EAST AFRICAN FINANCE JOURNAL (EAFJ)
Volume 4 Issue 1 |2025 | pp 47 - 75

E-ISSN: 2959-9121

Factors Affecting the Listing of Small Businesses on the Lusaka Securities Exchange Alternative Market in Zambia

Comfort Mutale*

School of Business Economics and Management, University of Lusaka, Zambia

*Corresponding Author

Macmillan Handema

School of Business Economics and Management, University of Lusaka, Zambia

Article DOI: *10.59413/eafj/v4.i1.4*

Abstract:

Small and Medium Enterprises (SMEs) are vital to Zambia's economy, contributing significantly to GDP, employment, and business activity. Despite the launch of the Lusaka Securities Exchange Alternative Market (LuSE Alt-M) in 2015 to address SME financing gaps, no SMEs have listed on the platform. This study investigates the factors that hinder SME participation in LuSE Alt-M. The study employs a mixed-methods approach. Data was collected through questionnaires targeting key stakeholders, including regulators and financial institutions. Descriptive and thematic analyses revealed significant barriers to listing, with low awareness and inadequate financial literacy emerging as the most critical challenges. Although SMEs generally recognize the potential benefits of equity financing, misconceptions about ownership loss and procedural complexities deter participation. Key findings suggest that simplified listing processes, targeted financial literacy programs, and enhanced marketing efforts are essential to improve SME engagement with LuSE Alt-M. The study recommends initiatives such as mentorship programs, sector-specific incentives, and digital outreach to increase awareness and accessibility. Strengthening collaborations between stakeholders, such as regulators, financial institutions, and business incubators/accelerators, is also crucial to building a supportive ecosystem for SME growth and market participation.

Keywords: SME Financing, Lusaka Securities Exchange, Alternative Market, Financial Literacy, Equity Financing, Business Growth, Alternative Finance, Capital Markets

1. Introduction

This study investigates why Small and Medium Enterprises (SMEs) in Zambia are not listing on the Lusaka Securities Exchange Alternative Market (LuSE Alt-M), despite its creation to address SME financing challenges. According to the 2023 Revised National

Micro Small and Medium Enterprise Development Policy, Small and Medium Enterprises (SMEs) play a crucial role in Zambia's economy, contributing to 70% of the country's GDP growth and representing approximately 97% of all businesses. The Policy highlights that according to the Zambia Revenue Authority (ZRA) Annual Report for 2019 there were approximately 110,508 taxes paying MSMSEs recorded.

One of the major objectives of the 2019 Mico Small and Medium Enterprise (MSME) Development Policy was to increase the access of MSMEs to affordable business financing. The launch of the LuSE Alternative market was among the various achievements to allow SMEs to raise financing through the capital markets. Limited access to affordable finance was listed as one of the various challenges linked to stunted SME Development in Zamba according to the 2023 MSME Development policy among various other challenges.

The Micro Small and Medium Enterprise Finance Survey Report by Bank of Zambia (2022) found that out of the surveyed business owners, 65.7% had awareness business loans, 41.5% were aware of Property insurance and 35.6% were aware of micro credit. Thus, awareness around financial products and infrastructure can be said to be generally low among business owners. This aligns with the findings by Kawimbe and Sishumba (2022).

In the period between 2017 and 2022 only 7.3% of MSMEs in the country applied for a loan at least once during the period, 92.7% did not. In the formal sector 21.1% of MSMEs applied for a loan at least once a year, while 78.9% which represented the majority did not apply for a loan at least once in the given period even though on average there was a 79.9% loan approval rate which was especially high among SMEs in urban areas and those in the formal sector.

Despite their significant economic impact, SMEs in Zambia face substantial challenges in accessing adequate and affordable financing. This lack of access to finance has hindered the growth and development of the SME sector, which is essential for job creation, economic diversification, and poverty alleviation. Authorities stated a funding gap in the excess of K30 billion for SME projects in the country (Sichula, 2024). A report by world bank report showed that there was an estimated K2.2 billion market size for lending to women led SMEs in Zambia. It can be seen that there is a significant gap in SME funding that additionally hinders the growth of SMEs and the local economy (World Bank, 2021).

In 2015, the Lusaka Securities Exchange (LuSE) launched a junior board called the LuSE Alternative Market (Alt-M), a segment specifically designed to facilitate equity financing for smaller and emerging companies. The Alt-M was introduced with the aim of providing SMEs with an alternative financing option to traditional bank lending, which often imposes stringent collateral requirements that many SMEs are unable to meet. Equity financing through platforms like the LuSE Alt-M could provide SMEs with long-term capital that doesn't require regular repayments, allowing for more flexible growth strategies.

Existing research has highlighted several factors that contribute to the challenges faced by SMEs in accessing finance, including lack of collateral, information asymmetry, and weak corporate governance practices of (Kawimbe, Sishumba, et al., 2022). However, despite these studies being undertaken, lack of SME participation in the capital markets to raise financing still persists. Chisanga et al. (2022) conducted a comprehensive assessment of the effectiveness of the Lusaka Securities Exchange (LuSE) Alternative Market in providing capital finance for SMEs. The researchers found that SME capital finance was positively and significantly correlated with both direct and indirect mechanisms of financing. The study highlighted the importance of indirect financing mechanisms such as plain vanilla issuances by specialized SME lenders and SME loan securitization.

The lack of SME participation in the LuSE Alt-M undermines the goals of the Capital Markets Master Plan (CMMP), which aims to increase listed firms from 23 in 2022 to 40 by 2031. Achieving these targets is crucial for Zambia's economic developmental agenda and in line with the Vision 2030. This research aimed to identify barriers that prevent SMEs from listing on the Alt-M and propose solutions that supporting capital market growth and SME development. Enhanced SME access to capital is critical for Zambia's economic objectives, impacting Gross Domestic Product, employment, inflation, and currency strength. Further capital markets serve as one of the exit strategies available to venture capitalists, and a lack of development of the Alternative market, limits the exits available to owners, venture capitalist firms and other funders that find the capital markets as an attractive avenue to offload the positions in companies they have invested in.

The main objective of this study was to analyse the factors that prevent Small and Medium Enterprises (SMEs) in Zambia from listing on the Lusaka Securities Exchange Alternative Market (LuSE Alt-M). Specific objectives included identify and analyse the obstacles that SMEs encounter when considering listing on the market, assess the level of awareness among SMEs about the LuSE Alt-M, their perceptions on listing and formulate strategies to boost their participation and accessing the role of business incubators, accelerators, private equity and

This study is significant as it highlights the factors that contribute to the non-participation of SMEs in the LuSE Alt-M. This understanding provides valuable insights to policymakers, financial institutions, and regulatory bodies to develop more effective strategies and policies to support the growth and development of the SME sector in Zambia. The growth of this sector also provides investors with more investment options for diversification and exit strategies for business owners and financiers. Additionally, the study contributes to academic knowledge on SME financing and capital market development, providing a foundation for further research and comparative studies.

2. Literature Review

2.1 Empirical Review

Kawimbe, Sishumba, et al. (2022) identified four key factors influencing SME listings on the Lusaka Stock Exchange Alternative Investment Market (LuSE AIM): information accessibility, regulatory requirements, corporate governance, and SME support platforms. Improved corporate governance was found to enhance SMEs' willingness to list, even though it is not mandatory. Similarly, Chitekuteku and Sandada (2016) emphasized these factors in Zimbabwe's ASM, recommending policy reforms and better information dissemination to boost SME participation.

Semenya and Dhliwayo (2020) highlighted high costs, strict regulations, weak marketing, and control concerns as barriers to SME listings on South Africa's JSE AltX. They recommended lowering costs, revising regulations, and improving promotion to enhance access to public equity. Chisanga et al. (2020) also noted valuation challenges, creditworthiness data gaps, and information asymmetries as obstacles to SME listings on the Alt-M in Zambia, calling for strategic financing solutions and revised listing rules.

Lungu (2020) and Mwarari and Ngugi (2013) found consistent results across markets, such as Nairobi and London, emphasizing the importance of flexible regulations, accessible information, and effective advertising. The OECD (Nassr and Wehinger, 2016) and World Bank (2020) underscored the need for supportive infrastructure, regulations, and credit guarantees to address high costs and information gaps hindering SME access to public equity markets. IPOs were highlighted as critical for improving SME credibility and long-term financing opportunities.

E-ISSN: 2959-9121

The World Bank (2020) emphasized that inadequate market infrastructure, investor reluctance, and poor credit data hinder SME financing, recommending regulatory reforms, credit guarantees, and co-investments. Similarly, OECD highlighted public equity's long-term financing benefits (access to long-term financing and increased visibility) but noted that high costs and strict requirements limit SME access, with IPOs enhancing credibility and funding opportunities (Nassr and Wehinger, 2016).

A study conducted by Semenya (2024) investigated the factors that influenced the listing of Small and Medium Enterprises (SMEs) on the Johannesburg Alternative Exchange (AltX) in South Africa. Despite the AltX hosting less than 1% of the country's SMEs, the research aimed to understand why some SMEs chose to list while others did not, despite the potential benefits of accessing growth capital. The study revealed distinct differences between listed and unlisted firms: listed SMEs perceived the costs of listing as manageable, were confident about retaining control, possessed the necessary skills for listing, saw added value in listing, and found AltX accessibility favourable.

Johnson and Kotey (2018) investigated SME listings on Ghana's Alternative Market (GAX), which had only four listings. Their study of 50 SMEs, 21 brokers, and key stakeholders revealed limited SME awareness of GAX benefits and listing requirements, challenges in accessing market operators, and insufficient financial knowledge. SMEs favoured equity financing and would consider listing if concerns about information access and ownership were addressed. Brokers supported GAX but noted weak marketing and SME assistance efforts. The study recommended educational campaigns, tax incentives, private placements, and collaborations to improve GAX functionality and viability.

According to Dlamini, Ogunlela, and Iwu (2020), incubators and accelerators play a vital role in raising awareness of equity financing, educating entrepreneurs on funding options like venture capital and private equity to foster business growth. They enhance SME competitiveness by providing knowledge on funding sources. Both incubators and accelerators offer business development support through training, managerial assistance, office space, technology transfer, consulting, networking, and facilitating access to capital. Wanyoko (2013) highlights the positive impact of post-graduation follow-up in incubation programs, emphasizing continued partnerships between incubators and SMEs to boost sustainability and growth.

Fatoki and Odeyemi (2010) note that only a small percentage of SMEs meet the minimum requirements for bank financing. A lack of understanding of these requirements often hinders access to funds, a challenge incubator help address by developing necessary documentation and offering guidance. Palmieri and Ferilli (2024) underline the growing importance of alternative financing methods, such as venture capital, equity crowdfunding,

 E-ISSN: 2959-9121

and P2P lending, which offer more flexibility and quicker approvals than traditional bank financing. Their findings highlight the strategic use of alternative finance to support SMEs while affirming the relevance of conventional banking.

Private equity firms and venture capitalists provide critical financial support and strategic guidance for SMEs, positively impacting business performance (Ketani-Mwanakatwe and Malama, 2024). Reputable investors enhance SME credibility, making it easier to secure additional funding. Ström et al. (2023) found that societal trust increases SME reliance on equity capital, facilitating investments and future funding opportunities.

Venture capital and private equity firms often use IPOs as exit strategies, yielding high returns and validating equity financing for SME growth. IPOs enhance credibility, attract investors, and expand capital for growth initiatives (Jiang et al., 2022). The European Commission TESG (2020) emphasizes IPOs as effective investor exit routes, providing essential growth funds and promoting long-term sustainability. Gillain (2016) highlights IPOs as the most successful VC exit strategy, driving venture capitalists to support SMEs in public offerings. Overall, IPOs boost SME credibility and foster robust equity financing and growth.

2.2 Theoretical Framework

The study was based on social capital and financial socialization theoretical perspectives. The Financial Socialization theory examines how individuals develop financial knowledge, attitudes, skills, and behaviours through interactions with socializing agents, such as family, peers, schools, and media. These influences shape financial decision-making, literacy, and attitudes toward money throughout life. It can provide insight into how SMEs acquire essential financial knowledge and decision-making skills through interactions with incubators, accelerators, venture capital (VC) firms, and private equity (PE) investors, which act as modern "socializing agents." The Diffusion of Innovations Theory, developed by Everett Rogers, explains how new ideas, technologies, or practices spread within a social system. It posits that adoption occurs in stages: awareness, interest, evaluation, trial, and adoption. This theory can help understand how awareness of the LuSE Alt-M spreads among SMEs. As SMEs become more aware of the benefits of listing, they are more likely to consider it as a viable option. The theory also helps explain the adoption of new financial practices, such as equity financing or public listing, often facilitated by "change agents" like incubators, venture capitalists, and private equity firms, who introduce these SMEs to alternative funding models and complex financial concepts.

2.3 Conceptual Framework

The conceptual framework for this study identifies key factors influencing the listing of SMEs on the LuSE Alt-M. Independent variables include awareness and financial literacy, which significantly affect SMEs' listing decisions. Awareness pertains to SMEs' knowledge of LuSE Alt-M's benefits, requirements, and procedures, while financial literacy refers to their understanding of financial concepts and equity financing. The dependent variable is the decision to list, which is mediated by several factors. SME characteristics (such as size, age, industry, ownership structure, and growth stage) affect their willingness and ability to list. The regulatory environment, including the complexity and stringency of listing requirements, may act as a barrier or enabler. Financial factors, such as high listing costs and a preference for debt over equity, also influence the decision. Information accessibility, corporate governance concerns related to control and ownership dilution, and the need for good governance practices can further deter SMEs. Lastly, the availability and effectiveness of support platforms, including incubators, accelerators, and advisory services, shape SMEs' readiness and willingness to participate in the alternative market

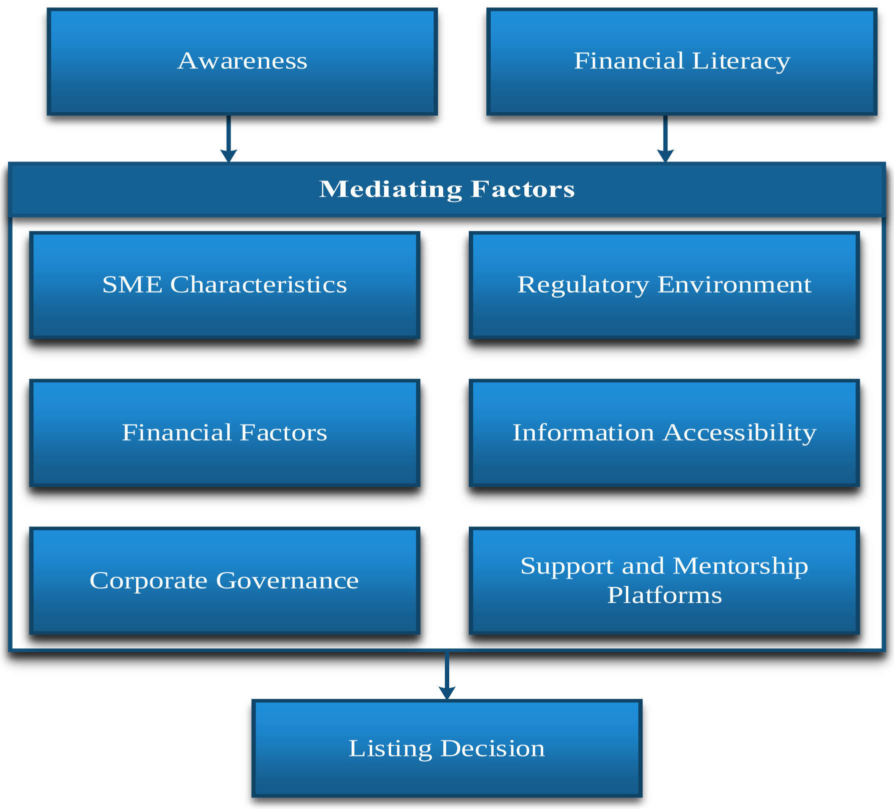

Figure 1: Conceptual Framework (Source: Researchers, 2024)

 E-ISSN: 2959-9121

3. Methodology

The study adopted a mixed-methods approach to explore factors influencing SME listing on the Lusaka Securities Exchange Alternative Market (LuSE Alt-M), combining qualitative insights with quantitative analysis for comprehensive and reliable findings. An exploratory sequential research design incorporated primary data from structured questionnaires and secondary data from literature. The target population included key organizations, with a purposive sample of 10 selected for their expertise. Data analysis used descriptive statistics for quantitative data and thematic analysis with NVivo for qualitative data.

4. Findings and Discussion

Response Rate

A response rate of 90% was achieved, with a total of 9 respondents gathered from the initial sample of 10 respondents for the study.

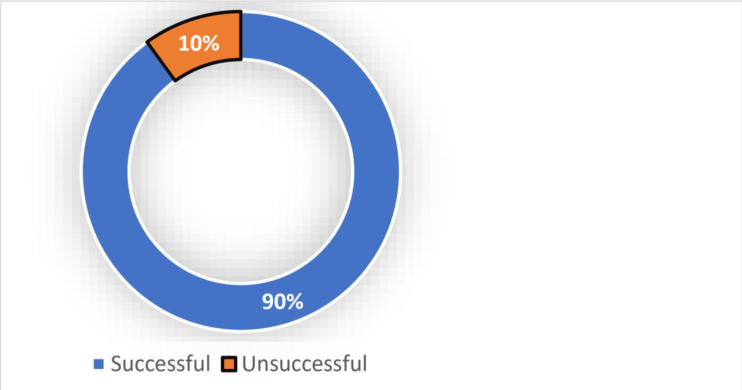

Figure 2: Response Rate

Type of Organisation

The distribution of organisational types among respondents highlights a significant representation of both regulatory authorities and private equity/venture capital firms, each comprising 29% of the total. Similarly, financial institutions, business incubators/accelerators, and other organisations are equally represented, each accounting for 14% of the total.

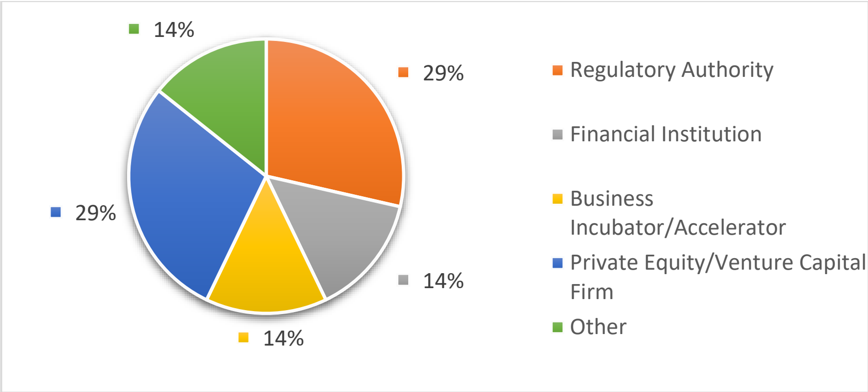

Figure 3: Type of Organisation

4.1 Presentation and Analysis of Data

Obstacles Encountered by SMEs when Considering to List on the Alt-M

Most Significant Barriers Preventing SMEs from Listing on Luse Alt-M

The findings reveal that 77.8% of respondents identified a lack of awareness about LuSE Alt-M and alternative financing options as a key barrier. Perceived high costs of listing, limited financial literacy, perception of loss of ownership/control, and lack of understanding of equity financing were each noted by 66.7% of respondents. Additionally, 44.4% highlighted both a lack of corporate governance structures and a lack of trust in capital markets. Interestingly, none of the respondents (0%) cited stringent listing requirements as a barrier, suggesting that procedural factors are less of a deterrent compared to informational and perception-based issues.

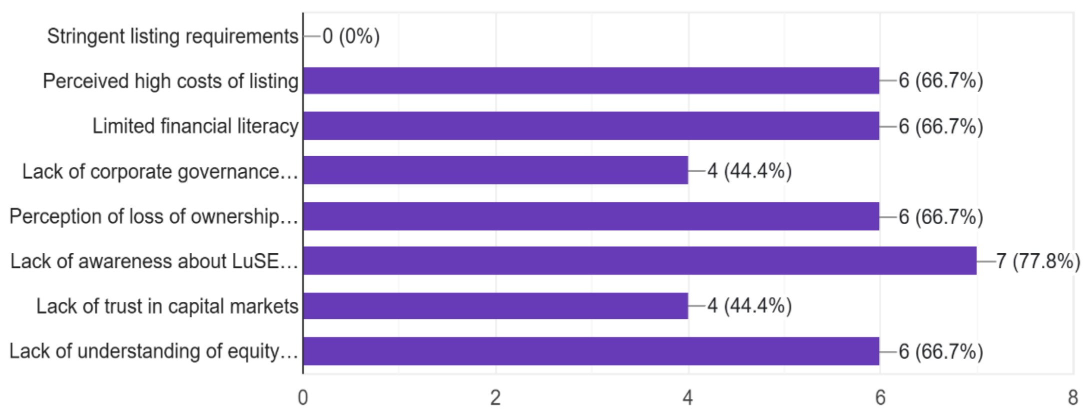

Figure 4: Most Significant Barriers Preventing SMEs from Listing on Luse Alt-M

Level Of Accessibility of Information About Listing Requirements for SMEs

The accessibility of information about listing requirements for SMEs varies, with 44.4% of respondents considering it "accessible" and an equal proportion (44.4%)

expressing a neutral stance. A smaller percentage (11.1%) found the information "very accessible," while no respondents (0%) rated it as "inaccessible" or "very inaccessible."

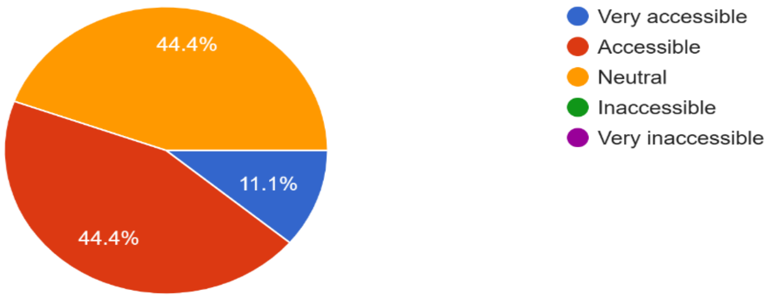

Figure 5: Level Of Accessibility of Information About Listing Requirements for SMEs

Organizational Support Provided to SMEs in Overcoming Listing Obstacles

The findings reveal that 77.8% of the respondents provided support to SMEs in overcoming listing barriers while 22.2% revealed that they did not.

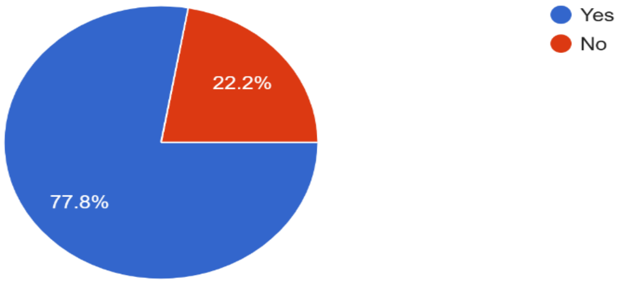

Figure 6: Organizational Support Provided to SMEs in Overcoming Listing Obstacles

Type of Support Provided

The findings indicate that the most common type of support provided to SMEs is financial literacy and education (77.8%), followed by guidance on equity financing options (66.7%) and investor matchmaking (55.6%). Advisory services on compliance were reported by 44.4% of respondents, while facilitation of SME applications to LuSE Alt-M was noted by 22.2%. Additionally, 11.1% of respondents reported providing support related to the capital market master plan on development area 3, specifically point 3.2.1, as well as other types of support.

 E-ISSN: 2959-9121

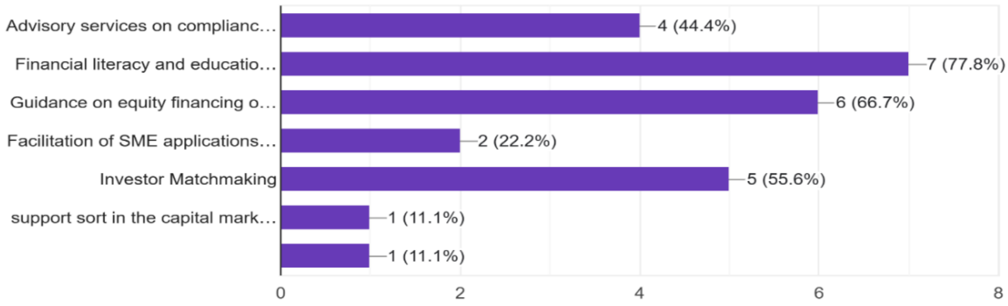

Figure 7: Type of Support Provided

Reasonability of Listing Requirements for SMEs

All respondents (100%) agreed that the listing requirements for the LuSE Alt-M are reasonable for SMEs, with no respondents (0%) expressing a contrary opinion.

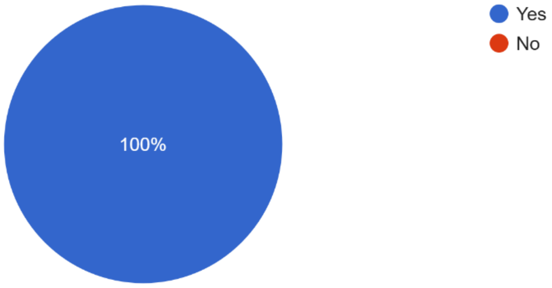

Figure 8: Reasonability of Listing Requirements for SMEs

Recommendations Proposed to Reduce Barriers to Listing

The responses recommend simplifying the LuSE Alt-M listing process by streamlining applications, reducing costs, and clarifying guidelines. Addressing misconceptions about ownership loss through education on obligations and disclosures, alongside corporate governance training, would enhance SME credibility. Additional strategies include mentorship platforms, flexible financial instruments, a tiered listing system, phased or fast-track listings for high-growth SMEs, and ongoing post-listing support. Public-private partnerships and advisor incentives are also key to boosting SME participation.

Awareness and Perception of LuSE Alternative Market

Level Of Familiarity of Organization with Luse Alt-M

Majority of respondents (66.7%) reported that their organisations were "very familiar" with LuSE Alt-M, while 33.3% indicated being "somewhat familiar." No respondents (0%) reported a lack of familiarity.

 ©January 2025

 E-ISSN: 2959-9121

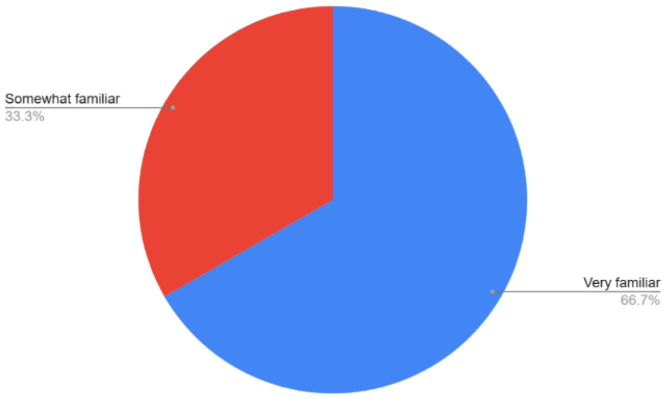

Figure 9: Level Of Familiarity of Organization with Luse Alt-M

Level of General Awareness of Luse Alt-M Among SMEs

The findings indicate that the general awareness of LuSE Alt-M among SMEs is predominantly low. Specifically, 44.4% of respondents rated the awareness as "very low," and 33.3% rated it as "low." Only 22.2% of respondents considered the awareness to be "moderate," with no respondents (0%) rating it as "high" or "very high."

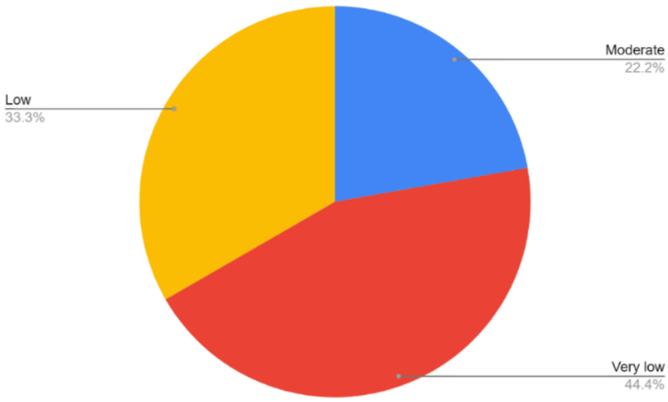

Figure 10: Level Of General Awareness of Luse Alt-M Among SMEs

Key Reasons for The Lack of Awareness About the Luse Alt-M Among SMEs

Respondents noted that the lack of SME awareness about the LuSE Alt-M stems from limited marketing efforts, ineffective communication channels, and insufficient targeted engagement initiatives. Many SMEs find the listing process overly complex due to limited financial literacy, fear of losing control, and the perception that the market favors larger enterprises. The absence of local success stories further dampens interest. While the CMMP addresses these barriers by focusing on capacity building and awareness, its impact remains constrained without simplified regulations, enhanced financial literacy, and relatable case studies. Additionally, SMEs often default to traditional financing methods perceived as simpler, underscoring the need for a more accessible and compelling Alt-M platform.

Main Purpose of Luse Alt-M

The main purposes of LuSE Alt-M as perceived by respondents are primarily focused on providing alternative financing and enhancing the diversity of the financial market. Both of these purposes were identified by 88.9% of respondents. Additionally, promoting SME growth and innovation, as well as supporting venture capital exits, were each identified by 66.7% of respondents.

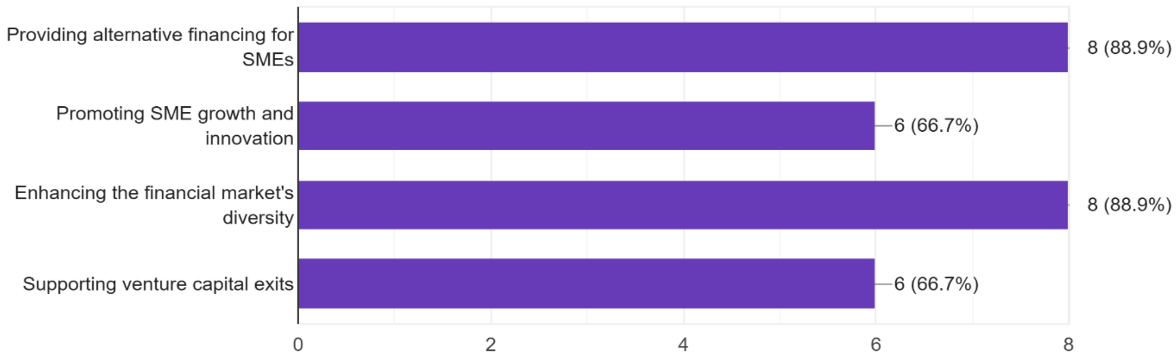

Figure 11: Main Purpose of Luse Alt-M

Level of Effective Marketing of Luse Alt-M to SMEs and Stakeholders

The effectiveness of LuSE Alt-M's marketing to SMEs and stakeholders is perceived as limited. A majority of respondents (67%) indicated that it has "not been effectively" marketed, while 33% rated the marketing efforts as "somewhat effective." Notably, no respondents (0%) considered the marketing to be "very effective."

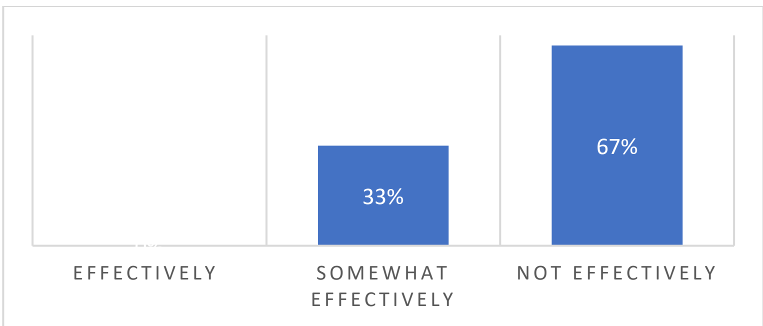

Figure 12: Level Of Effective Marketing of Luse Alt-M To SMEs and Stakeholders

Strategies To Increase Awareness of Luse Alt-M Among SMEs

The findings suggest that financial literacy programs are considered the most effective strategy for increasing awareness of LuSE Alt-M among SMEs, with 100% of

 E-ISSN: 2959-9121

respondents endorsing this approach. Additionally, 88.9% recommended workshops and seminars with stakeholders, while 77.8% highlighted the potential impact of media campaigns showcasing the benefits of LuSE Alt-M and collaboration with incubators/accelerators.

Figure 14: Strategies To Increase Awareness of Luse Alt-M Among SMEs

SMEs Perceiving Listing on LuSE Alt-M as a Viable Financing Option

The majority of respondents (66.7%) believe that SMEs do not perceive listing on LuSE Alt-M as a viable financing option, while only 33.3% think otherwise.

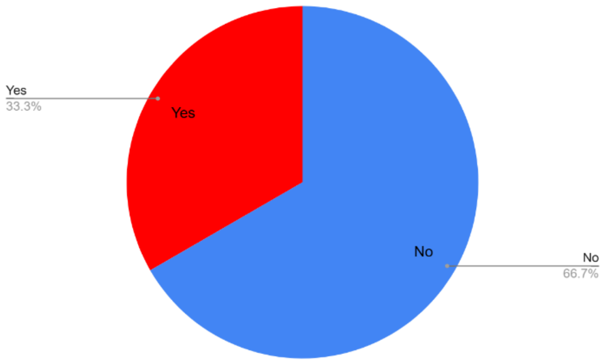

Figure 15: SMEs Perceiving Listing on LuSE Alt-M as a Viable Financing Option

Organization Promoting Awareness About the Benefits of Listing

The findings indicate that 100% of respondents reported that their organisations actively promote awareness about the benefits of listing on the LuSE Alt-M. None of the respondents (0%) stated that they do not engage in such promotion.

 ©January 2025

E-ISSN: 2959-9121

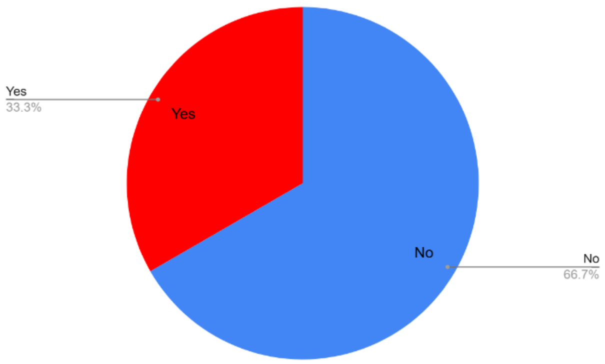

Figure 16: Organization Promoting Awareness About the Benefits of Listing

Role Bodies Like SEC And LuSE Should Play In Enhancing SME Awareness

Respondents emphasized the critical role of bodies like the SEC and LuSE in raising SME awareness of the LuSE Alt-M through targeted education initiatives, including workshops, roadshows, webinars, and mentorship programs. Showcasing success stories in other markets, explaining listing benefits, and demystifying the process can build trust and make the capital market more accessible. Collaboration with stakeholders such as SME associations, financial institutions, and government agencies is essential to broaden the impact of these efforts. Digital and traditional outreach strategies should enhance visibility, while feedback mechanisms can help refine awareness programs by addressing SME challenges. Incentives like tax breaks and reduced listing fees, along with a supportive regulatory framework promoting transparency and accessible resources, are key to encouraging SME participation in the Alt-M.

Role of Support Platforms

Level of Involvement Of Business Incubators, Accelerators, And Private Equity Firms In Preparing SMEs For Listing On Luse Alt-M

The findings indicate that 88.9% of respondents consider business incubators, accelerators, and private equity firms to be "moderately involved" in preparing SMEs for listing on LuSE Alt-M. Only 11.1% rated their involvement as "highly involved," and no respondents (0%) indicated "rarely involved" or "not involved."

 E-ISSN: 2959-9121

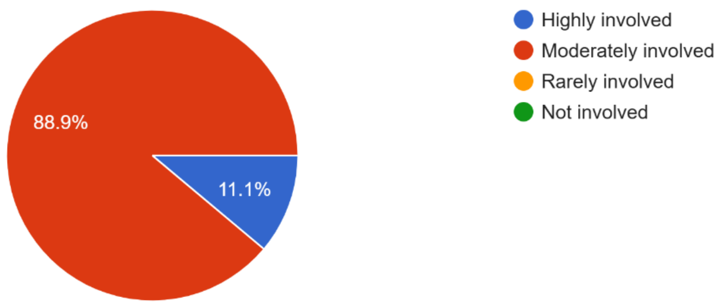

Figure 17: Level Of Involvement Of Support Platforms In Preparing SMEs For Listing On Luse Alt-M

Collaboration with Platforms to Enhance SME Readiness for Listing

The majority of respondents (66.7%) indicated that their organisations collaborate with platforms such as business incubators, accelerators, or private equity firms to enhance SME readiness for listing on LuSE Alt-M. However, 33.3% of respondents reported no such collaboration.

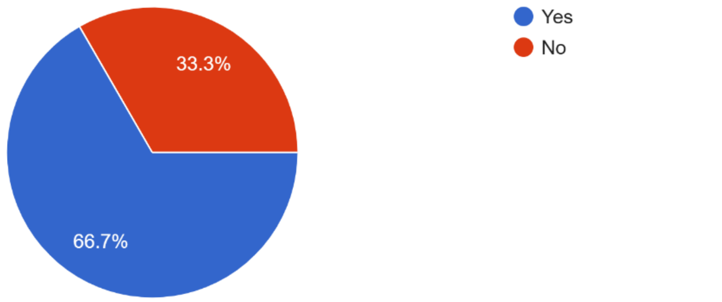

Figure 18: Collaboration with Platforms to Enhance SME Readiness for Listing

Specific Roles the Platforms Play

The roles played by platforms such as business incubators, accelerators, and private equity firms in supporting SMEs are diverse and multifaceted. The most frequently cited role is providing mentorship and training, reported by 88.9% of respondents. Offering financial and strategic guidance was noted by 77.8%, while 66.7% indicated a role in facilitating equity finance. Additionally, 55.6% highlighted support for corporate governance improvements.

 ©January 2025

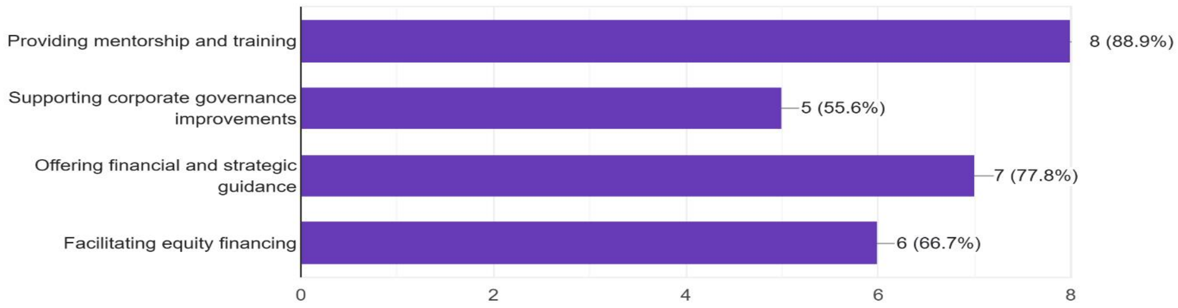

Figure 19: Specific Roles the Platforms Play

Effectiveness Of Platforms in Enabling SME Listing On Luse Alt-M

The findings indicate that 66.7% of respondents rated platforms such as business incubators, accelerators, and private equity firms as "effective" in enabling SME listing on LuSE Alt-M, with 11.1% rating them as "very effective." Additionally, 22.2% expressed a neutral opinion. None of the respondents (0%) considered these platforms to be "ineffective" or "very ineffective."

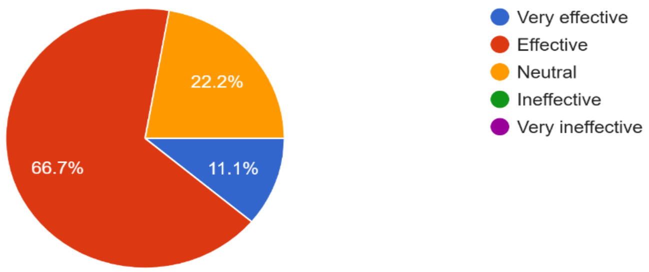

Figure 20: Effectiveness Of Platforms in Enabling SME Listing on Luse Alt-M

Strategies to Enhance Effectiveness of Platforms

Analysis of the findings revealed that enhancing mentorship and incubation programs was considered the most critical strategy for improving the effectiveness of these platforms, with 100% of respondents supporting this approach. Stronger collaborations between stakeholders were endorsed by 77.8%, while 66.7% suggested subsidizing listing costs. Additionally, 44.4% recommended simplifying listing requirements.

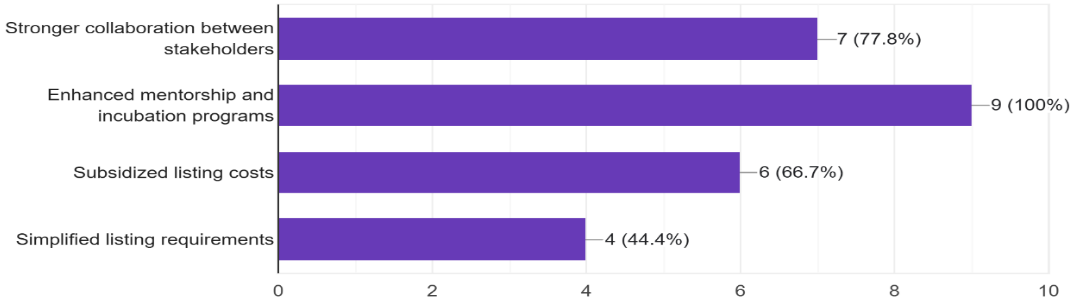

Figure 21: Strategies To Enhance Effectiveness of Platforms

4.2 Discussion of Findings

Obstacles Encountered by SMEs When Considering Listing on LuSE Alt-M

The study identifies several key barriers hindering SME participation in the LuSE Alt-M. A lack of awareness (77.8%) and limited financial literacy (66.7%) were the most cited obstacles, consistent with findings by Kawimbe et al. (2022) and Chitekuteku and Sandada (2016), who highlight the importance of accessible information in driving SME engagement. Similarly, Semenya and Dhliwayo (2020) link insufficient financial understanding to reluctance toward public capital markets. Addressing these gaps through enhanced financial education could better equip SMEs to leverage equity financing opportunities. A lack of awareness often leads to SMEs overlooking the potential benefits of public equity markets, which inhibits their participation. High listing costs (noted by 66.7% of respondents) further deter SMEs, reflecting studies in South Africa and Zimbabwe, where cost concerns were significant. These findings highlight the need for more comprehensive financial education to enable SMEs to fully understand the opportunities and requirements of listing on capital markets. With additional emphasis on the importance of addressing cost-related perceptions, reducing perceptions regarding both actual and perceived expenses could make listings more appealing.

Loss of ownership control fears, noted by 66.7% of respondents, are another major deterrent, particularly for family-owned businesses, as noted by Semenya and Dhliwayo (2020) and the World Bank (2020) who highlighted that SMEs are often reluctant to dilute ownership by introducing external shareholders. Clarifying post-listing rights and benefits through targeted education could alleviate these concerns. Addressing this concern through targeted education on the benefits of equity financing and clarifying the continuing rights and responsibilities of business owners post-listing could help alleviate these fears. 44.4% of respondents expressed weak corporate governance structures and lack of trust in capital markets (44.4%) present challenges, although less prominent. Kawimbe et al. (2022) and Chitekuteku and Sandada (2016), emphasize governance

 E-ISSN: 2959-9121

improvements and transparent practices as critical for fostering investor confidence. World Bank (2020) and OECD (2016) highlighted that SMEs in emerging markets often lack confidence in the reliability and transparency of capital markets. Public-private partnerships, transparent market practices, and investor education initiatives could play a key role in building trust and making SMEs more willing to engage with capital markets. improving corporate governance practices within SMEs could not only ease their concerns about listing but also enhance their credibility in the eyes of potential investors.

Finally, 44.4% of respondents noted limited accessibility of listing information, reinforcing Chisanga et al.'s (2020) recommendation for clearer and broader dissemination of resources. While 77.8% of respondents offer financial education and advisory support, only 22.2% assist with the application process, suggesting a gap in practical help. Expanding hands-on guidance and aligning strategies to boost awareness, reduce costs, improve governance, and build trust could significantly enhance SME participation on the LuSE Alt-M.

The study reveals that 77.8% of respondents' organizations provide support to SMEs, mainly through financial literacy and equity financing guidance, consistent with Lungu (2020) and Chisanga et al. (2020) who highlighted the critical role of support systems in helping SMEs navigate the complexities of capital markets. However, only 22.2% offer direct application assistance for LuSE Alt-M listings, highlighting a gap in practical support. Expanding hands-on support and improving information access can further ease SME entry into the LuSE Alt-M.

Awareness and Perception of the LuSE Alt-M

The study reveals that while 66.7% of respondents are "very familiar" with the LuSE Alt-M, SME awareness remains low, with 77.7% rating it as "low" or "very low." This highlights a significant awareness gap despite familiarity among key stakeholders. Limited marketing and outreach by LuSE are cited as major barriers, consistent with Johnson and Kotey's (2018) findings on low capital market awareness in Ghana with the lack of targeted education and success stories further compounds SMEs' reluctance to engage with capital markets. Complex listing process and low financial literacy further hinder SME engagement, echoing Semenya's (2024) observations on insufficient promotional strategies. Semenya (2024) pointed to inadequate communication and promotional strategies as limiting factors for SME engagement with alternative exchanges.

Despite low awareness, 88.9% recognize LuSE Alt-M's potential for alternative financing and market diversity, indicating positive perceptions once informed. However, 66.7% of respondents believe SMEs do not view listing as a feasible option, favoring traditional financing due to familiarity. The limited understanding of the listing process and the perception that it is tailored for larger enterprises remains a significant deterrent. As Addressing this perception gap requires more strategic marketing, targeted financial literacy programs, and simplified messaging about listing benefits, as emphasized in previous research and by respondents. This indicates that, when SMEs are made aware of the platform, they perceive it as a viable option for growth and innovation, consistent with findings from the empirical review. This underscores the potential for key stakeholders to bridge the awareness gap, provided that marketing efforts are more strategically aligned with the needs of SMEs, and that these initiatives are coupled with clear, simplified messaging about the benefits and process of listing.

The Role of Support Platforms

The study reveals that business incubators, accelerators, and private equity firms moderately support SMEs in preparing for Lusaka Stock Exchange Alternative Market (LuSE Alt-M) listings, with 88.9% of respondents rating involvement as "moderate" and 11.1% as "high." No responses indicated minimal or no involvement, highlighting a foundational role that could be expanded to address listing complexities. Dlamini, Ogunlela, and Iwu (2020) emphasize these platforms' importance in promoting equity financing awareness, while findings here suggest deeper engagement is needed to better equip SMEs for IPOs.

Collaboration with these platforms is reported by 66.7% of respondents, but broader partnerships are necessary. Fatoki and Odeyemi (2010) note that SMEs often fail to meet financial documentation requirements, indicating that incubators and accelerators could bridge this knowledge gap. Support services provided include mentorship and training (88.9%), financial and strategic guidance (77.8%), and equity finance facilitation (66.7%), consistent with Wanyoko's (2013) findings on the positive impact of post-incubation follow-up on business sustainability.

Palmieri and Ferilli (2024) highlight the growing role of alternative finance like venture capital and equity crowdfunding, aligning with this study's identification of equity finance facilitation as vital for SMEs preparing for public listings. Platform effectiveness was rated "effective" by 66.7% and "very effective" by 11.1%, supporting Ketani-Mwanakatwe and Malama's (2024) research on the link between venture capital and SME performance. However, the 22.2% neutral response suggests potential for improvement.

Respondents recommended enhanced mentorship (100%), stronger stakeholder collaboration (77.8%), and subsidized listing costs (66.7%) to boost platform impact, echoing Ström et al.'s (2023) findings on trust-building for equity financing. Simplifying listing requirements (44.4%) and reducing costs (66.7%) address key SME barriers, as noted by Gillain (2016) and the European Commission TESG (2020), who both emphasize IPOs as critical for SME growth and investor returns. Enhanced support and streamlined processes would reduce listing burdens and foster sustainable SME development.

5. Conclusions and Recommendations

The lack of SME participation in the LuSE Alt-M stems from a complex interplay of informational, perceptual, and structural barriers. These barriers, though diverse, are interrelated and rooted in systemic inefficiencies within Zambia's financial ecosystem. The conclusions are derived by analysing the relationships between findings, the theoretical frameworks explored, and the contextual challenges faced by SMEs.

1. Awareness and Perception Gaps as Primary Barriers

The study identifies a lack of awareness as the most significant impediment to SME participation, with 77.8% of stakeholders emphasizing this factor. This finding reflects the inadequacy of LuSE Alt-M's outreach and marketing efforts. The limited awareness among SMEs extends beyond the platform itself to broader issues, such as unfamiliarity with equity financing as a viable funding alternative. The Diffusion of Innovations Theory supports this conclusion, highlighting that adoption is hampered by insufficient communication and a failure to demonstrate tangible benefits to early adopters.

Perceptions of high listing costs and fears of ownership dilution exacerbate the problem. These misconceptions are amplified by limited financial literacy among SMEs, which restricts their ability to evaluate equity financing objectively. Despite stakeholders deeming the listing requirements reasonable, the disconnect between perception and reality underscores the importance of reshaping SME narratives around capital market participation.

2. Structural and Governance Deficiencies

The study reveals that SMEs' inadequate corporate governance structures act as another barrier to listing. This finding aligns with the Social Capital Theory, which highlights the critical role of networks, trust, and collaborative dynamics in fostering SME readiness for equity markets. Without robust governance frameworks, SMEs struggle to meet the compliance and reporting standards necessary for public listing, further entrenching their reluctance to engage with LuSE Alt-M. The lack of institutional trust compounds this issue. SMEs remain sceptical of capital market mechanisms, reflecting broader concerns about transparency and reliability in financial systems. Rebuilding this trust is essential to fostering a culture of equity financing, as trust is a prerequisite for SMEs to relinquish ownership stakes and embrace external investors.

3. The Role of Support Platforms and Institutional Collaboration

While support platforms such as business incubators, accelerators, and private equity firms provide mentorship and financial guidance, their engagement remains insufficiently targeted toward facilitating SME readiness for LuSE Alt-M. These platforms play a pivotal role in bridging capacity gaps, but their efforts are often fragmented. The Resource-Based View reinforces the need for these platforms to focus on equipping SMEs with unique, inimitable resources (such as financial acumen, governance expertise, and strategic planning capabilities) that directly address listing challenges.

Collaboration between support platforms, regulatory bodies, and financial institutions is crucial. Current efforts lack the synergy needed to scale solutions, such as coordinated mentorship programs, financial readiness assessments, and simplified application processes. The absence of such cohesive frameworks limits the overall effectiveness of existing initiatives.

4. Ineffective Marketing and Outreach

The findings point to a critical shortfall in the marketing and outreach efforts by LuSE Alt-M. Despite its potential as a financing platform, its visibility remains low among SMEs, as 67% of respondents highlighted inadequate promotional activities. This weak engagement inhibits the platform's ability to attract listings, further eroding its intended purpose. This failure to communicate the platform's benefits aligns with gaps identified in Diffusion of Innovations Theory, where poor dissemination of information delays adoption among target groups.

5. Alignment with Global Best Practices and Local Context

The barriers identified in this study resonate with challenges faced by SMEs in other emerging markets, as documented in international literature. However, the Zambian context is marked by particularly acute gaps in financial literacy, systemic mistrust in financial institutions, and a nascent capital market culture. These factors amplify the resistance of SMEs to engage with equity markets. Global best practices emphasize the need for simplified regulatory frameworks, active stakeholder engagement, and sustained educational campaigns to promote SME participation. These strategies must be contextualized to Zambia's specific challenges, leveraging local institutions to build trust, disseminate information, and foster capacity-building among SMEs.

 E-ISSN: 2959-9121

6. Strategic Imperatives for LuSE Alt-M's Success

The findings lead to a clear set of strategic imperatives. Simplifying listing requirements alone is insufficient; addressing perception and informational barriers is paramount. A comprehensive strategy that integrates financial education, targeted marketing, and stakeholder collaboration is critical to enhancing the appeal of LuSE Alt-M. The Trade-Off Theory of Capital Structure underscores the importance of demonstrating to SMEs how equity financing complements, rather than replaces, traditional debt options, mitigating fears of ownership loss.

Strengthening post-listing support is equally critical. SMEs need continued guidance on corporate governance, compliance, and investor relations to ensure sustained success post-listing. Public-private partnerships can also play a transformative role by providing financial incentives and shared risk mechanisms that reduce entry barriers for SMEs.

The LuSE Alt-M is well-positioned to address Zambia's SME financing gaps but remains underutilized due to systemic and perceptual challenges. Transforming this platform into a dynamic, inclusive market requires coordinated efforts across stakeholders to rebuild trust, foster financial literacy, and create a supportive ecosystem for SME participation. By addressing these barriers, LuSE Alt-M can evolve into a catalyst for SME growth, economic diversification, and national development.

5.1 Recommendations

The following recommendations are drawn directly from the conclusions of this study, based on the findings and analysis. Aligning these recommendations with the Capital Markets Master Plan (CMMP) would enhance market inclusivity, liquidity, and resilience, positioning LuSE as a robust catalyst for economic development. Incorporating these recommendations into Zambia's CMMP would not only be one pathway to help achieve some targets of the CMMP would align with national economic goals outlined in Vision 2030 and the Eighth National Development Plan (8NDP).

1. Simplify Listing Requirements: Streamlining the listing process by reducing regulatory complexities and associated costs is essential to make LuSE Alt-M more accessible to SMEs.
2. Enhance Financial Literacy and Educational Programs: Comprehensive financial literacy and corporate governance training are vital for improving SME decision-making on equity financing. Tailored programs should educate SMEs on financing benefits, market regulations, and listing responsibilities to reduce complexity and build confidence. By simplifying market rules and post-listing obligations, these initiatives promote financial literacy, inclusion, and greater market participation.

 ©January 2025

This is can be further aligned with efforts around the National Strategy on Financial Education (NSFE) and the National Strategy on Financial Inclusion.

3. Strengthen Designated Advisor Roles: Expanding the role of Designated Advisors (DAs) to provide ongoing guidance and mentorship throughout the listing process will help SMEs navigate the regulatory landscape and prepare for post-listing responsibilities.
4. Increase Targeted Marketing and Outreach: Effective marketing campaigns tailored to SMEs are essential to increase awareness of LuSE Alt-M. Data-driven marketing campaigns emphasizing the tangible benefits of listing (such as access to capital, increased visibility, and business credibility) can reshape SME perceptions of equity financing. Highlighting success stories and leveraging multi-channel outreach strategies can build trust and correct misconceptions about listing requirements.
5. Encourage Sector-Specific Incentives: Offering tailored incentives, such as reduced listing fees or grants, for high-growth industries like technology, agriculture, and manufacturing will encourage more SMEs from these sectors to participate. Sector-specific incentives, such as reduced fees for industries with high growth potential, can drive innovation and diversification within the financial market. By aligning these incentives with national economic priorities, LuSE can better support Zambia's development agenda while attracting dynamic enterprises.
6. Provide Strong Pre and Post-Listing Support: Strengthening pre and post-listing support through mentorship programs, corporate governance assistance, and investor relations will ensure the sustainability of listed SMEs and reduce dropout risks. Structured support systems that include mentorship, corporate governance assistance, and investor relations management will ensure the resilience of listed SMEs. Anticipating post-listing challenges and offering ongoing training will reduce dropout risks, stabilizing the market ecosystem and boosting investor confidence.
7. Foster Public-Private Partnerships: Establishing partnerships between government agencies, financial institutions, and development organizations is critical for reducing entry barriers and providing additional funding and risk-sharing mechanisms for SMEs. Collaborative frameworks involving government agencies, financial institutions, and development organizations can mitigate financing risks and enhance funding availability. Coordinated partnerships will drive systemic improvements, lowering barriers to entry and fostering a supportive environment for SME growth.
8. Leverage Digital Platforms: Enhancing the LuSE GEM Portal with interactive tools, step-by-step guides, and user-friendly features could improve SME access and

engagement, streamlining the listing process. By focusing on user-centric design and reducing procedural friction. Revisiting the SME journey on the portal to ensure accessibility for all users, including those with limited technical expertise, is crucial. Targeted marketing and further feature enhancements ensuring user-friendliness could strengthen SME participation and capital markets.

9. Regulatory Sandbox for Innovations: The sandboxes can be used to identify SMEs with potential to list on the Alt-M and educate them about the market and its potential benefits for them should they require additional capital in future. The sandbox can be leveraged this for SMEs and aid in easing their transition into capital markets by familiarizing them with the regulatory requirements in a less complex setting.
10. Promote Innovative Funding Mechanisms: Introducing alternative funding options like crowdfunding can expand financing avenues for SMEs, complementing traditional capital markets and provides alternative pathways to traditional equity markets. Expanding the financing landscape with mechanisms like crowdfunding and SME-focused investment funds provides alternative pathways to traditional capital markets. Diversifying funding options enhances financial resilience, addressing liquidity constraints and promoting adaptable growth strategies.

5.2 Recommendations for Further Studies

Based on the findings and limitations of this study, several recommendations are put forth for future research and practical implications

1. Impact of Financial Literacy Programs on SME Engagement: Future research could explore the long-term impact of tailored financial literacy and governance programs on SME participation in equity markets. This could provide a deeper understanding of how these initiatives influence decision-making and confidence in listing.
2. Sector-Specific Incentives and Growth Outcomes: A study focused on the effectiveness of sector-specific incentives, such as reduced listing fees or targeted support for high-growth industries, could provide a comprehensive analysis of how these initiatives drive SME participation in LuSE Alt-M.
3. Comparative Analysis of Alternative Markets in Emerging Economies: Research could compare SME participation in LuSE Alt-M with other alternative markets in similar emerging economies to identify best practices and adaptation strategies for fostering greater engagement.

Conflict of Interest

This paper has no known conflict of interest

References

Aoun, J. (2023) "The impact of risk management on the performance of small medium enterprises amid the crisis: the case of Lebanon," Dutch journal of finance and management, 6(2), p. 25718. Available at: https://doi.org/10.55267/djfm/14180.

Bank of Zambia (2022) 2022 Micro Small and Medium Enterprise Finance Survey Report. Available at: https://www.boz.zm/2022_MSME_Finance_Survey_Report.pdf (Accessed: July 8, 2024).

Chisanga, C. et al. (2022) "Effectiveness of the Lusaka stock exchange alternative-market in capital finance for SME's in Zambia," Research Journal of Finance and Accounting [Preprint]. Available at: https://doi.org/10.7176/rjfa/13-24-03.

Chitekuteku, Z. and Sandada, M. (2016) "An Assessment Of Factors That Determine The Listing Of Small To Medium Enterprises (SMEs) On The Zimbabwean Alternative Securities Market," INTERNATIONAL JOURNAL OF ECONOMICS AND FINANCE STUDIES, 8(1).

Creswell, J.W. (2014) Research design: Qualitative, quantitative, and mixed methods approaches. New Delhi, India: SAGE.

Dlamini, T.M., Ogunlela, O. and Iwu, C.G. (2020) "Role of business incubation in sustaining small and medium enterprises in the kingdom of eswatini," Research in world economy, 11(6). Available at: https://doi.org/10.5430/rwe.v11n6p2.

Fatoki, O. and Odeyemi, A. (2010) "Which new small and medium enterprises in South Africa have access to bank credit?," International journal of business and management, 5(10). Available at: https://doi.org/10.5539/ijbm.v5n10p128.

Gillain, A. (2016) Determinants of venture capitalists' exit strategies: An empirical study through survival analysis. HEC Liège University. Available at: https://matheo.uliege.be/bitstream/2268.2/1845/4/Determinants%20of%20venture%20capitalists%E2%80%99%20exit%20strategies.pdf (Accessed: Spring 16, 2024).

Ivey et al. (no date) Access to finance and capacity building of women-led small and medium enterprises in Zambia, World Bank. Ivey,Kate,Proano,Alex,Stevens,Zachary,. Available at: https://documents.worldbank.org/en/publication/documents-reports/documentdetail/576591618321561334/Access-to-Finance-and-Capacity-Building-of-Women-led-Small-and-Medium-Enterprises-in-Zambia (Accessed: July 24, 2024).

Jiang, G.F. et al. (2022) "The impact of initial public offerings on SMEs' foreign investment decisions," Journal of international business studies, 53(5), pp. 879–901. Available at: https://doi.org/10.1057/s41267-022-00500-2.

Johnson, B. and Kotey, R. (2018) "The influence of small and medium enterprises (SMEs) listing on the Ghana alternative market (GAX): Prevailing factors," SSRN Electronic Journal [Preprint]. Available at: https://doi.org/10.2139/ssrn.3307400.

Kawimbe, S. et al. (2022) "Factors affecting listing of small and medium enterprises on LuSE Alternative Investment Market in Zambia: A case of Lusaka business district," International Journal of Current Science Research and Review, 05(10). Available at: https://doi.org/10.47191/ijcsrr/v5-i10-14.

Ketani-Mwanakatwe, S. and Malama, T. (2024) "The role of venture capital funding on the performance of small and medium-sized enterprises (SMEs) in Lusaka, Zambia: A case study," American Journal of Industrial and Business Management, 14(06), pp. 919–930. Available at: https://doi.org/10.4236/ajibm.2024.146047.

Lungu, G. (2020) A STUDY OF THE FACTORS PREVENTING SMEs PARTICIPATION IN ALTERNATIVE STOCK MARKET IN ZAMBIA, Unza.zm. Available at: https://dspace.unza.zm/server/api/core/bitstreams/419ecfcf-417f-4af9-b7a8-639d2b79aa40/content (Accessed: June 15, 2024).

Manyanga, W. et al. (2023) "The effect of debt financing on the financial performance of SMEs in Zimbabwe," Cogent social sciences, 9(2). Available at: https://doi.org/10.1080/23311886.2023.2282724.

Ministry of Small and Medium Enterprise Development (2023) Revised national micro small and medium enterprise development policy, Gov.zm. Available at: https://www.msme.gov.zm/wp-content/uploads/2023/12/2023-MSME-POLICY-FOR-MSMED.pdf (Accessed: July 4, 2024).

Mwarari and Ngugi (2013) "Factors Influencing Listing of Kenyan SMEs in the Securities Market for Capital Raising Opportunities," European Journal of Management Sciences and Economics, 1, pp. 99-115.

Nassr, I.K. and Wehinger, G. (2016) "Opportunities and limitations of public equity markets for SMEs," OECD journal: Financial market trends, (2024), pp. 49–84.

Olomi, D.R. and Mori, N. (2015a) Lessons from Equity Financing Experience of Tanzanian SMEs. Institute of Management and Entrepreneurship Development (IMED). Available at: https://doi.org/F-40202-TZA-1.

Olomi, D.R. and Mori, N. (2015b) Lessons from Equity Financing Experience of Tanzanian SMEs F-40202-TZA-1. Available at:

https://www.theigc.org/sites/default/files/2016/01/Olomi-Mori-2015-Working-paper-1.pdf (Accessed: August 11, 2024).

Padilla, R. and Ontañon, R.F. (2014) "Commercial bank financing for micro-enterprises and SMEs in Mexico," Cepal Review, 2013, pp. 7–21. Available at: https://doi.org/10.18356/4705AD8F-EN.

Palmieri, E. and Ferilli, G.B. (2024) "Innovating the bank-firm relationship: a spherical fuzzy approach to SME funding," European journal of innovation management, 27(9), pp. 487–515. Available at: https://doi.org/10.1108/ejim-02-2024-0102.

Semenya, L. and Dhliwayo, S. (2020) Challenges Of Financing Small And Medium Enterprises' Growth Through Public Equity In South Africa. University of Johannesburg.

Semenya, L.M. (2024) "Listing of Small and Medium Enterprises on the Alternative Exchange in the Gauteng Province in South Africa – A Model of Factors that Lead to a Successful Listing," African Journal of Business and Economic Research, 19(2), pp. 373–393.

Sichula, A. (2024) "Funding gap of K30 billion slows down project opportunities for SMEs in Zambia," Zambia Monitor | Zambia Monitor. Zambia Monitor, 12 June. Available at: https://www.zambiamonitor.com/funding-gap-of-k30-billion-slows-down-project-opportunities-for-smes-in-zambia/ (Accessed: July 20, 2024).

Ström, V. et al. (2023) "Equity capital financing of Swedish SMEs, innovation, and decentralized management," International journal of innovation science [Preprint]. Available at: https://doi.org/10.1108/ijis-10-2022-0200.

Technical Expert Stakeholder Group (TESG) on SMEs (2021) Empowering EU capital markets for SMEs - Making listing cool again. European Union. Available at: https://finance.ec.europa.eu/document/download/ebb1a257-9ef2-4416-87b5-a1235157c351_en?filename=210525-report-tesg-cmu-smes_en.pdf (Accessed: August 15, 2024).

Wanyoko, A.M. (2013) "Influence of business incubation services on growth of small and medium enterprises in Kenya." Available at: https://www.semanticscholar.org/paper/c1fd2e4eb10eea9bd69afef078242d1d6e81a3e2 (Accessed: September 25, 2024).

Wilkinson, J. (2017) "Credit Strategies for Small and Medium-Sized Enterprises Within a Changing Environment." Available at: https://scholarworks.waldenu.edu/cgi/viewcontent.cgi?article=4012&context=dissertations (Accessed: September 26, 2024).

World Bank (2020) Capital Markets And SMEs In Emerging Markets And Developing Economies: Can They Go The Distance?, Worldbank.org. Available at:

https://documents1.worldbank.org/curated/en/270221582271669731/pdf/Capital-Markets-and-SMEs-in-Emerging-Markets-and-Developing-Economies-Can-They-Go-the-Distance.pdf (Accessed: June 25, 2024).

World bank SME finance (2021) World Bank. Available at: https://www.worldbank.org/en/topic/smefinance (Accessed: July 24, 2024).