Challenges Facing Small and Medium Enterprise (SMEs) in Accessing Public Equity in Zambia

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Abstract

Access to public equity has been one of the biggest challenges for small-and medium-sized enterprises (SMEs). in Zambia. To address this challenge, the Lusaka Securities Exchange launched the Lusaka Securities Exchange (LuSE) Alternative Market (Alt-M) whose aim is to create a more enabling platform for SMEs and other emerging companies to participate on the capital markets and thereby raise capital for growing their businesses. Despite this initiative, the Alt-M has not achieved any listing since its inception. The objective of this research study is to investigate obstacles that SMEs face in raising long-term finance through LuSE Alt-M.

The study focuses on the analysis of secondary data. The researchers reviewed multiple data sources that included books, reports and publications, journal articles, and online databases. The research findings identify a number of challenges encountered by SMEs in Zambia. The challenges that featured prominently include availability of information, corporate governance issues regulatory requirements, and transaction costs. Accessing public equity by SMEs continue to be a challenge to growing the SME sector in Zambia. A number of policy recommendations made by the research paper include market education targeting both SMEs and investors, tax incentives, reducing disclosure requirement, and private placement of issue issues in order to reduce transaction costs.

Keywords: Sock exchange; Small and medium-sized-enterprises (SMEs), public equity; Lusaka Securities Exchange (LuSE); Alternative Investment Markets

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1. Introduction

Mostly driven by innovation and technological advancements, the global landscape is evolving rapidly. Amidst these developments, a new cohort of small businesses continue to join well-established companies with the aim of establishing themselves and attaining competitiveness in the markets. In order to attain growth, small businesses are in need of growth capital. One of the identified avenues that small and medium-sized enterprises (SMEs) can utilize to raise funds are capital markets. But attracting appropriate growth capital at various growth milestones has been challenging for SMEs. The journey by SMEs to becoming publicly traded companies can be quite complex and costly. Compared to large, well-established firms, SMEs require more assistance in the form of regulatory reforms to access funding from capital markets. Capital markets can help to facilitate investments from large companies, pension funds, savers, and other investors (UK Finance, 2023). The creation of alternative investment markets in various stock exchanges across the world has provided the support needed for SMEs to access long-term finance.

2. Importance of SMEs

SMEs play a vital role in promoting national development for several countries the world over (Ministry of Small & Medium Enterprise Development, 2023). SMEs are crucial in improving the economy of a country (Kambone & Mbetwa, 2024). "SMEs contribute up to 40 percent of national income in emerging economies."(Ministry of Small & Medium Enterprise Development, 2023). According to the World Bank SME Finance Report of 2022, SMEs account for approximately 90 percent of businesses and provide employment opportunities to more than 50 percent of the population worldwide (Ministry of Small & Medium Enterprise Development, 2023). In Zambia, SMEs make significant contributions to the creation of employment opportunities and creation of wealth. The Financial Scoping Survey Report by the Bank of Zambia and ILO for 2021 found that SMEs account for about "70 percent of Zambia's gross domestic product (GDP) and 88 percent of employment." (Ministry of Small & Medium Enterprise Development, 2023) In addition, approximately 97 percent of all businesses in Zambia come from the SME sector. The SME sector is one of the sustainable tools that the Zambian government uses to reduce poverty levels and enhance the quality of life amongst households through job and wealth creation (Mwarairi & Ngugi, 2013; Kambone & Mbetwa, 2024). The Zambian government recognizes the contribution of SMEs to domestic and export earnings and to employment creation opportunities (Ministry of Small & Medium Enterprise Development, 2023). The growth of SMEs is therefore important if Zambia is to derive benefits from this sector. In order to achieve this growth, SMEs must have access to patient capital. The absence of growth capital will result in SMEs being deprived of the life blood essential for the sectors continued development (Chiu, 2003). There could be other factors that impede the growth of SMEs, the major obstacle to growth of this sector had been limited access to affordable finance. (Ministry Of Commerce Trade & Industry, 2008; Nuwagaba, 2015) The SMEs ability to survive and grow is largely predicated upon their ability to leverage affordable financing. Bank credit is one of the considered sources of finance for SMEs though it has proven to be expensive and burdensome due to conditionalities that usually accompany bank loans (Nketani, 2007). Commercial banks are not keen to extend bank loans to businesses with no proven track record. Even where collateral is available, SMEs are risky investments and are levied high interest rates on the loans obtained. Following the 2008 financial crisis, prudential regulations in the banking sector have been strengthened making it even more challenging for SMEs to access loan capital (Chartered Institute of Securities & Investments, 2017). As such, financial institutions are more risk averse, drastically diminishing their intermediation capacity. Thus, SMEs remain under-capitalized with stunted growth. Access to finance, therefore, remains one of the major challenges faced by SMEs. "Despite the creation of the Zambia Credit Guarantee Scheme, the scheme has not been able to accommodate all eligible SMEs due to insufficient funding. According to the Bank of Zambia Zambanker: of June 2018, the survival and growth of SMEs continue to be at risk because of the difficulties they face in accessing finance through traditional financial institutions." (Ministry of Small & Medium Enterprise Development, 2023) In order to ensure the survival and growth of SMEs, alternative sources of finance need to be explored. Raising long-term capital through an organized, transparent, reliable and orderly functioning stock exchange offer a viable financing option for SMEs in Zambia.

3. The Lusaka Securities Exchange

The Lusaka Securities Exchange acts as a marketplace for trading debt and equity instruments (Chartered Institute of Securities & Investments, 2017). The Lusaka Securities Exchange offers capital raising opportunities to both well- established companies and SMEs. In order to trade on the securities market, a company must obtain a listing on the exchange (Lusaka Stock Exchange, 2012). This entails the company meeting certain listing criteria. "The listing requirements are aimed at offering investor protection and provide regulations for fair trading. Furthermore, they aim at improving the quality of products being traded on a particular exchange" (Fleckner, 2006). These requirements fall into two categories: initial and continuous listing requirements. The initial listing requirements enable a company to gain admission to trade on exchange, cover such issues as composition of the board of directors; the establishment of specific board committees, provision of audited financial statements etc (Lusaka Stock Exchange, 2012). The on-going or continuous listing rules cover disclosure requirements for price sensitive information, production of annual financial statements etc. (Lusaka Securities Exchange, 2015).

In addition to the above requirements, the Securities and Exchange Commission (SEC) – Zambia requires all companies intending to list on the securities market to first register their securities with the institution (SEC Zambia, 2017; Securities Act Chapter 354 of the Laws of Zambia). SEC provides regulatory oversight of the capital market in Zambia. (Securities Act Chapter 354 of the Laws of Zambia). SEC is the apex regulator of the Capital Markets in Zambia (SEC Zambia, 2017). The role of SEC is to "effect regulation through licensing, registration and authorization for financial intermediaries, issuers of debt / equity instruments and collective investment schemes" (SEC Zambia, 2017) This oversight is aimed at protecting investors against malpractices (e.g. insider trading, market abuse etc.); and systemic risk, such as price or default risks (Chartered Institute of Securities & Investments, 2017).

4. The LuSE Alternative Market

The LuSE Alternative Market (Alt-M) was established to create a more enabling platform for SMEs and other emerging companies to participate on the capital markets and thereby raise capital for growing their businesses (SEC Zambia, 2017). The reason for the creation of the Alt-M was to bring forth the following potential benefits to Zambia: "access to long term financing through the capital markets; potentially lower costs of borrowing and accessing finance; access the capital market at lower cost compared to main board; create and develop businesses that will contribute towards employment creation and economic development; offer share option incentives to increase employee commitment and improve quality of recruits; improve your image and attract new investors and investment.; increase investor confidence and corporate image through use of value-adding reporting as well as better quality of information dissemination both internally and externally; and create liquidity and realize value for existing shareholders" (SEC Zambia, 2017) A company intending to list on the Alt-M must first register their securities with SEC (Securities Act Chapter 354 of the Laws of Zambia). It is only then that the company can list its shares with the Lusaka Securities Exchange. The Alt-M's list rules are less onerous compared to the main board. The aim was to enable the listing of SMEs without the burdensome conditions of the main board. The requirements for a company to list on the LuSE Alt-M are that the company must have in its employment at least 20 to150 employees or that its annual turnover must be between ZMW 0.25million to ZMW 20 million (Lusaka Securities Exchange, 2015; SEC Zambia, 2017). Other requirements include the following: "Firstly, the company must appoint a Designated (Nominated) Advisor and must put in place an induction programmed for company directors. Secondly, the Board must be composed of not less than five people, a majority of whom must not belong to the same immediate family or close relations. Thirdly, the company must submit a 5-year business plan together with audited accounts alongside the application to list. Fourthly, the company's minimum share capital should be ZMW0.50 million. Lastly, the company is required to publicly float 10 percent of its issued share capital." (Lusaka Securities Exchange, 2015; SEC Zambia, 2017)

5. Research problem and justification

SMEs continue to face challenges in obtaining affordable finance to help them grow their business. The creation of an Alt-M was aimed at helping to accelerate the "graduation of companies from SME category to large local corporations in each industry." (SEC Zambia, 2017). The Alt-M offer cheaper financing options to SMEs to achieve growth. (Hillier, Ross, Westerfield, Jaffe, & Jordan, 2013) The Lusaka Securities Exchange, having recognized the significance of SMEs to accelerating economic growth in Zambia, devised less burdensome criteria to enable the listing of SMEs on the Alt-M. Access to growth capital would enable SMEs expand their business activities and help in providing stable and quality job opportunities. Listing on the Alt-M confers several benefits to SMEs that include enhancement of the image of the company: attracting, motivating and retention of qualified and competent staff through share ownership and option plans. In addition, listing on the Alt-M would enable SMEs founder - owners an avenue to exit, either partly or in full, from their investments (Geddes, 2006) Investors and venture capitalists want to invest in emerging companies on the securities market that have high potential for growth because they deliver higher returns in the long-term (Chartered Institute of

Securities & Investments, 2017) Shares on the securities market trade in high volumes on daily basis, providing liquidity market to investors, and attracting relatively low trading costs (Geddes, 2006). Despite these apparent benefits, the Alt-M has not attained any listings from SMEs since it was created in 2015(Lusaka Securities Exchange, 2015). The objective of the research study was to investigate obstacles that SMEs face in raising long-term finance through LuSE Alt-M.

6. Research questions

Following from the above research objective, the research study addressed the following research questions:

i. What are the most significant barriers to SMEs' access public equity through the LuSE Alt-M ?

ii. To what extent do LuSE Alt-M provide SMEs' accessibility to diverse financing options?

iii. What policy interventions could improve SMEs' access to public equity in Zambia?

7. Literature Review

The Role and Functions of Stock Exchanges

The purpose of stock exchanges world over is to provide a marketplace where debt and equities are traded (Chartered Institute of Securities and Investments, 2017). They help in bringing together sellers and buyers of debt and equity instruments. The role of stock exchanges is essentially to oversee the market that they organize. They provide a robust infrastructure for investors in securities (Harper, 2024). Stoch exchanges are themselves subject to a regulatory authority of a particular country, e.g. Securities and Exchange Commission in Zambia (Fleckner, 2006; Kaombe, 2018). Stock Exchanges perform several functions, in addition to the vital role of providing a marketplace for trading debt and equity instruments. These functions serve the economy, and by extension, the public in following ways (Chartered Institute of Securities & Investments, 2017). Stock exchanges:

a) Play an intermediation role by bringing together companies that require financing, on the one hand; with investors that have the money to invest, on the other (Chartered Institute of Securities & Investments, 2017).

b) Provide investors with an investment platform that enables them to spread risk by investing in different types of securities (Chartered Institute of Securities & Investments, 2017).

c) Provide a mechanism for price discovery for debt and equity instruments through the provision of certain information to the market. For instance, information on the trades that has been executed, including prices at which market participants are willing to buy and sell securities (Lusaka Securities Exchange, 2015; Kaombe, 2018).

d) Offer liquidity to the market: that is, investors can easily buy and sell securities without either delay or a significant effect on market price (Lusaka Securities Exchange, 2015; Kaombe, 2018).

Theoretical Review

To address the research objectives and questions, the researchers reviewed theories by various writers concerning the determinants of financing preferences by companies. There are several theories that have been developed over the years that should help to explain why certain entrepreneurs give preference to one form of financing over the other. The following theories have been adopted for this research study and include the Pecking Order Theory (POT) (Myers, 1984; Myers & Majluf, 1984), Agency Cost Theory (Jensen & Meckling, 1976), and Trade-Off Theory (Kraus & Litzenberger, 1973; Scott, 1977; Kim, 1978). The significance of understanding the determinants of capital structure should permit the application of appropriate regulatory and policy measures that enhances the availability of growth capital to SMEs, consequently stimulating the expansion and development of these enterprises.

Pecking Order Theory (POT)

Developed by Myers and Majluf (1984), the Pecking Order Theory (POT) can be used to explain "the financing preferences of small businesses despite it being developed for large companies" (Mlohaolas, Chittenden, & Outsource, 1998; Osei-Assibey, Bokpin, & Twerefou, 2011; Kaombe, 2018). Myers and Majluf (1984) and Myers (1984) argue that firms adhere to a certain order of raising finance "with internal finance being preferred; and if external finance is required, debt is preferred than equity." (Myers, 1984; Myers & Majluf,1984). Halov and Heider (2005) suggests that the POT can be explained using "asymmetric information theory" and " the transaction costs of external financing." Brealey and Myers (2003) suggests that financing preference can be attributed to information costs associated with asymmetric information. The asymmetric theory states that managers and investors rarely possess the same information regarding the value of financial assets (Brealey & Myers, 2003; Serrasqueiro & Caetano, 2015). Information asymmetries would be easily resolved if everyone had the same information – but this is usually not the case (giving rise to information costs) (Brealey & Meyers, 2003). Thus, due to high information costs, managers are justified to issue securities with the least information costs (Myers & Majluf, 1984). "The problems of adverse selection are more severe to small and medium-sized companies." (McMahon, Holmes, Hutchinson, & Forsaith, 1993). This should clarify why small businesses prefer internal sources of finance given that such companies bear high information costs owing to the opaque (or non- transparent) nature their operations (Psillaki, 1995; Matemilola & Bany- Ariffin, 2011). The small firms have high levels of asymmetric information due to the quality of their financial statements (Matemilola & Bany-Ariffin, 2011; Myers & Majluf, 1984). Despite a preference for audited financial statements by investors and regulators, small business owners tend to avoid such costs of such statements (Myers & Majluf, 1984). Thus, when it comes to issuing equity capital, small businesses normally consider such costs as being too high; but for internally generated funds, costs can be considered as non-existent. Myers and Majluf (1984) suggests that managers follow the route that offer the least resistance, "then work down a pecking order by opting to issue the cheapest form of financing" (Myers & Majluf, 1984). That is, companies will prioritize "retained earnings" first, and when retained earnings are exhausted, the firm will then issue debt capital; followed by equity. "This reaffirms an empirical fact that demonstrates an apparent preference by companies for using internal finance over external finance" (Meyers, 1984). If internal funds are not adequate to finance investment opportunities, companies may or may not acquire external financing; but if they do decide to acquire external finance: they select from amongst the many external sources of finance so as to reduce additional costs associated with asymmetric information. Companies will therefore prioritize sources of funding starting with retained profit, followed by low-risk debt, and finally, with external equity (Myers & Majluf, 1984; Matemilola & Bany-Ariffin, 2011). In other words, retained profit sit at the top of the pecking order, followed by debt and lastly, with external equity lying at the bottom of the pecking order (Matemilola & Bany- Ariffin, 2011). This preference reflects the relative costs of the various sources of finance (Myers & Majluf, 1984).

Trade- Off Theory

The Trade-off Theory suggests that firms are motivated to use debt to finance their activities so as to derive benefits from debt tax-shields (Serrasqueiro & Caetano, 2015). Several studies reveal "a positive relationship between the effective tax rate and debt." (DeAngelo & Masulis, 1980; Haugen & Senbet, 1986; Fama & French, 2002) Baxter (1967). DeAngelo and Masulis (1980) "predict that firms will seek to maintain an optimal capital structure by balancing the benefits and the costs of debt." The benefits of debt include the tax savings whereas its costs include financial distress that arise from a firm having to meet fixed loan interest irrespective of whether a company posts a profit (Baxter, 1967). The Trade-off Theory suggests that a firm's capital structure is determined by balancing the benefits of debt, arising mostly from tax savings, with the costs linked to debt (Baxter, 1967; Kraus & Litzenberger, 1973). Oruç (2009) posits that it is to a firm's benefit to fund its requirement with debt than equity due to benefits that accrue from debt, that is, tax benefits of debt (Oruç, 2009) Green et al (2002) argue that tax policies have a real influence in determining capital structure because tax authorities permit deduction of interest on debt in computing taxable profits. Tax advantages therefore encourages firms to employ more of debt "because as debt increases the after-tax profits to the owner increases" (Lungu, 2020). The major drawback of debt is financial distress. However, funding company activities through issuance of equity give rise to agency costs "which are as result of conflict of interest between the various stakeholders of the company" (Jensen & Meckling, 1976). By factoring in the agency costs, a firm can decide its capital structure by trading- off the tax benefits of debt against the drawbacks of too much debt and the agency costs of equity (Luigi & Sorin, 2009). Regarding SMEs, research studies by Serrasqueiro and Caetano (2015) found that " the SMEs, with greater size, resort more to debt, thereby corroborating the predictions of the Trade-off Theory. In addition, SMEs adjust noticeably their current level of debt towards the optimal debt ratio." Serrasqueiro and Caetano (2015) concludes that "younger and smaller SMEs should be the object of public financing support, when the internal financing is clearly inadequate to fund those firms' activities."

Agency Cost Theory

In large corporations, ownership interest is normally spread over many shareholders. The shareholders put in place a board that in turn appoints a management team, thereby giving management effective control of the business (Grinsted, 2018). According to Jensen and Meckling (1976), this arrangement creates conflict of interest concerning whether management take actions that aim at maximizing shareholder wealth. "The agency cost theory is based on the premise that management do not always act in the best interest of shareholders. It focuses attention on inherent costs arising from conflicts of interest between shareholders and managers. (Jensen & Meckling, 1976) In circumstances where a dominant shareholder (such as a family group) owns a majority stake in a company, managers are likely to serve the interest of a subset of the owners of the company. The two examples highlight problems arising out of agency relationships (Hillier, Ross, Westerfield, Jaffe, & Jordan, 2013) Abbot et. al. (2013) have defined agency relationship as follows: "A contractual arrangement where one or more persons (called the principal) engage another person (the agent) to perform some service on their behalf." (Abbott, Pendlebury, & Wardman, 2018; Hillier, Ross, Westerfield, Jaffe, & Jordan, 2013). The agents (as used in this context) are the employees of the principal (e.g. managers of a company) (Kaombe, 2018). In agency relationships, decision-making authority devolves from the principal (who are the shareholders) down to the agent (Abbott, Pendlebury, & Wardman, 2018). This distinction concerning ownership and management in large companies is "a practical necessity owing to the many shareholders that are involved" (Brealey & Myers, 2003). There are several benefits associated with this separation of ownership. These benefits include the possibility to change shareholders without affecting a company's operations. In addition, the company can attract and employ full-time professional managers. This separation of ownership can, however, pose challenges in cases of conflict of interest between owners and managers conflict (which is most often than not) (Hillier, Ross, Westerfield, Jaffe, & Jordan, 2013). Shareholders' interest is for management to increase the value of the company. On the other hand, managers may have their own "nests to feather." (Brealey & Myers, 2003) The principal – agency relationship generated by the legal form of the company leads to agency costs (Jensen & Meckling, 1976). "Agency costs are incurred when managers fail to take decisions aimed at maximizing the value of the company" (Jensen & Meckling, 1976). Agency costs also arise due to the need to monitor the actions of managers (Brealey & Myers, 2003). A typical example of agency costs are payments made to external auditors to assess the accuracy of published financial statements (Hillier, Ross, Westerfield, Jaffe, & Jordan, 2013).

Agency costs do not exist in wholly owned, owner-managed businesses because there is no possibility of conflict of interest between principal and agent (Luigi & Sorin, 2009). In addition, owner-managers tend to avoid such "costs of monitoring that are linked to external audits" (Hillier, Ross, Westerfield, Jaffe, & Jordan, 2013). "This is typical of family- owned businesses or businesses whose ownership interest is in the hands of one or few individuals" (Kaombe, 2018; Panikkos, 2004). There is thus reduced conflict of interest and agency costs in fully owned owner-managed businesses (Ghazouani, 2013). In the event the owner-manager decides to sell part ownership interest to outsiders, this action is likely to generate agency costs due "divergence of interests between the owner – manager and outside shareholders" (Jensen & Meckling, 1976; Ghazouani, 2013). "The less ownership the manager possesses, the more there is a severe divergence between his interests and those of shareholders." (Ghazouani, 2013) Jensen and Meckling (1976) posits that "agency conflict between the owner-manager and outside shareholders or debtholders derive mainly from the manager's propensity to appropriate perks out of the firm's resources for their consumption." (Jensen & Meckling, 1976) The agency cost theory can be used expound why owner-managers (of small businesses) are not willing to pursue financing options that opens the company to outsiders (Hillier, Ross, Westerfield, Jaffe, & Jordan, 2013). Raising capital through a stock market opens the company to outside interests and increases agency costs, thereby decreasing the incentives of owner-managers to list the companies on the stock market (Panikkos, 2004; Serrasqueiro & Caetano, 2015). It also increases the risk of company takeovers (Panikkos, 2004).

Opportunities to access public equity by SMEs on stock exchanges

The 1990s saw the creation of stock market sub-segments that contained less stringent listing requirements (ASEA, 2020; Hayes, 2024; Chen, 2023). This development lessened the dependency of SMEs on banks for external financing, thereby eliminating the financial obstacles that deterred their growth and competitiveness (Revest & Sapio, 2013). The Alternative Investment Market (AIM) of the London Stock Exchange (LSE) was created during this period in 1995. "The London Stock Exchange is one of the oldest stock exchanges in the world, the largest in Europe, and the main stock market of the United Kingdom." (Chen, 2023) AIM, also known as the "junior market", is a sub-segment of the main market that was created to meet the financing requirements of smaller, but riskier companies (Hayes, 2024; Mendoza, 2008). AIM's business model is anchored on "less onerous listing standards and lighter ongoing requirements for listed companies, paired with the so-called Nominated Advisers" (or Nomads) (Jenkinson & Ramadorai, 2008). A Nomad is a private consultant that guides firms through their existence as listed companies (Mendoza, 2008; Jenkinson & Ramadorai, 2008) Nomads provide advice to companies prior to Initial Public offerings (IPO) and after the IPOs (Hayes, 2024). The following is a tabulation of admission requirements and ongoing obligations for the main market and AIM (Jenkinson & Ramadorai, 2008).

Table 1. Admission requirements for Main Market and AIM (Source: "Doe One Size Fit All? The Consequences of Switching Markets with Different Regulatory Standards. "Jenkinson & Ramadorai, (2008)

Main market	**AIM**
Admission requirements	
Minimum 25% in public hands	No minimum shares in public hands
Normally 3 years trading record required	No trading record required
Pre-vetting of admission by a recognized authority	Admission documents are not pre-vetted by exchange or any listing authority
Admission takes several months	Admission can be attained within 2 weeks
Minimum market capitalisation on entry	No minimum market capitalisation
Sliding scale admission fee	Flat rate admission fees
	Nominated advisor always required
Continuing obligations	
Prior shareholder approval required for substantial acquisitions and disposals	No shareholder approval for transactions
Sliding scale annual fees	Flat rate annual fee
Fees charged for subsequent issues	No charge for subsequent issues
	AIM companies enjoy "some" tax benefits

AIM started out with only 10 companies when it was created in 1995 (Mendoza, 2008). Since then, AIM has recorded tremendous success, netting over £130 billion for more than 3,988 companies as of 2022 (Mendoza, 2008). AIM hosts close to 852 companies with a combined market capitalization of approximately £135 billion as of January 2022 (Hayes, 2024). "AIM has attracted a growing number of overseas companies onto its market: nearly 400 foreign companies were quoted on AIM at the end of 2006." (Jenkinson & Ramadorai, 2008) The protype model adopted by AIM has attracted attention from other exchanges across the world. AIM's success led to other stock exchanges launching similar segments. Examples include "the Alternext market launched by NYSE - Euronext, and First North, part of the NASDAQ - OMX group of exchanges, which covers the Nordic and Baltic regions." (Jenkinson & Ramadorai, 2008) Similar trading platforms were launched across Europe. These include: "the Borsa Italiana, which launched its Mercato Expandi in December 2003; the Irish Enterprise Exchange, which was created in April 2005; the Nordic OMX, which introduced the First North segment." (Mendoza, 2008) The New Zealand Stock Exchange launched the New Zealand Alternative Market, and the Singapore Stock Exchange launched a similar trading platform." (Mendoza, 2008)

Stock exchanges in African countries have also attempted to replicate AIM by creating sub-segments on their exchanges to help fill the financing gap for small businesses (ASEA, 2020). Over 20 African stock exchanges created SME boards dedicated to trading the shares and securities of small businesses. The admission requirements for small businesses are less burdensome compared to those of the main market, making it easier for small businesses to gain admission. The admission requirements to SME boards are not the same across the African stock exchanges (ASEA, 2020). Table 2 below is an extract from the report by African Securities Exchanges Association (ASEA) regarding some African stock/securities exchanges (from the over 30 African stock exchanges), their SMEs bourse and Listings as of 31 December 2017 (ASEA, 2020).

Table 2: An extract of list of stock exchanges in Africa and listings on SME bourse (Source: ASEA Report on Capital Raising Opportunities for Small & Medium Enterprises (SMEs) on Stock Exchanges in Africa; ASEA, 2020)

Country	**Stock/Securities Exchange**	**SME Bourse**	**Listings**
Botswana	Botswana Stock Exchange	Venture Capital Board	7
Cameroon	Doula Stock Exchange	Doula Stock Exchange	0
Egypt	Egyptian Stock Exchange	Nile Stock Exchange	32
eSwatini	Swaziland Stock Exchange	SME Board	0
Ghana	Ghana Stock Exchange	Ghana Alternative Market	0
Kenya	Nairobi Securities Exchange	Growth Enterprise Market Segment	5
Libya	Libyan Stock Market	Libyan Submarket	0
Malawi	Malawi Stock Exchange	Alternative Capital Market	0
Mauritius	Stock Exchange of Mauritius	Development and Enterprise Market	49
Morocco	Casablanca Stock Exchange	Growth Market	12
Mozambique	Mozambique Stock Exchange	SECOND Market	1
Nigeria	Nigeria Stock Exchange	Alternative Securities Market	10
Seychelles	Trop-X Limited	SME Board	1
South Africa	Johannesburg Stock Exchange	Alternative Exchange	53
Tunisia	Bourse de Tunis	Tunis Stock Exchange Alternative Market	0
Uganda	Uganda Securities Exchange	Growth Enterprise Market Segment	0
Zambia	Lusaka Securities Exchange	Alternative Market	0

Compared to their counterparts in developed countries, the creation of SMEs boards by African stock exchanges in developing nations have yielded mixed results. Some African exchanges have scored successes in achieving listings, with Johannesburg Stock Exchange (JSE) recording the highest number in terms of listings. Other exchanges, including the Lusaka Securities Exchange Alternative Market, have failed to attain even a single listing. It is evident that stock exchanges have faced hurdles in their attempt at obtaining listing on SME boards. (Lungu, 2020).

Challenges facing SMEs listings in Africa

Researchers have conducted studies on challenges that face SMEs in obtaining listing on stock exchanges. Following is a summary of research findings challenges faced by SMEs in listing on stock exchanges in Africa. The researchers considered authors on challenges facing SMEs stock listing in Africa because these countries share similarities with Zambia in terms of socio-economic development. In addition, the motivation for SME growth is the same in these African countries (ASEA, 2020).

Authors (Year)	**Scope**	**Issues covered/ findings/conclusions on SMEs listing**
ASEA (2020)	Botswana; Cameroon. Egypt; Kenya; Mauritius; Morocco; Mozambique; Namibia; Nigeria;	The study revealed the following as affecting SME listing: “Affordability of costs associated with listing a company; lack of company visibility and brand awareness; adherence to corporate governance structures and standards; regulatory issues (e.g. listing requirements being too stringent); lack of

	Seychelles; South Africa; Sudan; Swaziland; Zambia and Zimbabwe.	business acumen; indistinct business plans; concern with losing complete ownership of the company; concern with becoming overpowered or intimidated by larger corporate." (ASEA, 2020)
Chisanga (2023)	Zambia	The study revealed the following as being the major challenges for SME listing: " the listing rules and regulations were not found to be favorable and attractive by most SMEs. Also, there was no adequate information available to the potential SMEs regarding what Alt-M is and how it's going to help them with capital financing. Other challenges cited were in the areas of accountability, ownership dilution, and the need for disclosure because a significant percentage of SME's in Zambia are family held businesses. Most 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." (Chisanga, 2023)
Chitekuteku & Sandada (2016)	Zimbabwe	The study revealed as the following affecting listing on Alternative Investment Market "information accessibility, regulatory requirements, corporate governance, and SMEs support platforms." (Chitekuteku & Sandada, 2016)
Johnson & Kotey (2018)	Ghana	The research found that "over half of the SMEs had some information about the GAX. However, their knowledge regarding the benefits of listing on the GAX as well as what they require to list is very limited. Also, the findings revealed that SMEs had a difficulty accessing stock market operators as well as stock market information." (Johnson & Kotey, 2018)
Kawimbe, Sishumba, Sikazwe, & Saidi (2022)	Zambia	"The findings of the study suggest that availability to information is critical to listing, and that a regulatory environment that is friendly to small and medium firms will encourage them to list. Furthermore, while corporate governance is not a prerequisite for SMEs to list, good corporate governance practices have been proven to promote SMEs to list." (Kawimbe, Sishumba, Sikazwe, & Saidi, 2022)
Lungu (2020)	Zambia	The study cited the following as affecting SME listing namely: "Information accessibility, regulatory requirements, corporate governance issues, transaction costs." (Lungu, 2020)
Musawa, Mwaanga, & Chilando (2017)	Zambia	"The findings of this study revealed that of the four factors that were assessed, access to information and following regulations have a positive significant effect on the desire to list. Desire to maintain full control has a significant negative effect on the desire to list. While corporate governance has no significant effect on the desire to list, although the result could not be conclusive because most of the respondents were not sure of what corporate governance is." (Musawa,

		Mwaanga, & Chilando, 2017)
Nwakoby & Okoye (2014)	Nigeria	The study reveals that "information about the activities of the capital market among SMEs specifically, in respect of its relevance to access long term finance is still very low. The few SMEs that are aware fear losing control of their companies to wealthy shareholders. The study also finds that the listing requirements constitute major constraints to procuring long term finance by SMEs. (Nwakoby & Okoye, 2014)
Semenya & Dhliwayo (2020)	South Africa	" 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." (Semenya & Dhliwayo, 2020)
Okello (2018)	Kenya	The study found that " SMEs lacked a deeper understanding of the listing requirements and processes involved and hence were not able to list. Other factors influencing ability to list was the size of the firm and the firm structure influenced the level of SMEs listing. Majority of the companies researched were family owned, there was fear of diluting ownership of the company and therefore most of the companies would shy away from listing to maintain the family ownership structure. Managerial competence was also cited as influencing SMEs decision to list." (Okello, 2018)

8. Research Gap

Several studies have been conducted over the past decade to explicate challenges facing SMEs raising public equity on sub-segments of African stock exchanges in general, and on the LuSE Alt- M, in particular (Chisanga, 2023; Lungu, 2020; ASEA, 2020; Semenya & Dhliwayo, 2020; Kawimbe, Sishumba, Sikazwe, & Saidi, 2022). While financing preferences of entrepreneurs are well-theorized in some of the research documents reviewed, there appears to be limited research on how these theories impact SMEs ability to access public equity. "Ideally, theories underpins practice." (Abass, Hassan, & Abosede, 2020) This research study therefore aims to address this practical gap by demonstrating how theories can impact real-world situations. (Cong-Lem, 2020). Based on the results of the study, practitioners should be able to devise and implement evidence-based strategies effectively.

9. Research methodology and data sources

The research study adopted qualitative research and relied on secondary data sources. Secondary data represents "data that have already been collected for some other purpose." (Saunders, Lewis, & Thornhill, 2009). The researchers considered secondary data to be sufficient because of the availability of a trove of documents that helped in generating sufficient data that addressed the research questions. It was apparent that the topic on financing of SMEs has generated a lot of interest amongst researchers over the years. "Re-analyzing secondary data helped develop new insights for the researchers." (Saunders, Lewis, & Thornhill, 2009) To achieve the research objective, the researchers reviewed multiple data sources that included books, reports and publications, journal articles, and online databases. In terms of the number of documents analysed, saturation was the main determinant. "In qualitative research, saturation is taken to indicate that on the basis of data collected or analysed, further data collection or analysis is unnecessary as it no longer yields new insight or themes." (Yin, 2013; Saunders, et al., 2017)

10. Findings and discussion

LuSE Alt-M has created opportunities for SMEs to access long-term finance. The loosening of listing requirements by the stock exchange were aimed at enhancing the ability of SMEs to raise finance on the stock exchange. Despite the less burdensome listing requirements, SMEs in Zambia have failed to take advantage of available opportunities to access public equity on the capital market. The research findings identified several challenges encountered by SMEs in Zambia. The challenges that featured prominently include availability of information, corporate governance issues regulatory requirements, and transaction costs. There is inadequate information flow to SMEs about opportunities to access long-term finance on the capital market. SMEs that do not possess sufficient information with respect to opportunities on the stock market. Information asymmetry gives rise to information costs. The need for SMEs to submit a 5-year business plan together with audited accounts alongside the application to list can also be considered an obstacle to listing on the stock due. The opaque or (non-transparent) nature of SMEs gives rise to high information costs. Corporate governance issues such as board composition (requiring the majority not to belong immediate family or close relations), is the other considered obstacle to SME listing on the stock exchange. SMEs are required to publicly float 10 percent of their issued share capital. This process is likely to attract outside interests giving rise to agency costs. Accessing public equity thus opens up increases agency costs, thereby decreasing the incentives of SMEs to list their companies on the stock market.

11. Conclusion and recommendations

The stock market provides alternative sources of long-term finance for SMEs. The initiative by the Lusaka Securities Exchange to launch Alt-M is step in the right direction that should help SMEs to access public equity. There is therefore a need for SEC Zambia, Lusaka Securities Exchange and stockbrokers to address the challenges currently faced by SMEs in achieving successful listing. Recommendations that would help overcome the challenges include market education targeting both SMEs and investors, tax incentives, reducing disclosure requirement, and private placement of share issues to reduce transaction costs.

12. Areas for further research

The revelation by the research study on the low uptake of SMEs on African stock exchanges provides an interesting area of research. Research can be undertaken to determine whether socio-cultural factors, a particular propensity to take risks, have a bearing SMEs listing on the stock exchange. It has been observed that stock exchanges in developed countries have been successful in achieving listings on alternative investment markets compared to their counterparts on African Exchanges.

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