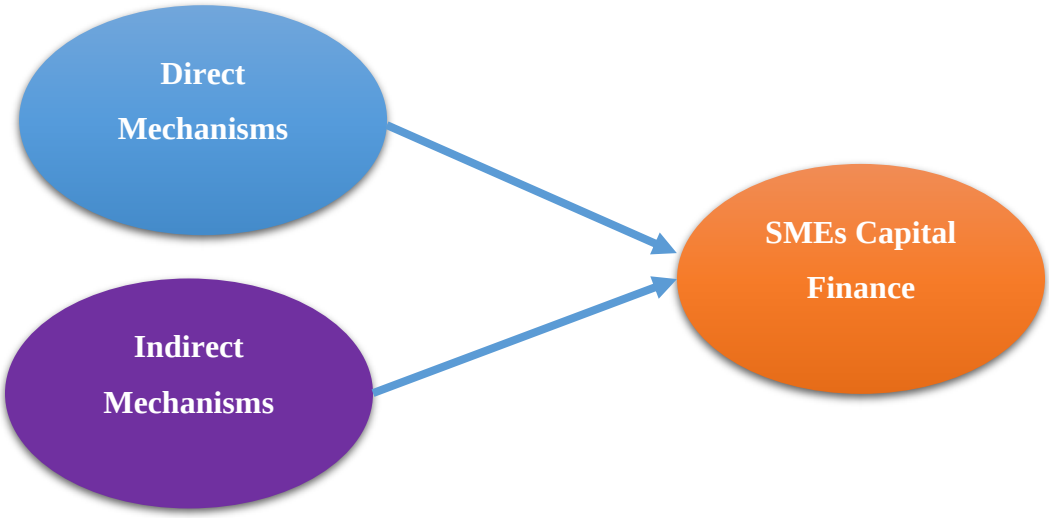
market, find out the incentives created by LuSE Alt-M in attracting SMEs, determine the financial benefit of SMEs participation on the alternative investment market and make recommendations for policy implementation.

The study concluded that equity demand and supply factors are preventing SMEs from participating on the alternative investment market on LuSE. The major impediments to listing SMEs on the market include SMEs lack of information and awareness of the market, risk aversion of entrepreneurs, strict regulations and listing conditions. The study recommends that LuSE officials should educate the public on the importance of the exchange and properly spread information to boost the confidence of both investors and SMEs to patronise the exchange. Policy makers namely SEC, LuSE and PACRA Should redraft listing conditions to ensure that the market becomes a welcoming environment to SMEs.

2.18 Conceptual framework

The conceptual framework for this study is developed based upon the first and second objective of the research. The conceptual model portrays the relationship that exist between the independent variables (Direct Mechanisms and Indirect Mechanisms) and the dependent variable (SMEs capital finance).

Figure 2.4 Conceptual model



Source: Authors construct (2022)

2.18.1 Operationalization of the conceptual frame work

The SMEs need alternative finance because they cannot thrive solely on bank financing. There is widespread worry that credit restrictions will simply become "the new normal" for SMEs and business owners, despite the fact that bank financing will continue to be essential for the SME sector. To enable SMEs and entrepreneurs to continue playing their role in investment, growth, innovation, and employment, it is vital to expand the range of financing instruments accessible to them (OECD, 2015). Numerous SMEs exchanges or listing programs have emerged in recent years, and they are now playing a bigger part in the global financial markets, not just in Western Europe and North America but also in many developing nations like Zambia.

Small and medium enterprises (SMEs) play a key role in contributing to long-term economic growth and employment. However, due in part to the relatively high risks associated with investing in SMEs, SMEs often have limited access to capital. Therefore, it is important to consider possible alternative financing channels for small businesses. Raising finance through organized, transparent, well-functioning and credible capital markets can be an important alternative source of funding for SMEs (OICU - IOSCO, 2015). SMEs are being forced to change their funding mix as economic conditions continue to deteriorate while funding costs are rising. Small businesses mainly use short-term funding options such as overdrafts, lines of credit, and bank loans. While such sources of funding are valuable in the early stages, they do not provide the long-term funding needed as the business matures or seeks growth. Capital markets are an obvious alternative to bank lending (Calvey et al., 2014).

Relatively speaking, Emerging Market Small and Medium Enterprises (EMEs) face additional challenges when evaluating funding through the capital markets compared to Advanced Economies (AEs). Numerous reports and studies have explored the situation and found that traditional sources of funding such as bank loans are not enough to boost small business growth. The use of capital market instruments was encouraged to fund the growth of SMEs. SMEs' access to capital market platforms was also envisioned to attract institutional investors to finance SMEs. As you can see, institutional investors are not only interested in higher returns and lower risk, but also the liquidity of their investments. Capital market instruments provide desirable liquidity to investors. The ways in which capital markets can assist SMEs in financing include: (i) providing SMEs with access to capital through market issuance; and (ii) providing refinancing facilities to

SME lenders. It turns out that there is both banks and capital markets play a fundamental role in providing access to finance and supporting growth (WBG, IMF and OECD, 2015).

Simply said, SME exchanges and platforms allow SMEs to access funding sources via the "Equity" approach. In certain ways, this equity approach aids SMEs in lowering their heavy reliance on loan and the associated financial risk. The SME exchanges or platforms offer a method for investors to invest in highly potential small businesses with a high likelihood of growth, which is the other side of the story. Investors would feel safer investing if different exchanges and platforms were made available to SMEs because of the liquidity made possible by the current trading facility.

There are two primary categories of capital market solutions that assist in raising money for SMEs i.e. indirect and direct mechanisms. The indirect mechanisms take account of Plain vanilla issuances by specialized SME lenders; and SME loan securitization as outlined in section 2.9.3. as such the research hypothesizes that:

$H1_0$: There is no significant relationship between indirect mechanisms of financing and SME capital financing.

$H1_1$: There is a significant relationship between indirect mechanisms of financing and SME capital financing.

For the direct mechanisms they include Receivable-based solutions, Receivable platforms, Lending platforms, Equity Solutions, Equity Crowdfunding, Equity Issuances and Specialised SME Markets. As such the research hypothesizes that:

$H2_0$: There is no significant relationship between direct mechanisms of financing and SME capital financing.

$H2_1$: There is a significant relationship between direct mechanisms of financing and SME capital financing.

2.19 Gaps identified in the literature

2.19.1 Evidence Gap

Most of the reviewed studies have not indicated quantitative evidence to support their findings for instance the study by Fernández (2022) found that “international studies have identified that alternative stock markets have not had the expected results for enterprises and investors due to

their lack of interest in participation." However, a question arises, how many studies? Similarly, it observed in studies of Brown et al., (2017) were the number of SMEs involved in the study was not indicated; Semenya and Dhliwayo (2018) does not provide quantitative results; Acquah-Sam (2019) does not provide regression coefficients to the findings; Daka (2019), correlation coefficients not outlined.

2.19.2 Knowledge gap

Most of the cited literature have not fully elaborated on how the SMEs tend to benefit from being listed in the alternative market of the country's stock exchange. For instance the studies of Fernández (2022); Brown et al., (2017); Acquah-Sam (2019) and Daka (2019). In addition, some studies (Kamfwa, 2018) have not indicated the link

2.19.3 Practical-Knowledge Conflict Gap

The study of Brown et al., (2017) reviewed that the listing fees for AIM are far more expensive than those of Alt-X and Alt M and AIM has continued to be successful with more than 100 listings since its inception. As such, its an indication that more is involved in making an Alternative market a success.

2.19.4 Methodological Gap

Most of the cited studies did not indicate the sampling frame for instance (Fernández (2022); Brown et al., (2017); Semenya and Dhliwayo (2018).

2.19.5 Empirical Gap

Most of the reviewed studies have not quantified their findings i.e. the findings do have statistical backing. For instance, Revest and Sapio (2021); Semenya and Dhliwayo (2018); Acquah-Sam (2019) and Kamfwa (2018).

2.19.6 Theoretical Gap

Non of the reviewed studies indicated the theories that were of the importance to the study. The studies presented no theoretical link.

2.19.7 Population Gap

Most of the reviewed studies did not indicate the study population and sampling frame. For instance Revest and Sapio (2021); Semenya and Dhliwayo (2018); Acquah-Sam (2019) and Kamfwa (2018).

2.20 Chapter summary

This chapter presented various literature in line with the study. The chapter began by highlighting the Origins, Development, and Evolution of Alternative Stock Markets. Then presented the over view of stock markets. Further into the chapter, capital market solutions were presented and factors preventing SMEs to access capital. Furthermore, the theoretical and empirical review were presented giving the theories underlining the research and the prior studies in line with the research respectively. In addition, the conceptual framework and the knowledge gap were presented.

CHAPTER 3

RESEARCH DESIGN AND METHODOLOGY

3.0 Introduction

This study seeks to enlighten the effectiveness of the Lusaka Stock Exchange Alternative-Market in Capital Finance for SME's. This chapter describes and justifies the methodology used to address the overarching research question addressed by the study: “What are the factors that influence the capital structure of SMEs in Malaysia?” The chapter starts by discussing the research approach and the research design. It then moves on to describe and justify the specific research methods used.

3.1 Research design

Scholars portray research design as the overall plan for undertaking research and it comprises an intersection of philosophies, approaches, strategies and related methods of enquiry (Creswell, 2014). The central point is that it is a framework for the generation of evidence that is suitable for examining research questions (Bryman and Bell, 2011; Denzin and Lincoln, 2012). In this regard, research design explicitly or implicitly involves decisions about research philosophy, which in turn guides the research approach chosen. Research approach influences selection of strategy of inquiry which in turn has a bearing on choice of research methods. Research methods are simply a collection of techniques and procedures for collecting and analysing data (Gill and Johnson, 2012; Saunders et al., 2012).

3.1.1 Research philosophy

The research is designed under a broadly realist paradigm. Realism holds that there is reality whose existence is independent of people’s knowledge and description of it. Thus, social scientists should direct their attention to examine and understand this reality (Bhaskar, 2018; Bryman and Bell, 2019; Johnston and Smith, 2020; Saunders et al., 2019). Realism shares two features with positivism. Firstly, both paradigms suggest that the natural and social sciences can and should apply the same kinds of approach and methods for collection, analyses, understanding and explanation of data (Bryman and Bell, 2012). Secondly, both paradigms suggest that there is an external and objective reality to which scientists should direct their attention. In other words, there is reality that is separate or independent from researchers (Saunders et al., 2019). There are two major forms of realism that are often contrasted. Firstly, empirical realism simply asserts that

through use of appropriate methods, reality can be understood. Because it focuses on observable reality, it "fails to recognise that there are enduring structures and generative mechanisms underlying and producing observable phenomena and is, therefore, superficial" (Bhaskar,2018, p.2). Secondly, critical realism (CR) is a specific form of realism whose manifesto is to recognise the reality of the natural order, events and discourses of the social world. However, CR goes further to recognise that, "we will only be able to understand- and so change- the social world if we identify the (unobservable) structures at work that generate those (observable) events and discourses. These structures are not spontaneously apparent in the observable pattern of events; they can only be identified through the practical and theoretical work of the social scientists" (Bhaskar, 2015, p.150, quoted in Bryman and Bell, 2011, p.17). As a result, the proper job of scientists is to attempt systematically to identify the entities responsible for an event and to describe the generative mechanism (Bhaskar, 2018; Johnston and Smith, 2020).

3.1.2 Research Approach

Research approach is the process by which social science theories are generated, evaluated and justified (Gill and Johnson, 2012; Saunders et al., 2019). Consequently, it is a general orientation of the relationship between theory and research (Bryman and Bell, 2012, p11). Generally, there are two major approaches to research: induction (for theory building) and deduction (for theory testing).The two alternatives should not be seen as mutually exclusive; in many cases, they can complement each other (Blundel, 2017; Danermark, 2002; Eriksson and Lindström, 2017).

In this study, a deductive approach was used. The deductive approach reverses the sequence of the research process. It starts with using existing theory, developing hypotheses, collecting and analysing data (observations) in order to test, refute or confirm the hypotheses (Burns and Burns, 2018; Saunders et al., 2019). Thus, the deductive approach is a top-down process working from the general (theory) to the specific (observation). Deductive inference means using formal logic to deduce conclusions from given premises (Bryman and Bell, 2012; Popper, 2019). The strength of deductive inference is that it tells researchers whether their conclusions are valid or not.

3.1.3 Research Strategy

Research strategy is a general orientation to the conduct of research and it can either be a qualitative or quantitative strategy or both (Bryman and Bell, 2012). While some argue that qualitative/quantitative research classification is ambiguous, not useful or even false (Layder and

Layder, 2013), others insist that the classification is very informative (Saunders et al., 2009). Any strategy chosen provides specific direction for the methods and techniques to be used in data collection and analyses (Creswell, 2014; Saunders et al., 2019).

As such a quantitative strategy was used. Quantitative research strategy emphasises quantification (numbers) in the measurement, collection and analysis of empirical data. This may require a deductive approach where the focus is theory testing (Saunders et al., 2009). This strategy not only incorporates the practices and norms of the natural scientific model but also embodies a view of social reality as an external, objective reality.

The basis for this choice was three-fold. Firstly, because there was existing literature from which a conceptual model and hypotheses could be developed, a quantitative study was deemed appropriate for model testing. The quantitative research ensured that highly structured and objective methods were employed in order to test hypotheses, facilitate research replication and generalise findings. This was accomplished through the descriptive method, facilitated by a structured self-completed questionnaire as a data collection instrument (Appendix 1).

3.2 Population

According to Saunders et al. (2014), a research population is generally a large collection of individuals or objects that is the main focus of a scientific inquiry. The population consists of all "individual, cases or objects sharing common features" (David & Sutton, 2011). It is also known as a well-defined collection of individuals or objects known to have similar characteristics such as top management. It is for the benefit of the population that research is done. The primary target population for this survey comprise of all firms captured by the Zambia Development Agency as potential entities for listing on the Alt-M operating in Zambia. As of December 2021, 53 SMEs were oriented on the Listing due process on the LuSe Alt-M (DBZ, 2022). As such the target population was 53 SMEs.

3.3 Sampling and sample size

McMillan and Schumacher (2016), refer to a sample as a group of participants from whom the data is collected. The sample was drawn from a population consisting of ZDA oriented SMEs regarding LuSE listing.

The definition of sampling is a technical device to rationalize the collection of data, to choose in an appropriate manner the restricted set of persons, objects and events from which the actual information would be drawn. The researcher employed a census for the research, as such all the 53 respondents were selected for the study. Census was selected for use for the reason that accurate information for many subdivisions of the population was required. In addition, a census eliminates sampling error and the entire population would have to be sampled in small populations to achieve a desirable level of precision.

3.4 Data Collection

3.4.1 Instruments

A structured questionnaire was used as the primary data collection instrument. Based on the literature, and in some cases, some constructs for the questionnaire were adopted from previous studies. After designing the structured questionnaire, the instrument was piloted with research active experts for content validity. Thus, the questionnaire was revised based on comments from these specialists. This was necessary to ensure that the questions were clear and appropriate to address the research objectives. The research was undertaken from June to July 2022. The questionnaires were administered by electronic means.

3.4.2 Measurements and Scales

Items comprising the constructs for the quantitative study were believed to have content validity based on three reasons. Firstly, construct items were adopted or adapted from prior studies such as Myers, (2014); Wald, (2019) and King and Levine, (2021). Secondly, the construct items were further filtered through extensive discussions with researchers in the field and where necessary rephrased. Finally, following data collection, the constructs were further assessed for validity through principal component analyses using SPSS (Saunders et al., 2019). There are two major advantages for adopting measures from prior studies. Firstly, the questions have already been tested for reliability and validity. Secondly, findings in subsequent research employing the same constructs can be compared to prior studies (Gartner, 2019a; Thompson, 2019).

3.4.3 Validity and Reliability

The degree to which the measurement of an instrument is intended is validity (Kothari, 2014). An experiment's reliability is a measure of the degree to which a measuring instrument produces consistent results or knowledge after several experiments (Cooper, 2013). Reliability requires the

use of standard methods to gather information and procedures to improve accuracy. Validity is the degree of validity of the questionnaire data and is reasonably reliable and complete to support the conclusion. Validity determines whether the study checks what it needs to measure, or how reliable the review results are. This research achieved both validity and reliability by testing inaccuracies and missing information at various points of data collection, storage, processing and reporting, proper data analysis and reporting, utilizing appropriate sampling methods to achieve a representative sample, careful selection of structured data collection resources.

Table 3.1 Reliability Statistics

Cronbach's Alpha	N of Items
0.733	26

According to Cooper (2013) the reliability value of $0.8 > \alpha \geq 0.7$ is accebtable, $0.9 > \alpha \geq 0.8$ is good and $1 > \alpha \geq 0.9$ is excellent. The reliability coefficient was found to be 0.733 as such we conclude that the data collection instrument and the items were reliable.

3.5 Data Analysis

The analysis of data refers to the organisation of data and breaking it down into patterns, discovering what is important that is learned from the data and deciding what to tell to others that has been revealed in the investigation (Kombo and Tromp, 2013).

The data collected from the respondents was sorted and edited for analysis. The questionnaires were organised and classified according to the patterns given by the respondents. Descriptive and inferential statistics were used in the examination of the primary data collected. Descriptive statistics encompassed frequencies and their percentages. In this descriptive examination, data retrieved was presented in the form of frequencies, mean, graphs (tables and bar charts) and percentages were used to highlight the respondent's perception on the research topic. Data was analysed by the use of Statistical Package for Social Sciences (SPSS) version 25.

3.6 Ethics

According to De Vos et al. (2011:114) "ethics are a set of moral principles which is suggested by an individual or group, is subsequently widely accepted, and which offers rules and behavioural

expectations about the most correct conduct towards experimental subjects and respondents, employers, sponsors, other researchers, assistants and students". Welman et al, (2015:181), further stipulate that "ethical considerations come into play at three stages of a research project, namely when participants are recruited, during the intervention and measurement procedure and in the release of the results obtained."

The researcher observed the following;

i. Protection from harm: There are a number of ways in which participants can be harmed: physical harm, psychological harm, emotional harm, embarrassment (i.e., social harm). The research made sure that no harm occurred to the voluntary participants and that each and every participant had made the decision to assist her with full information as to what was required. Those who choose not to participate were also given the same information on which they made their decision not to be involved.
ii. Voluntary Participation: Participation in the research was voluntary, and there was no coercion or deception.
iii. Informed Consent: the researcher ensured that potential participants fully understood what they were being asked to do and that they were informed if there are any potential negative consequences of such participation. The first page of the questionnaire clearly explained the nature and purpose of the questionnaire and the researchers contact details where indicated for any clarification.
iv. Confidentiality and Anonymity: no participant was known on a personal basis and in as much as electronic questionnaires were used, they were designed in such a way as not to leave a trace record of the respondent be it email or phone number. The responses were used for academic purposes only.
v. Plagiarism: each and every information source used in the research, citations were made.

3.7 Chapter summary

The approach methods used in this investigation are described in this chapter. The measuring model that incorporates the study's questionnaire items as well as the research's design, population and sample size, data collection techniques, ethical considerations, and sampling processes have all been clarified.. The data gathered from the questionnaires was subjected to regression and correlation data analytics techniques in the following chapter.

CHAPTER 4

DATA ANALYSIS AND INTERPRETATION

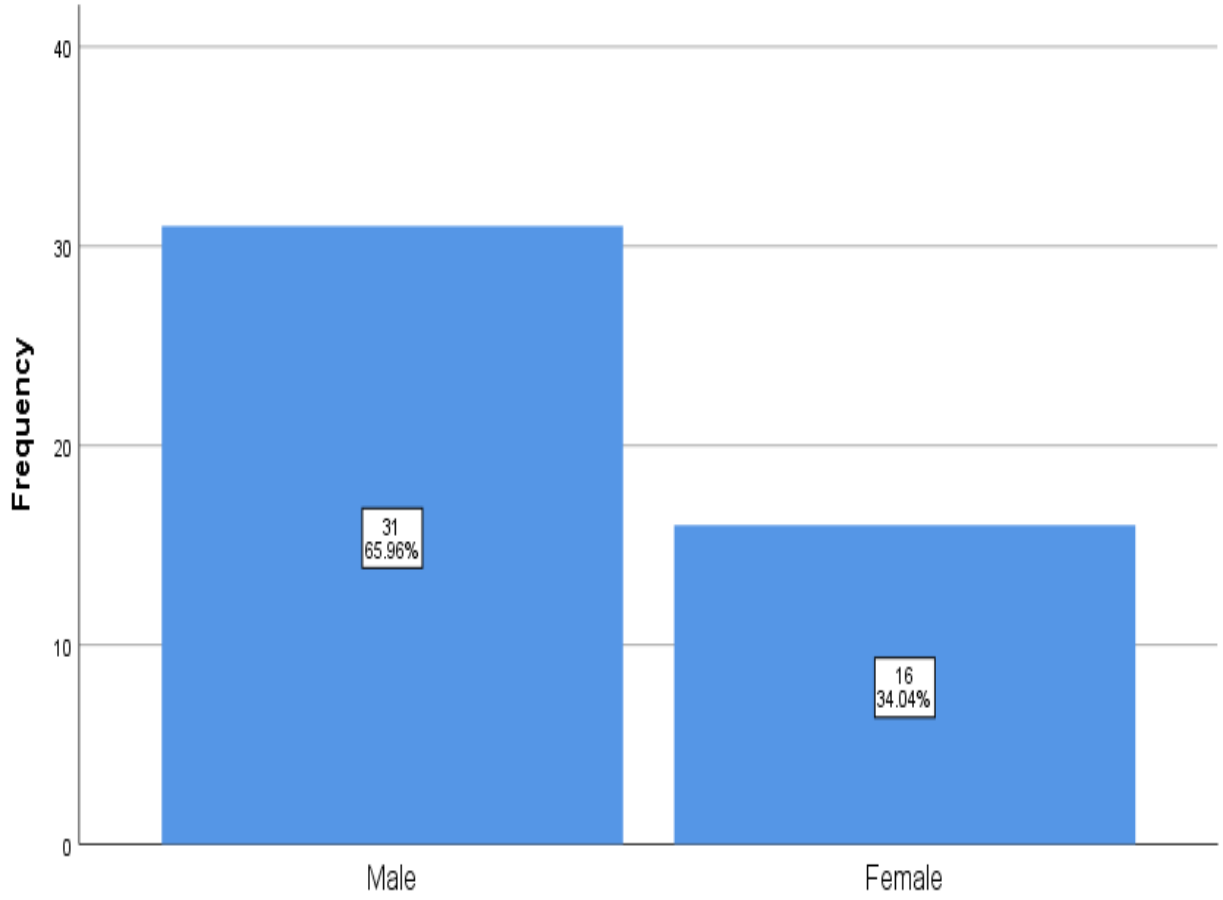
4.0 Introduction

The main focus of the preceding chapter was on the detailed explanation of the method used in conducting the research involving data collection techniques as well as the methods used to make sense of the data collected. This chapter therefore concentrates on the actual analysis of the primary data collected from the questionnaires. The frequency tables were used in the study to classify the responses of the participants; the descriptive statistics analysed the mean, spread and shape; content analysis was utilised to determine the latent variables under the open ended questions. A total of 53 questionnaires were distributed of which 47 were returned fully completed. As such a response rate of 88.7 percent was recorded.

4.1 Demographical analyses

Burns (2019), opines that demographic evidence make available data on the subject of the respondents and is obligatory for resolving whether the individuals in a precise research are a representative sample of the population that is targeted for generalisation purposes. The demographics data also assures the trustworthiness of the data obtained by looking at the respondents' education level, their years of service with the organisation, their experience and their gender as well. Various groups provide trustworthy information to the research and in this case the respondents were carefully designated so as to provide dependable data to the research study.

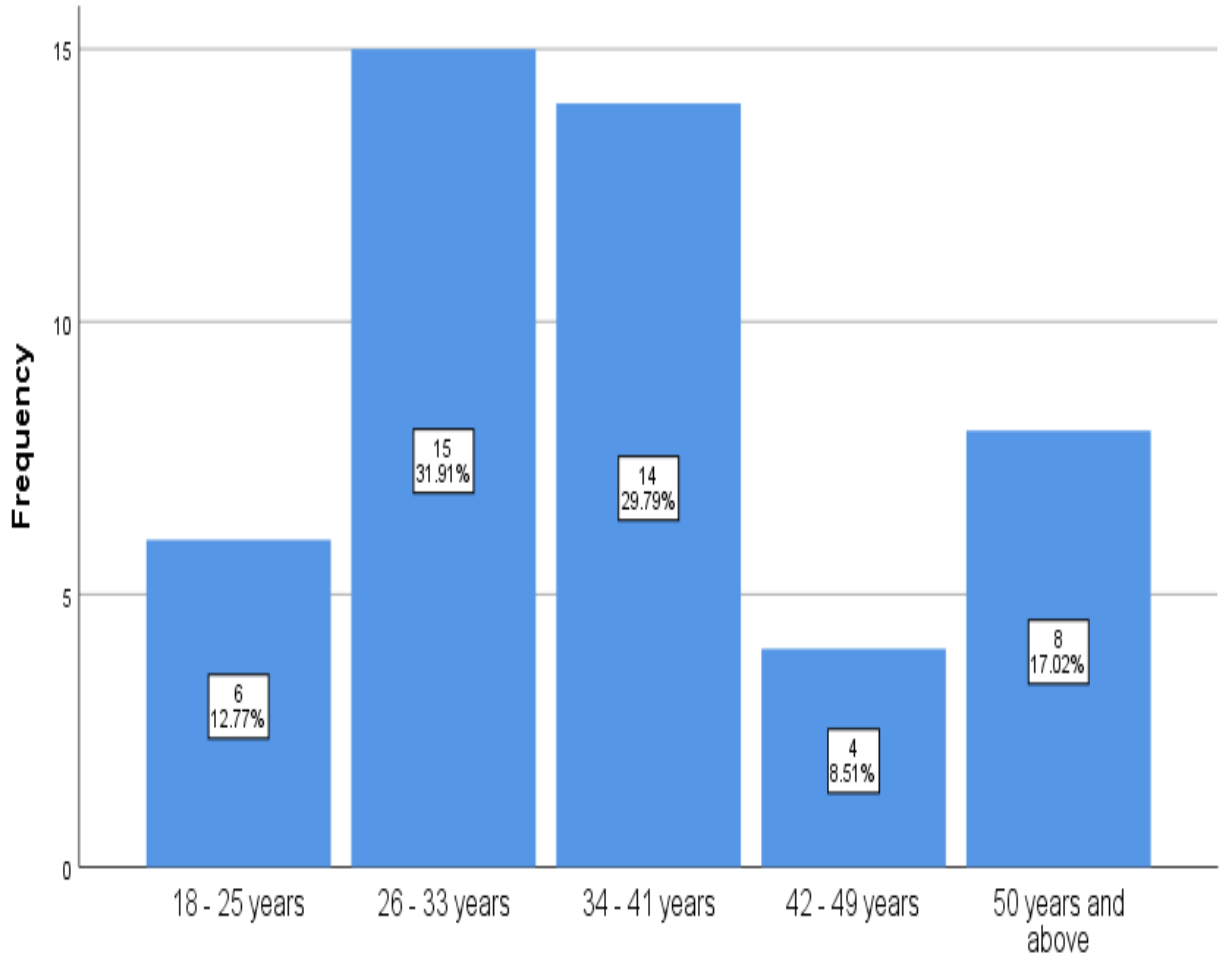
Figure 4.1 Gender



Source: Field data (2022)

Figure 4.1 is an illustration of the respondents' gender. The table depicts that 31 (65.96 percent) of the respondents were male while 16 (34.04 percent) were female. The male respondents formed the majority.

Figure 4.2 Age group



Source: Field data (2022)

Figure 4.2 is an illustration of the respondents' age group. The table depicts that 6 (12.77 percent) were of the age 18-25, 15 (31.95 percent) were of the age 26-33 years and 14 (29.79 percent) were of the age 34-41 years. Further, 4 (8.51 percent) were of the age 42-49 and 8 (17.02 percent) were of the age 50 and above. The respondents who were 26-33 years formed the majority.

Table 4.1 Education level

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	College certificate	4	8.5	8.5	8.5
	College diploma	27	57.4	57.4	66.0
	Under graduate degree	12	25.5	25.5	91.5
	Post graduate degree	4	8.5	8.5	100.0
	Total	47	100.0	100.0	

Source: Field data (2022)

Table 4.1 is an illustration of the respondent's education level. The table depicts that 4 (8.5 percent) of the respondents had college certificates, 27 (57.4 percent) had college diploma, 12 (25.5 percent) had under graduate degree and 4 (8.5 percent) had post graduate degree. The respondents who had college diploma formed the majority.

Table 4.2 Years of SME existence

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 year and below	10	21.3	21.3	21.3
	2 - 5 years	11	23.4	23.4	44.7
	6 -10 years	19	40.4	40.4	85.1
	11 years and more	7	14.9	14.9	100.0
	Total	47	100.0	100.0	

Source: Field data (2021)

Table 4.2 illustrates the responses regarding how long the SME has existed. The table depicts that 10 (21.3 percent) SMEs have been in existence for about a year and less, 11(23.4 percent) for about 2-5 years, 19(40.4 percent) about 6-10 years and 7 (14.9 percent) about 11 years and more.

4.2 Correlation Analyses

The Table 4.3 reports the means and standard deviations of dependent, independent and control variables.

Table 4.3 Correlations

Variables	Mean	SD	1	2	3	4	5	6	7
1. SME Capital Financing	3.80	0.874	1						
2. Gender	1.340	0.479	-0.208	1					
3. Age Group	2.890	1.289	-0.106	0.095	1				
4. Education	2.340	0.760	-0.238	0.511**	0.082	1			
5. Years of SME	2.110	1.108	0.068	0.135	0.282	0.214	1		
6. Direct Mechanisms	3.672	0.661	0.666**	-0.237	-0.047	0.045	0.049	1	
7. Indirect Mechanisms	3.952	0.680	0.613**	-0.133	-0.143	0.032	0.195	0.639**	1

**. Correlation is significant at the 0.01 level (2-tailed).

Relatively low inter-correlations among variables indicate that multicollinearity should not be a concern (Burns and Burns, 2018; Wang and Ahmed, 2019). Multicollinearity manifests a statistical phenomenon in which two or more predictor variables in a multiple regression model are highly correlated (usually $\alpha \geq 0.80$). It means that one variable can be linearly predicted from the other(s) with a non-trivial degree of accuracy. This would lead to the conclusion that some variables are measuring the same thing and only one of them may be necessary. With low inter-correlations in the present data set, estimates of coefficients of regression, correlation, and determination are neither biased nor over-inflated.

Table 4.3 also gives an indication that capital finance is positively significantly correlated (all sig. ≤ 0.01) with each Alt-M dimension of financing i.e. direct mechanism ($r = 0.666$) and indirect mechanism ($r = 0.613$).

4.3 Hierarchical Regression Analysis

For the purposes of evaluating the ability of the model for multiple regression (where the LuSE Alt-M dimensions are the explanatory variables) to predict SME capital finance (outcome

variable), after controlling for gender, age group, education level and years of SME, hierarchical regression analysis was carried out.

Table 4.4 is the presentation of the results with SME capital finance as a variable that was dependent on LuSE Alt-M direct and indirect mechanisms of finance (Iravon and Miroga, 2018; Masocha and Dzomonda, 2018; Ngaruiy and Bosire, 2014).

Table 4.4 Hierarchical Regression Analyses

Variable	Model 1 Beta, t	Model 2 Beta, t,	Model 3 Beta, t,	VIF VIF
Control Variables				
Age	0.140***, 3.495	0.072, 1.818	0.047, 1.173	1.112
Gender	0.015, 0.713	0.016, 0.411	0.032, 0.827	1.025
Education	0.151**, 0.021	0.103, 0.639	0.044, 0.305	1.105
Years of SME existence	0.032, 0.001	0.090,0.202	0.014, 0.156	1.012
Independent Variables				
Direct Mechanisms		0.484***, 3.627	0.161***, 3.245	2.364
Indirect Mechanisms			0.298***, 2.149	2.503
R	0.294	0.728	0.760	
R Square	0.087	0.530	0.578	
Adjusted R Square	0.023	0.486	0.526	
F-statistic	1.361**	11.860***	11.229***	

***sig < 0.001 (0.1 percent); **sig < 0.01 (1 percent); *sig < 0.05 (5 percent); VIF = Variance Inflation factor

Model 1 depicts the base model with only control variables only i.e. gender, age group, education and years of SME. A significant contribution of adjusted multiple coefficient of determination (R-Square) that is of combined nature is made by the control variables i.e. of 2.3 percent and multiple correlation coefficient of (R) 0.294. This represents a small effect size that is of combined nature. The rationale for significant influence of the control variables could be that as the entrepreneurs get older, educated they tend to weigh various capital financing platforms and chose the ones ideal in contributing to the performance of the SME.

In model 2, in addition to control variables, direct mechanisms is presented and a combined effect of significant nature happens (adjusted R^2 = 48.6 percent from 2.3 percent), with R = 0.728

demonstrating a medium effect size that is of combined nature. Individually, only direct mechanisms makes a contribution that is significant. For direct methods, this entails that the two common direct mechanisms i.e. venture capital (VC) and private equity (PE) funds and small securities offerings via private or public placements have effect on the effectiveness of the capital financing for SMEs. In addition, SMEs are hopeful that in the event that Alt-M is fully functional, it will make available direct funding that will offer capital solutions to SMEs. In this regard, hypothesis 1 which postulates that there is a significant relationship between direct mechanisms for SME Financing and capital finance has been supported.

In model 3, adding on to control variables and direct mechanisms, indirect mechanisms is introduced and a significant effect that is of combined nature happens (adjusted R^2 of 52.6 percent from 48.6 percent), with R = 0.760 demonstrating a moderate effect size that is of combined nature. This entails that a relationship exists between LuSE Alt-M indirect methods and SME capital financing. SMEs are optimistic that Alt-M will provide indirect mechanisms of financing and ease capital financing. In this regard, hypothesis 2 which postulates that there is a significant relationship between indirect mechanisms for SME Financing and capital finance has been supported.

4.4 Hypothesis testing

Table 4.5 Hypothesis 1 Analysis of variance

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	15.597	1	15.597	35.796	.000[b]
	Residual	19.608	45	.436		
	Total	35.205	46			
a. Dependent Variable: SME CAPITAL FINANCE						
b. Predictors: (Constant), DIRECT MECHANISM						

Table 4.5 indicates that the regression model predicts the dependent variable significantly well. In that the statistical significance of the regression model has the value, $p < 0.000$, which is less than 0.05, and indicates that, overall, the regression model statistically significantly predicts the outcome variable (i.e., it is a good fit for the data). A low p-value (< 0.05) indicates that one can

reject the null hypothesis. In other words, a predictor that has a low p-value is likely to be a meaningful addition to the model because changes in the predictor's value are related to changes in the response variable. Thus we conclude that there is a significant relationship between direct mechanisms for SME Financing and capital finance.

Table 4.6 Hypothesis 2 Analysis of variance

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	13.243	1	13.243	27.135	.000[b]
	Residual	21.962	45	.488		
	Total	35.205	46			
a. Dependent Variable: CAPITAL FINANCE						
b. Predictors: (Constant), INDIRECT MECHANISM						

Table 4.6 indicates that the regression model predicts the dependent variable significantly well. In that the statistical significance of the regression model has the value, $p < 0.000$, which is less than 0.05, and indicates that, overall, the regression model statistically significantly predicts the outcome variable (i.e., it is a good fit for the data). A low p-value (< 0.05) indicates that one can reject the null hypothesis. In other words, a predictor that has a low p-value is likely to be a meaningful addition to the model because changes in the predictor's value are related to changes in the response variable. Thus we conclude that there is a significant relationship between indirect mechanisms for SME Financing and capital finance.

4.5 Challenges associated with SME capital financing.

Table 4.7 SME Alternative market listing challenges

Item	N	Mean	Std. Deviation
1. Am of the view that there is lack of data on creditworthiness, financial performance and financing track record of SMEs contribute to information asymmetries	47	4.36	0.942
2. Information barriers persist, making valuation of SMEs difficult and leading to gaps in perceived valuation between potential investors and the companies (and in the case of PE/VC between the manager and potential partners)	47	4.34	1.027
3. A challenge affecting some indirect solutions, particularly SME loan securitization, is the lack of a sufficient volume of quality and standardized SMEs loans;	47	4.28	0.902
4. Many SMEs lack knowledge about capital markets solutions. But even when they know the options available, those that can obtain financing from banks usually prefer that option because it requires less information and organizational changes from them than what is required to access the capital markets via a securities offering	47	4.21	0.931
5. I feel there is lack of availability of high-quality credit information of the right form (comparability) and at the right time (timeliness)	47	4.00	1.198
6. I think absence of transparency around the creditworthiness of SME issuers is at the same time acting as a barrier to entry for new and alternative providers of SME financing.	47	3.98	0.944
7. I feel that the LuSE listing requirements are not favourable for a number of SMEs.	47	3.96	1.021

8. Am of the view that a there is unavailability of fully transparent loan-level data and information on SME performance, freely accessible to all qualified users like institutional investors.	47	3.91	0.929
9. High-quality, granular loan-level data on SMEs is not available which hinders the development of more rigorous fundamental analysis of financing instruments such as SME securitisations.	47	3.51	1.061
10. SMEs lack the type of information that is traditionally used by banks to assess credit risk;	47	3.17	1.110
Valid N (listwise)	47		

Table 4.7 is an illustration of the prominent SME challenges regarding Alt-M

4.7 Chapter summary

This chapter presented the findings from the collected primary data. All the statistical computations were performed in SPSS version 25. Correlations were presented to assess the direction and strength of the relationships that existed between the independent variables and the dependent. Hierarchical regression was also carried to test the validity of the proposed conceptual model and to test the hypotheses.

CHAPTER 5

DISCUSSION OF THE FINDINGS

5.0 Introduction

The previous chapter presented the findings from the analysis of the results obtained from the primary data. This chapter discusses the findings obtained.

5.1 Discussion of the findings

5.1.1 Objective 1

The first objective was to find out the probable effect of indirect mechanisms of financing on SME capital financing. The findings have revealed the LuSE Alternative market indirect mechanism of financing are positively significantly correlated with SME capital financing ($r = 0.613$). These findings are similar to those of Fernández (2022) and Acquah-Sam (2019) who found a positive relation between indirect mechanisms and SME capital financing.

Wald, (2019) points out that the indirect methods of financing contribute to the effectiveness of SME capital financing. The indirect mechanisms are pointed to be plain vanilla issuances by specialized SME lenders and SME loan securitization. With regards to vanilla issuances, LuSE has attracted a number of financial institutions other than banks that will come to serve the micro and SME sectors in the event that the Alt-M is functional. These may include entities such as microfinance institutions, cooperatives, factoring and leasing companies, and, more recently, fintech companies that specialize in providing financing online. Some of these entities cater to SMEs that are not served by banks. In addition, some of them require less collateral than that required by banks. The latter is of particular importance to SMEs because many of them lack the type of collateral (real estate) that banks prefer.

With regards to SME-related securitisations, they are produced through the pooling of a number of SME assets by a financial intermediary, typically the originator of the loans. SME securitisation allows banks to transfer credit risk partially to the market while achieving capital relief. As a result, capital is freed up and can potentially generate further funding capacity and on-lending to SMEs and other parts of the real economy (Myers, 2017). Investors buying those claims/ bonds in the market are entitled to payments of principle and interest on the underlying pooled assets. Through this process, illiquid financial assets (such as mortgages, loans, leases) are bundled together and

converted into liquid marketable securities, funded by and tradable in the capital markets as such, the SMEs have a pool of funds in one place.

Securitization can provide SME lenders with an alternative source of funding in cases in which other mechanisms of refinancing (such as plain vanilla bonds) can be sold only at high cost. In addition, it potentially enables banks to achieve economic and regulatory capital relief. Also, this solution could reduce the cost of financing for SMEs. Further, SME securitization can potentially have a multiplier effect in the funding available to SMEs if the lender uses the capital "freed" through the transaction to lend again to SMEs (OECD, 2019).

From an investor's perspective, SME loan securitization could have many benefits. First, it enables investors to gain access to an asset class whose performance is tied to the whole economy. While other asset classes can do that, the attractive feature of SME securitization is that it has the potential to include a portfolio of more diverse and granular (smaller individual) assets, thus allowing investors to better diversify their risk. In addition, investors can choose the degree of risk they are exposed to by selecting the tranche to hold. Also, the securities can be traded at lower transaction costs than individual loans are. Alt-M has the capacity to make available aforementioned mechanisms to the SMEs once LuSE manages to list SMEs (LuSE, 2020).

5.1.2 Objective 2

The second objective was aimed at determining the possible effect of direct mechanisms of financing on SME capital financing. The findings indicated that direct mechanisms were positively significantly correlated with SME capital financing ($r = 0.666$). The hierarchical regression model also reveals that direct mechanisms have a medium positive effect on the SME capital finance. The positive relationship entails that when the direct mechanisms dimensions are developed together, they are likely to positive affect SME capital financing which will make it possible for the LuSE Alt-M to achieve its objective i.e. providing viable finance to the listed SMEs. However, LuSE will only realize its objective of SMEs capital financing when it has become successful in listing SMEs for the Alt-M as it is, is a ghost market. It has to start from somewhere, for instance one SME and with time it will expand. The findings resonate with those of Fernández (2022) and Acquah-Sam (2019) who found that direct mechanisms are positively related with SME capital finance. They further add that Even before long-term finance, what most SMEs need is working capital. Although many factors affect the cash flows of SMEs, a key element refers to the

contractual terms under which SMEs sell their goods and services, terms which in many cases require them to sell at credit and under extended payment terms. While late payment terms help buyers optimize their own working capital, from the SME perspective late payments increase their costs and financial uncertainty and could result in bankruptcies of otherwise viable businesses.

OECD (2021) further adds that until recently SMEs had very few mechanisms to access the markets directly. In general, two mechanisms have been used: venture capital (VC) and private equity (PE) funds and small securities offerings via private or public placements. However, VC funds have been restricted to start-up companies and PE funds to more established/larger companies, and small securities offerings have been an option mainly for the larger SMEs. Since the crisis other solutions are emerging that have the potential to serve a wider range of SMEs

With regards to receivables, LuSE through its Alt-M has the capacity to provide receivables-based solutions for SME financing. These solutions have the potential to expand SMEs' access to working capital, both by expanding the range of SMEs that could get access to financing and by providing better conditions than those offered by more traditional solutions, in terms of the spreads paid. The key to obtaining such benefits lies in increasing competition in the factoring industry via the entrance of additional "financiers"in this case, in the form of investors.

Through the receivable platforms, SMEs are able to sell their receivables directly to a wide range of investors. The platform once functional has the potential to act exclusively as an intermediary that prescreens the receivables using proprietary technology, but ultimately the credit risk is borne by investors. In many cases the platforms offer collection services. SME receivables funds are credit funds that invest in receivables owed to SMEs. In practice, the funds often invest in a range of alternative assets, including consumer loans, small business loans, and receivables, that generate interest or a similar income stream rather than investing exclusively in receivables. Given the lack of liquidity of the underlying assets, many receivables funds are structured as closed-end funds, although they may provide redemption at intervals (LuSE, 2021). LuSE through its alternative market has the capacity to make available various financing mechanisms for SME capital finance which will make it an effective platform for SMEs capital financing.

5.1.3 Objective 3

The third objective was to outline the prominent challenges associated with SME capital financing. The findings reveal that the prominent challenges include; lack of data on creditworthiness,

financial performance and financing track record of SMEs contribute to information asymmetries ($\bar{x}$ = 4.36), information barriers persist, making valuation of SMEs difficult and leading to gaps in perceived valuation between potential investors and the companies (and in the case of PE/VC between the manager and potential partners) ($\bar{x}$ = 4.34)

Also, a challenge affecting some indirect solutions, particularly SME loan securitization, is the lack of a sufficient volume of quality and standardized SMEs loans ($\bar{x}$ = 4.28), many SMEs lack knowledge about capital markets solutions. But even when they know the options available, those that can obtain financing from banks usually prefer that option because it requires less information and organizational changes from them than what is required to access the capital markets via a securities offering ($\bar{x}$ = 4.21). In addition, there is lack of availability of high-quality credit information of the right form (comparability) and at the right time (timeliness) ($\bar{x}$ = 4.00).

The findings resonate with those of Kamfwa (2018) for instance with regards to lack of awareness and adequate information. He found that there is lack of awareness on the existence of the alternative market programme. This study found that about 20% of SMEs owners/managers were aware of the market while 80% were not aware that LuSE had a market dedicated to SMEs.

The study finding findings are also in line with those of Acquah-Sam (2019) who found that most SMEs in African countries do not have adequate information regarding listing on the alternative market and its potential benefits to them.

5.2 Chapter summary

This chapter was a presentation of the discussion of the findings obtained from the analysis of the primary data. The findings were discussed in line with the raised objectives in chapter one of the research.

CHAPTER 6

CONCLUSIONS AND RECOMMENDATIONS

6.0 Introduction

The previous chapter i.e. chapter four gave an illustration of the analysis of the primary data collected, findings and discussion of the findings. This chapter illustrates the conclusions and the recommendations.

6.1 Conclusion

This study was aimed at carrying out an assessment of the effectiveness of the Lusaka Stock Exchange Alternative-Market in Capital Finance for SME's. This study has shown that the key issue for SMEs to grow from adolescence to maturity is finances. The study has demonstrated that the LuSE Alternative Market (Alt-M) was established to create a more enabling platform or avenue for Small and Medium Enterprises (SMEs) or indeed any other emerging companies to participate on the Capital Markets and thereby raise capital for growing their businesses. However, Alt-M has not been able to achieve its mandate as up to date no single SME is listed on the platform. However, the study has established that Alt-M has a lot of potential to help in capital financing for SMEs once it's operational.

The experiences reviewed indicate that capital markets solutions play a larger role in SME financing. The indirect and the direct solutions offer refinancing facilities to enhance SME capital financing. In principle, equity solutions require both that SMEs open their capital to outside shareholders, which many SMEs are reluctant to do because of their family structure, and that investors demonstrate a much higher risk appetite than many do.

The positive association recorded with the study variables gives an indication that despite the challenges that are associated with the alternative market, it has the capacity of being effective in capital financing for SMEs. This can be noted from the increasing number of SMEs who have raised interest to be listed through the Growth Enterprises Market (GEM) portal.

The capital market is critical to a country's economic development. Long-term financing is an essential element for supporting investment and growth. Access to long-term financing enables SMEs solves their financing needs over the long term and this has a positive effect on economic growth and on employment generation.

Further, the creation of the Alternative Market is a step towards a more efficient financial ecosystem, which will ensure that the expectations of economic actors seeking funding will be met, and will win the authorities the double bet of promoting Zambian SMEs, and to give Zambia's financial market the regional and international influence and aura for which aims the vision of SME capital financing. However, to fully play its role, the success of this compartment will remain dependent on other exogenous factors, such as the degree of commitment of the various parties to their part of responsibility: commitment of SMEs to their duties that involves being listed in an organized and transparent market, providing continuous accompaniments by authorities to all of the components of the market (among others) above all, having SMEs listed on Alt-M.

The main challenges the LuSE is seeing in regards to admitting companies to the Alternative Market tier have been the listing rules and regulations which most of the SMEs do no find favourable and attractive. Also, there isn't adequate information available to the potential SMEs regarding what Alt-M is and how it's going to help them in capital financing. Further, LuSE has not embarked on education ventures to clear the myths surrounding SMEs listing on Alt-M. Furthermore, the other challenges have been in the areas of accountability, ownership dilution, and Disclosure because a significant portion of SME's in Zambia are family held businesses. The majority of these businesses do not understand the significance of granting an account in the name of a board to someone or to a higher authority.

6.2 Recommendations

6.2.1 General recommendations

i. LuSE should engage with key stakeholders to revise the listing rules to encourage a number of SMEs to be listed, this will allow the alternative market to serve its purpose.

ii. LuSE should increase awareness and understanding to SMEs about alternative financing opportunities through the alternative market. This can be done by making available material on the importance of listing, inviting potential SMEs to workshops and induction programs on listing.

iii. Supporting SMEs in developing a long-term strategic approach to business financing, that is, understanding how different instruments can serve their different financing needs at specific stages of the life cycle, the different advantages and risks implied, and the complementarities and possibility to leverage these sources. Such education

program could be developed by the capital market authorities of the country and implemented through the capacity building institution of the financial sector.

iv. Individual securities issuances of SMEs will take time to develop and in the meantime other instruments and collective approaches should be considered. In order to prioritize, to start with, the authorities should prepare enabling regulations to promote: (a) legally recognizable invoice based factoring, (b) incentives for reverse factoring, (c) the use of pooled security issuances (asset/receivable based or obligation/loan based) for SMEs, and (d) a private placement regime and document processing requirements for SMEs. This should be supported by cost incentives for arrangers and seed investors to prepare and install the necessary financial infrastructure, and targeted tax incentives such as exempting transaction tax charges on initial SME issuances and transfers until a critical mass of market issuances is achieved.

v. SMEs should be well educated on the requirements for the Alt-M listing try to raise funds through capital markets and with significant policy measures by Government; we can expect growth in industry. SMEs should try to include equity in their capital structure to the extent that they achieve optimum capital structure. It should help them in choosing right mix of sources of funds in their capital structure for reducing overall weighted average cost of capital and create long term value /wealth. Since SMEs have large base in the economy, the wealth thus created can be distributed in the economy /society at large.

vi. Designing and implementing effective regulation, for example exemptions or relaxing registration provisions which are too costly, too time consuming, and contain too many technicalities for smaller companies. Such actions should however, balances financial stability, investors' protection and the opening of new financing channels for SMEs.

vii. It is important for policy makers to incentivise capital market participants to take a longer-term approach and offer additional services to growth-oriented entrepreneurs.

6.2.2 Recommendations to the government

i. First, government authorities need to continue working to improve the preconditions necessary for capital markets to develop, because most of the solutions require a certain level of development of the capital markets. Although some of the capital solutions do not seem dependent on the existence of a capital market, they do require that certain basic

preconditions necessary for capital markets to develop are in place. Further, to scale up the solutions require a sizable investor base.

ii. Second, government authorities need to work to develop appropriate regulations to support these solutions, including regulations for the products and conduct obligations for the intermediaries that distribute them. In addition, authorities need to review the investment regulations of institutional investors to ensure that they are able to invest in these solutions, while at the same time the risk management requirements for fund managers need to be strengthened. In parallel, robust supervisory programs need to be in place to enable early detection and management of the risks that these solutions might pose to investor protection and financial stability.

iii. Third, government authorities need to consider whether additional interventions are needed to jumpstart some of these solutions. Such interventions might include (a) credit guarantees for some of the debt instruments, (b) coinvestments for VC as well as for newer solutions, such as lending platforms and loan originating funds, and (c) tax incentives, mainly in relation to early equity investment. These interventions have a fiscal impact and, as a result, it is critical that government authorities determine before implementation what assistance is needed and whether a specific intervention planned is the best tool to address the market failure identified. The interventions should also be set in a way that allows for the assessment of their impact. In addition, other softer interventions must be considered, including information and capacity building for different stakeholders.

iv. Government should put up a deliberate policy to institute market makers- Entity to buy and sale stocks

6.2.3 Limitations of the study and Suggestions for Further Research

The research focused on SMEs oriented by the Development Bank of Zambia as the key informants. As such future research should incorporate LuSE employees, relevant stake holders such as securities Exchange commission and it should look at performance of other fully functional Parallel Markets of Stock Exchanges in Africa so that results can be compared.

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APPENDICES

Appendix 1: Questionnaire

THE UNIVERSITY OF ZAMBIA

SCHOOL OF GRADUATE STUDIES

Dear Respondent, my name is Chisanga Chisanga, I am a final stage student at The University of Zambia pursuing a Master's degree in Business Administration general under the postgraduate school of business. I am currently conducting a research on **"Investigating the effectiveness of the Lusaka Stock Exchange (Alt-M) in Capital Finance for SME's"** I am kindly asking for a few minutes of your time to answer this questionnaire. The information obtained is purely for academic purposes and will help make this project a success. Please note that your identity will be kept confidential. For further clarification you can contact me on:

CELL: +260 977 235921

Email: chisangachisanga90@gmail.com

Online questionnaire available at: https://forms.gle/vmeiHHxKnVs8ypeA6

INSTRUCTIONS

1) **Tick (√) the appropriate answer. 2) Where comments are required, please be brief and to the point. 3) Do not indicate your name in this questionnaire.**

SECTION A: Respondents Profile

ITEM		
1) Gender	Male ◯	Female ◯
2) Age	18-25 years ◯ 26-33 years ◯	34-41 years ◯ 42-49 years ◯ 50 and above ◯
3) Current education level	Sec. Sch Certificate ◯ College certificate ◯ College diploma ◯	Undergraduate degre ◯ Post graduate (MSc, PhD and others, ◯
4) For how long has your SME existed	Less than a year ◯ 1 – 5 years ◯ 6 – 10 years ◯	11 years and more ◯
5) Main activity o SME	Service provider ◯ Retailing ◯ Processing ◯	Manufacturing ◯ Mining ◯ Agriculture ◯ Others ◯
6) Number of employees	Less than 20 ◯ 21- 50 ◯ 51 - 80 ◯	81-110 ◯ 110 - 150 ◯

SECTION B: Indirect Mechanisms for SME Financing

Please indicate the extent to which you agree with the statements on a scale of 1 to 5 where 1= strongly disagree, 2= disagree, 3= Not sure, 4= agree and 5= strongly

No.	**ITEM**	**5**	**4**	**3**	**2**	**1**

1.	At the Alt-M, equity and debt issuances are made available by various entities that are different from the banks					
2.	LuSE through its GEM portal will provide microfinance institutions, cooperatives, factoring and leasing companies, and, more recently, fintech companies that specialize in providing financing online					
3.	At the LuSE Atl-M, SMEs that are not served by banks will be covered					
4.	I feel Alt-M will make SME financing easier for the reason that some of lenders require less collateral than that required by banks					
5.	Am of the view that Plain Vanilla issuances by specialized SME lenders are a viable solution for many Emerging and Developing Economies (EMDEs) like Zambia					
6.	I think that SME loan securitization is a financing technique that allows the transformation of SME loans, which are illiquid in nature, into tradable securities					
7.	The LuSE Alt-M will make it possible for a bank or SME lender (the "originator") to bundle a package of SME loans into a pool ("portfolio") and sells the portfolio to capital market investors through the issuance of securities by a special purpose vehicle (SPV).					
8.	At the LuSE Alt-M, securities are backed by the loan portfolio (asset-backed securities (ABS)					
9.	SME securitization can potentially have a multiplier effect in the funding available to SMEs if the lender uses the capital "freed" through the transaction to lend again to SMEs.					
10.	SME loan securitization enables investors to gain access to an asset class whose performance is tied to the whole economy					

11.	I feel that SME securitization has the potential to include a portfolio of more diverse and granular (smaller individual) assets, thus allowing investors to better diversify their risk.					
12.	Indirect Mechanisms for SME Financing reduce the cost of SME financing					

SECTION C: Direct Mechanisms for SME Financing

Please indicate the extent to which you agree with the statements on a scale of 1 to 5 where 1= strongly disagree, 2= disagree, 3= Not sure, 4= agree and 5= strongly

No.	ITEM	5	4	3	2	1
1.	Financial technology has opened space for competition to the factoring industry and have improved the conditions under which SMEs obtain short-term funding via different types of solutions					
2.	Receivable-based solutions aim to bring capital markets investors to the table					
3.	Receivable-based solutions have the potential to expand SMEs' access to working capital, both by expanding the range of SMEs that could get access to financing and by providing better conditions than those offered by more traditional solutions, in terms of the spreads paid.					
4.	LuSE Alt-M has provided a receivable platform that enable SMEs to sell their receivables directly to a wide range of investors					
5.	At LuSE Alt-M, the platform acts exclusively as an intermediary that prescreens the receivables using proprietary technology, but ultimately the credit risk is borne by the investor					
6.	LuSE Alt-M provides a platform that create a market place for receivables by allowing the entrance of a plurality of investors.					

7.	The LuSE GEM platform has made it possible for consumers and businesses to obtain loans directly from a wide range of investors					
8.	The Alt-M lending platform prescreen the loans through a low cost information technology that allows them to collect standardized information from dispersed borrowers to assess the credit risk.					
9.	In the LuSE lending platform, the ultimate decision to invest relies on the investors who bear credit risk					
10.	I think Venture Capital (VC) has been a key mechanism for equity financing of innovative firms					
11.	Am of the view that Alt-M has provided an electronic platform that allow companies to raise equity, or equity like funding directly from investors					
12.	The Alt-M platform acts as a conduit, putting together investors and SMEs in need of resources.					
13.	Equity crowd funding provides retail investors access to an asset class that in the past was restricted to sophisticated investors					
14.	LuSE Alt-M provides Equity Issuances and Specialised SME Markets					

SECTION D: Prominent Challenges associated with SME listing on Alt-M

Please indicate the extent to which you agree with the statements on a scale of 1 to 5 where 1= strongly disagree, 2= disagree, 3= Not sure, 4= agree and 5= strongly

No.	ITEM	5	4	3	2	1
1.	I feel there is lack of availability of high-quality credit information of the right form (comparability) and at the right time (timeliness)					

2.	Am of the view that there is lack of data on creditworthiness, financial performance and financing track record of SMEs contribute to information asymmetries					
3.	High-quality, granular loan-level data on SMEs is not available which hinders the development of more rigorous fundamental analysis of financing instruments such as SME securitisations.					
4.	I think absence of transparency around the creditworthiness of SME issuers is at the same time acting as a barrier to entry for new and alternative providers of SME financing.					
5.	Am of the view that a there is unavailability of fully transparent loan-level data and information on SME performance, freely accessible to all qualified users like institutional investors.					
6.	I feel that the LuSE listing requirements are not favourable for a number of SMEs.					
7.	SMEs lack the type of information that is traditionally used by banks to assess credit risk;					
8.	A challenge affecting some indirect solutions, particularly SME loan securitization, is the lack of a sufficient volume of quality and standardized SMEs loans;					
9.	Many SMEs lack knowledge about capital markets solutions. But even when they know the options available, those that can obtain financing from banks usually prefer that option because it requires less information and organizational changes from them than what is required to access the capital markets via a securities offering					
10.	information barriers persist, making valuation of SMEs difficult and leading to gaps in perceived valuation between potential investors and the					

	companies (and in the case of PE/VC between the manager and potential partners)					

SECTION E: SME capital financing

Please indicate the extent to which you agree with the statements on a scale of 1 to 5 where 1= strongly disagree, 2= disagree, 3= Not sure, 4= agree and 5= strongly

No.	**ITEM**	**5**	**4**	**3**	**2**	**1**
1.	Am of the view that Plain Vanilla Issuances as an Indirect Mechanism for SME Financing will be effective					
2.	SME Loan Securitization will be effective in the capital financing of SMEs					
3.	Receivable-based solutions will be effective in SME financing					
4.	Through Receivable platforms, SMEs will be able to sell their receivables					
5.	LuSE Alt-M has made available a number of financing platforms					
6.	Through Alt-M, SMEs will be provided with a number of Equity Solutions					
7.	LuSe Alt-M will make it possible for SMEs to have Equity Crowd funding.					

THANK YOU VERY MUCH FOR YOUR TIME

Appendix II: LIST OF GROWTH ORIENTED MSMES IDENTIFIED

ZAMBIA DEVELOPMENT AGENCY

LIST OF GROWTH ORIENTED MSMES IDENTIFIED

NO	ENTERPRISE	TOWN		CONTACT	SECTOR	PRODUCT RANGE
1	Monkey Orange Craft	Chibombo	Central	0966545566	Manufacturing	Eco-Friendly Handcrafts, Traditional Artworks Made From Fruit Shells
2	Giant Millers Co. Ltd	Kabwe	Central	0976 897868	Manufacturing	Fresh Milk, Water and Yoghurt
3	Fingertips Enterprise	Chadiza	Eastern	0977376245 0955430812	Manufacturing	Production of Cooking oil
4	Commodity Marketing Company (COMACO)	Chipata	Eastern	0976 694047	Manufacturing	Peanut Butter, Corn/Soy Blend, Hard Rice, and Chicken Feed
5	ICM water processing Plant	Mansa	Luapula	0979513149	Manufacturing	Water Processing and Bottling
6	Rapids Mattress Manufacturing Plant	Mansa	Luapula	0977747814 or 0955611604	Manufacturing	Mattress Foam
7	Chihungu Creations	Lusaka	Lusaka	0979884796	Manufacturing	Shoes, Belts Slippers
8	Favour Paint and Chemicals Ltd	Lusaka	Lusaka	0979185428	Manufacturing	Paint PVA, Gloss, Wood Glue, and Varnish
9	Shais Enterprise	Lusaka	Lusaka	0969690656	Manufacturing	Millet Meal, Cassava Meal, and Sorghum Meal

10	CK Agrotech	Lusaka	Lusaka	0955223854 or 0955233604 or 0966 827848	Manufacturing	Scouring powder (Lavender and Lemon)
11	Gawmec Garments Ltd	Lusaka	Lusaka	0955060715	Manufacturing	Clothes/Garments
12	Lotuno Enterprises	Kafue	Lusaka	0979-085724	Aqua-Processing	Processing Fish Sausages, Fish Crackers, Amethysts Jewelry
13	Buloz Pieces	Lusaka	Lusaka	0977883578	Manufacturing	Fashion Design Tailoring of Garments
14	Joyous Mum Food Processors	Nakonde	Muchinga	0977979501	Manufacturing	Nutrition Porridge
15	Zalatex Paints	Solwezi	North-Western	0968352455 or 0974 633 530	Manufacturing	Paints manufacturing
16	Luwaka Enterprises	Solwezi	North-Western	0978105841	Agriculture	Vegetables, fruits, poultry
17	Zamwood Furnishers and General Dealers Limited	Livingstone	Southern	0977 653647	Manufacturing	Manufacturing of doors, frames, kitchen units and cabinets,
18	Multichem Services	Mazabuka	Southern	0979331801	Manufacturing	Dirt off Cleaning Products, Toilet Cleaner, Multipurpose cleaner
19	Nantusi Enterprise	Kasama	Northern	0977422116	Manufacturing	Furniture, Hardware material
20	Chilimansofu Farms & Arts	Kasama	Northern	0979400296	Agro-Processing	Stock Feeds
21	Adastra Leather Limited	Mongu	Western	0977490565	Manufacturing	Mango Juices, Fruit Juices, Mineral Water
22	Salunae Grain	Mongu	Western	0976987831	Agro-Processing	Rice processing

23	Luswishi Agribusiness Enterprise	Lufwanyama	Copperbelt	0976021610	Manufacturing	Building materials; Hydraulic Horse Assembly; Metal fabrication;
24	Aniro General Dealers	Ndola	Copperbelt	0977925158	Manufacturing	Moringa Powder And Honey
25	Becky Food	Mpongwe	Copperbelt	0967614695	Manufacturing	Assorted Crops Processing
26	BPC Abundant Valley Limited	Kitwe	Copperbelt	212228444	Agro Processing	Quails And Land Scaping
27	Broadline Chemical Manufacturers And Distributors Ltd	Ndola	Copperbelt	0955339595 or 0973639393	Manufacturing	Chemical Manufacturing
28	Calm Sky Company Ltd	Mufulira	Copperbelt	0978900658	Agriculture	Quails And Land Scaping
29	Celsan General Contractors and Suppliers Ltd	Luanshya	Copperbelt	0966627530	Manufacturing	Processing Fish
30	Chambala Enterprises Ltd	Mpongwe	Copperbelt	0964999813	Agro Processing	Soyi product
31	Chilram Enterprises	Luanshya	Copperbelt	0966913550	Manufacturing	Shoes and Leather products
32	Clean Tech Services	Ndola	Copperbelt	0966676413	Manufacturing	Manufacturing Chemical Products
33	Elegant Line chemicals (Z)	Chingola	Copperbelt	0950226120	manufacturing	degreasers, pine gel, deadlocks, stain removers, water treatments
34	Geo - Pro Enterprises Ltd	Ndola	Copperbelt	0977563812	Agro-Processing	Chickens feed, Vegetables &Fruits, Feed &Medication
35	Hexangon Engineering	Luanshya	Copperbelt	0972597394	Manufacturing	Engineering products
36	Jackwin Enterprises	Luanshya	Copperbelt	0966557676	Manufacturing	Engineering products

37	Kutena Enterprises	Luanshya	Copperbelt	0966 876765	Agriculture	Poultry And Growing Vegetables
38	Kwanshama Daily Cooperative	Kitwe	Copperbelt	0965822379	Agro-Processing	Fresk Milk processing and production
39	Miyombo Honey Processing	Mpongwe	Copperbelt	0964013013	Agro Processing	Honey processing
40	Mpongwe Bulima Coop	Mpongwe	Copperbelt	0977898514	Agro Processing	Agro Processing
41	Mwanago Enterprises	Luanshya	Copperbelt	0955759576	Agro Processing	Honey processing
42	Mystic Pictures Zambia	Kitwe	Copperbelt	0955 558259	Manufacturing	Chemical Detergent, Energy & Petroleum Products
43	P.C Agro Enterprises	Lufwanyama	Copperbelt	0979596911	Agribusiness.	
44	Ronmon Enterprises	Luanshya	Copperbelt	0966430891	Mining	Cutting Hexagonal Shapes of rocks
45	Shita Business Enterprise	Mpongwe	Copperbelt	0955759318	Agro Processing	peanut Butter
46	Silver Cup Enterprises	Kitwe	Copperbelt	0977631334	Manufacturing	Assorted Crops Processing
47	Tommali Enterprises	Kitwe	Copperbelt	0976041919	Light Manufacturing	Popcorn machine, mark cool machine, window frames, harmer mills
48	Wankos Enterprises	Luanshya	Copperbelt	0966993150		Water Bottling and Candles
49	Wellpe Agro& General Dealer	Mpongwe	Copperbelt	0977316608	Agro Processing	Peanut Butter
50	Westside Wood Processing Limited	Kalulushi	Copperbelt	0977848810	Manufacturing	Wood Processing

51	Wilundo Engineering Services	Chingola	Copperbelt	0966233503 or 0212310021	Services Mines	Scrap Metal Buying and Recycling
52	Winap Agricultural Food Processing	Ndola	Copperbelt	0965304377	Agro Processing	Peanut Butter
53	Zelo Foods Limited	Kitwe	Copperbelt	0955840592	Agro Processing	Ntwilo-Pounded Groundnut; Dried Vegetables etc