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Effectiveness of the Lusaka Stock Exchange Alternative-Market in Capital Finance for SME's in Zambia

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Abstract
This research carried out an assessment of the effectiveness of the Lusaka Stock Exchange (LUSE) Alternative-Market in Capital Finance for SME's. The research was 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 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 ($r = 0.613$). The study concluded that as its Alt-M was 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 was 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. Also, LuSE should increase awareness and understanding to SMEs about alternative financing opportunities through the alternative market. This could be done by making available material on the importance of listing, inviting potential SMEs to workshops and induction programs on listing
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Introduction

Many stock exchanges in developing and emerging nations have lately established specific market categories for small and medium-sized businesses (SMEs)., according to Schellhase and Woodsome (2017). Increasing equity funding access for relatively small but growing companies with the potential to significantly contribute to economic growth and employment on a collective basis is the main goal of these SME boards, as they are commonly referred to. A stock exchange's SME boards may occasionally serve as feeder exchanges, encouraging companies that will eventually advance to the main board. There are currently roughly 30 SME-specific boards in emerging markets and developing countries, the most of which were established during the last ten years or so. As such most of the countries have set up alternative markets at their stock exchange markets to help the srugling SMEs to raise capital. Some have been successful while others haven't. In Zambia such an alternative market is known as Alt-M that is housed in Lusaka Securities Exchange (LuSE).

Due to its success in gathering funds for commercial objectives and long-term investments, LuSE had the ability to grow small to medium-sized businesses and serve as a solution to the difficulty SMEs face in obtaining funding. But since the platform's launch in 2015, no SMEs have been listed on LuSE (LuSE; 2018) Therefore, there was a chance that the Alternative Market could die if corrective action was not taken right once. In this event, an extra platform for SMEs to acquire finance would not exist until the causes of the Alternative Market's failure were identified.

With regards to the objectives, the research aimed at investigating the probable effect of indirect mechanisms of financing on SME capital Financing, determining the possible effect of direct mechanisms of financing on SME capital Financing and outlining the challenges associated with Alternative Market SME listing.

Literature Review and Hypotheses Development

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

Since the early 1990s, the African capital markets have undergone a significant development, claim Hahn et al. (2017). The first stock exchange in Africa opened its doors in 1861, and today, 15 years later, the continent is home to 36 stock exchanges that serve 43 economies and represent 1,400 listed businesses with a combined turnover of $41.14 billion. These markets have consistently expanded and shown they are capable of bringing wealth to the continent. Successful multilateral fundraising efforts by organizations like the African Development Bank (AfDB) and the Trade and Development Bank continue to borrow money in domestic currencies from regional capital markets, demonstrating the expansion and potential of these exchanges. The money raised through such efforts is used to fund development initiatives in the relevant jurisdictions. One successful local currency issue by the AfDB in the Nigerian capital market in 2014 raised NGN12.95 billion (about $80 million). The successful NGN issuance's profits were used to finance some infrastructure projects and regional SMEs.

Nevertheless, despite these heartening success stories, African exchanges are still seen as being underregulated, excessively fragmented, and illiquid. The poor stock market activity and declining foreign investor engagement across all markets justify this classification. In contrast, the continent has a 108 billion dollar infrastructure shortfall that could be easily filled through the regional capital markets.

Table 1.1 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: Author

Overview of capital market in Zambia

A capital market is a regulated marketplace where both private individuals and businesses, including pension funds and corporations, can buy, sell, and trade debt and equity assets (El-Wassal, 2013). An entity whose securities are permitted to be traded by a regulatory authority can readily sell its debt and equity obligations to investors on this market, which is a major source of funding for the entity. Governments can also raise money through the capital markets, typically by issuing long-term bonds. Governments are unable to offer equity securities since they do not issue shares. Long-term securities are intended to be issued and traded on a capital market. The primary activity of the market is the sale of securities by public companies on capital markets. Secondary market activity refers to the later trading of firm securities amongst investors (Sachs et al, 2017).

In 2015, the Lusaka Securities Exchange (LuSE) created the LuSE - Alternative Market (Alt-M), a Market designed for growing businesses or small to medium enterprises (SMEs), with the assistance of PSDIJ. This market was established to give Zambian SMEs access to reasonably priced, long-term financing.

A second tier market was officially introduced by the Lusaka Stock Exchange (LuSE) on April 22, 2015, allowing Zambian growing companies (emerging corporates) to obtain reasonably priced and long-term capital 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 - 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.

SMEs

The definitions for Micro, Small, and Medium Enterprises were set forth by the Zambian government in the Small Enterprise Development Act of 1996. The definitions of the 1996 Act, however, were changed in 2003 as it became clear that they were no longer sufficient to handle the new issues facing SMEs. Consequently, through 2003 revisions to the definitions:

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.

A combination of creativity and improvisation is used by SMEs, according to Antoine et al. (2013), to create local goods and services for local needs using local resources. Simply because of their local activity radius through employment, procurement, and sales, their impact on the community's poorer members is higher. Small enterprises frequently are successful in turning unofficial activities into official ones, directly enhancing the economic vitality of the marketplace.

Theoretical framework

Pecking order theory

According to the pecking order theory, businesses prioritize their financing options (internal financing to equity financing) and reserve equity financing as a last resort. Priority is given to internal resources, and when they are exhausted, debt is issued. When it makes no sense to do so, equity is issued. According to this theory, organizations follow a hierarchy of financing options and favor internal funding when it is available. If external financing is needed, debt is favoured above equity.

SMEs, which are opaque and have high information costs (Psillaki, 2019), especially those with a limited track record, are pertinent to this idea (Cressy and Olofsson, 2017a). SMEs are reluctant to cede control over their businesses (Berggren et al., 2020), which causes them to favor financing choices that place the least amount of restrictions on their operations. According to Jordan et al. (2018), the owner-desire manager's to maintain independence and retain control over the company is the main explanatory factor for SMEs sticking with the pecking order hypothesis of finance.

Life cycle theory

The life cycle hypothesis has its roots in economics literature (Penrose, 1952). The theory is typically applied to explain how a corporation develops through its growth phases or to explain consumer and saver behavior. Furthermore, Timmons (2014) claims that the life cycle model has evolved in its ability to explain how the firm's capital structure and evolving financing requirements have developed. The model presupposes that the firm heavily relies on internal finance in its early stages of development. Less information asymmetries allow the company to acquire more outside funding as it grows (resulting from the ability of outsiders to scrutinise its creditworthiness). However, because they use retained profits to finance investment, businesses will require less debt as they advance in development.

Since SMEs are opaque and have high information costs (Psillaki and Daskalakis, 2019), this theory is especially applicable to those with a limited track record of success. There are quite a few earlier research that corroborate the life-cycle model's usefulness in understanding the financing choices made by SMEs (e.g. Petersen and Schuman, 2017; Fluck et al., 2018; Mac an Bhaird and Lucey, 2019).

Development of hypotheses

H1 There is a significant relationship between indirect mechanisms of financing and SME capital 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 plain vanilla issuances by specialized SME lenders; and SME loan securitization. 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.

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).

H2 There is a significant relationship between direct mechanisms of financing and SME capital 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).

Method

The research was quantitative in nature incorporating a descriptive design. The research targeted 53 SMEs that were oriented by DBZ with regards to listing on the Alt-M. In order to reduce bias and ensure that every targeted SME had an equal opportunity in participating in the research, simple random sampling method was used and 47 of them were sampled. A structured questionnaire was used as a data collection tool which was distributed electronically. To analyse primary data, SPSS version 25 was used

Results

Correlation Analyses

The Table 1 reports the means and standard deviations of dependent, independent and control variables.

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 1 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).

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 2 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).

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.

Table 2 Hierarchical Regression Analyses

Variable	Model 1	Model 2	Model 3	VIF
	Beta, t	Beta, t,	Beta, t,	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

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 were 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.

Hypothesis testing

Table 3 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 3 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 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 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.

Challenges associated with SME capital financing.
Table 5 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		

Discussion

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.

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).

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).

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.

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. 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.

vi. Future research should look at regional alternative markets so that results can be compared.

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