

**A REVIEW OF ALTERNATIVE SECURITY EQUITY MARKET FINANCING AND BUSINESS
GROWTH OF LISTED SMEs IN NIGERIA.**

EMMANUEL FRIDAY CNA
Department of Accounting,
Taraba State University Jalingo, Taraba State
Email: emmanuelfriday42@gmail.com

&

SUSAN PETER TERU (PhD)
Department of Accounting,
Taraba State University Jalingo, Taraba State
Email: susan4dpt@gmail.com

Abstract

Small and Medium Enterprises (SMEs) has been recognized globally as a useful tool for development. However, financing in this regard has posed a major challenge to Africa and Nigeria in particular as developing country. The need to attain self-sufficiency through development cannot be over emphasised. Therefore, this study is aimed at examining the Alternative Security Equity Market (ASEM) introduced recently by the Nigerian Stock Exchange (NSE) to serve as alternative means for equity fund raising only to listed SMEs in the nation's Stock Exchange for business growth. This paper looks at the uniqueness of this platform under which listed SMEs can raise funds for business expansion, improved technology, adding a new product line, improving the work force to mention but few. It will also uncover the criteria under which SME can be listed at the NSE in other to be fit for raising such funds. Relevant literatures were consulted to advance the hidden importance of ASEM as a financing options for listed SMEs. Consequently, this paper sought to explain the need for SMEs to embrace this development in Nigeria considering its enormous contributions to growth and development and how unpredictable the world economy is in the 21st century and Nigeria in particular.

Keywords: ASEM financing, SMEs listing, business growth and accessing ASEM.

INTRODUCTION

This review intends to expose the Alternative Security Equity Market financing (ASEM) in a more systematic way to the public and also the essence of being listed as Small and Medium Enterprises (SMEs) for the purpose of business growth in Nigeria. ASEM has since been introduced in developed nations of the world as financing options available for only SMEs that are listed in the capital markets. This goes to say that for SMEs to access ASEM that is, equity financing, it must have been listed in the nation's capital market. SMEs are very critical to the development of any economy within the globe and Nigeria in particular. The role of SMEs in the economy of any nation is even more evident when the economies of developing nations are considered. SMEs has impacted in the development of many Asian countries and indeed the Asian giants. The economic boom in some of these Asian countries which is not unconnected to SMEs have lifted hundreds of millions of people out of poverty (Tanzer, 2005).

The entire world today is in dilemma following the emergence of Corona Virus (COVID-19). A deadly disease that has claimed so many lives within a period of one year. Nations of the world particularly China, USA, Spain, Italy, Germany and recently Brazil to mention but few were the worst hit. Economic activities were unbearably grounded, movement across international boundaries was put to a standstill including domestic. Dress code changed as people were seen with mask covering their faces all over the world.

Worship centers for all kinds of religion and schools were closed. The introduction of safety protocols became inevitable which resulted into lockdown and social distancing. The effects of all these was a total collapse in the economic activities in most part of the world, companies were downsized and so many people lost their jobs especially those in white collar jobs which clearly reveals the need for sustainability where SMEs has vital role to play.

However, within the period of this pandemic, some individuals discovered opportunities/business ideas but funding has posed a major challenge in transforming these opportunities and ideas into reality. During this period of lockdown, a friend started a poultry business with meagre resources and the testimony today is that if only he knew he would have started long ago. SMEs no matter one's status is an essential part of life that serves as catalyst to individual, group and the nation at large. They are driving force for innovation and reviving competition in many economies. In India, the SMEs account for about 39% of manufacturing output and 33% of total exports. SMEs possess great potential for employment generation, improvement of local technology, output diversification, development of indigenous entrepreneurship and forward integration with large scale industries (CBN, 2011).

Initial outlay when it comes to business establishment is quiet a challenging issue. So many business ideas could not see the light of the day owing to lack of startup capital, while others that were established have since been folded up due to lack of access to funds and under-capitalistion. Under-capitalisation is when a company or business tries to do too much, too quickly with too little capital so that it is trying to support too large a volume of trade with the little capital resources at its disposal (Akinsulire, 2011). Hence, this review is aimed at revealing among others a unique option available for financing SMEs in Nigeria which over the years has being in existence in the western world. This review will assist relevant stakeholders such as government, small and medium scale investors, Non-Governmental Organisations, the banking sector, retirees from white collar jobs, accounting professional bodies and researchers especially in the of area of SMEs investment. Investors in SMEs from this review will have the opportunity to choose the appropriate financing options that will help them compete favourably in their line of business.

The review would be of significant importance in that it will enable government put in place stringent measures that will ensure all policies in line with accessing Mid-cap's by listed SMEs works effectively. As one of the major challenge of today's government is that, good policies are actually made but most of them are really not working. If this is established it will encourage investments as catalyst to the Nigerian economy. This research would contribute to the body of knowledge as regards Alternative Security Equity Market meant to finance listed SMEs. Gaining such facts would enable non-listed SMEs reap the benefits of being listed on the floor of the NSE.

Finally, in this regard, the study will serve as reference material for researchers, students and educators. It will enhance the quality of literature in this area thereby serving as a benchmark for future research.

ASEM Financing in Nigeria

The SMEs financing challenge had increased after the global financial crisis as banks face tougher liquidity requirements and leverage constraints. Capital markets therefore have a role in bridging this financing gap for SMEs by providing alternative funding sources. Also, in many jurisdictions, SMEs continue to face impediments that discourage them from raising funds from the capital markets, such as fear of losing ownership and relatively high regulatory costs. In response, most of the jurisdictions survey carried out by the board of International Organization of Securities Commissions (IOSCO) have been reviewing their respective regulatory frameworks and taking specific initiatives to facilitate SMEs access to capital markets. The report identified various sources of funds for SMEs and stresses the role the capital market will have to play going forward (Iwere, 2018).

The definition of SMEs differs with jurisdiction and there is no real consensus on the real definition of SMEs. ‘Small’ and ‘Medium’ are relative and differ from industry to industry and from country to country. However, this study considers the following definition of SMEs by various researchers.

Central Bank of Nigeria (2010) defined Small and Medium Scale Enterprises (SMEs) as an enterprise that has an asset base (excluding land) of between N5Million – N500Million and labour force of between 11 and 300.

Alternative Securities Market (ASEM) for emerging businesses (2013) defined SMEs as an enterprise with an asset base excluding land a building of N10million to less than 100million with 10 – 49 employees for “SMALL” and N100million to less than N1billion with 50 – 199 employees for “MEDIUM”.

Banji (2010) defined SMEs as a business with a turnover of less than N100million and/or less than 300 employees. The definition and classification of SMEs in Nigeria are in terms of capital employed, turnover and number of employees. However, this research work intends to contribute to the array of literature written by different scholars on SMEs financing through enlistment at the capital market. Like other countries of the world, SMEs in Nigeria have the tendency to serve as sources of livelihood to the poor, create employment opportunities, generate income and contribute to economic growth (Idowu, 2011). Despite its increasing roles, access to credit by SMEs remains one major challenge. The major objective of this work therefore, is to examine what ASEM and listed SMEs means with particular attention to how these listed SMEs financed their operations in Nigeria. So many sources of financing SMEs has been adopted but there is one that is unique and recently introduced by the Nigerian Stock Exchange. That is, the Alternative Security Equity Market (ASEM) which is an equity financing channel for startup or additional capital requirement for listed SMEs.

Small and medium scale enterprises are major contributor to long-term economic growth and employment. It remains one of the most reviewed topics in literature, especially as its impact on all kind of economies which cannot be overlooked world-wide. SMEs have been accepted as the engine of economic growth and for promoting equitable development. The major advantage of the sector is its employment potentials at low capital cost. The labour intensity of the SME constitutes over 90% of total enterprises in most of the economies and is credited with generating the highest rate of employment growth and account for major share of industrial production and exports (Government of India, 2007).

The rapid expansion of small enterprises in economies of developed countries in the 1980s and 1990s has created a widespread conviction that small, new ventures are the most important source of entrepreneurship and as a dynamic and innovative factor, they contribute directly to economic growth (Piotr & Rekowski, 2008). However, the SMEs sector is faced with many constraints. Among them is the most pressing one known to be financing. Accessing finance has been identified as a key element for SMEs to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries. Small business especially in Africa can rarely meet the conditions set by financial institutions, which see SMEs as a risk because of poor guarantees and lack of security (collateral) that will warrant the ability to repay loans. However, the advent of ASEM without the need for collateral has assisted in this direction by giving investors the needed atmosphere to raise equity fund. It is on this bedrock that the Nigeria Alternative Security Equity Market would now be critically examined.

Nigeria Alternative Security Market (“ASEM”)

The Alternative Securities Market (ASEM) is a specialized board of the Nigerian Stock Exchange (NSE) for emerging enterprises with high growth potential. ASEM provides smaller companies the avenue to access the capital market and raise long-term finance through less stringent listing rules and requirements in line with regulatory requirements, of the Corporate Affairs Commission (CAC) and the Securities and Exchange Commission (SEC) (Onyema, 2013). Businesses could list in one of the twelve sectors on the NSE i.e Agriculture, Construction/Real Estate, Consumer Goods, Financial Services, Industrial Goods, Information & Communications Technology (ICT), Natural Resources, Oil & Gas, Services Utilities, and Conglomerates. Small and medium sized companies with high growth potential are given the opportunity to

raise long-term capital from the capital market at a relatively low cost, thereby enabling them to grow and institutionalized (Ajumogobia & Okeke, 2015). The Nigeria ASEM has two segments on the growth board for start-ups, micro and small companies and medium-sized companies. Start-ups and small companies are denoted by market capitalisation of between N50million and N500million while medium-sized enterprises are companies with market capitalisation of between N500million and N4billion. These categories of funds if needed by SMEs can be raised through the equity market if necessary conditions are met.

SMEs listing in Nigeria

As part of this innovation, the Nigerian capital market authority created a new platform for listing of newly established companies and small and medium enterprises (SMEs). The new window allows existing SMEs and new companies, otherwise known as start-ups, to list their shares and raise capital through the stock market. The framework for the operation of the new listing platform at the Nigerian Stock Exchange (NSE), to be known as growth board, was approved by Nigeria's apex capital market regulator, Securities and Exchange Commission (SEC).

There are three existing listing boards at the Exchange including:

- a. Premium board-for large-cap companies that meet additional requirements on dedicated corporate governance assessment.
- b. Main board- that is the general board for all companies that meet the specific stringent listing rules and;
- c. Alternative securities market (ASEM), which provides listing for quotable companies that cannot meet or sustain listing requirements for the main board.

The framework, as stated above created two segments on the growth board for start-ups, micro and small companies and medium-sized companies. Start-ups and small companies are denoted by market capitalisation of between N50million and N500million while medium-sized enterprises are companies with market capitalisation of between N500million and N4billion.

Start-up and small companies are expected to be listed on the first segment, known as entry segment, while medium-sized companies will be listed on the second segment, known as standard segment.

For any company to be listed on the growth board, it must be a duly incorporated public limited liability company with at least two years of operations, audited financial statements in line with the International Financial Reporting Standards (IFRS) and must have grown its revenue by a minimum of 20% cumulatively in its last two years of operations (The Nations, 2019). This innovation by the apex capital market has given SMEs the opportunity to raise funds known as ASEM at the NSE growth-board. For ASEM to be accessed, the Nigerian Stock Exchange ensures that intending SMEs is being listed as part of the condition for fund raising as innovation. Aside the Pre-listing requirements for SMEs in Nigeria, the International Organization of Securities Commissions (IOSCO) has issued guidelines to ease SMEs' access to capital markets. However, the following are the pre-listing requirement in Nigeria:

- i. Pre Tax Profits-Medium term (at least 2 years) comprehensive business plan.
- ii. The company must submit financial statements/business records for the 2years prior to being listed.
- iii. Financial date of last audited accounts must not be more than 9 months Minimum of 15% of share capital must be offered to the public.
- iv. At least 51 shareholders.

Consequently, as of June 30, 2016, ASEM had nine (9) Equities listed with a market capitalization of N8,443,180,449 (Nigerian Stock Exchange Fact Book, 2016). ASEM was meant to provide the opportunity for small companies to raise long-term capital at relatively low cost from the capital market. The Alternative Securities Market (ASEM) appears to be heading the same path as the Second Tier Securities Market (SSM). Consequently, the NSE's goal of achieving a \$1 trillion market capitalisation by 2016, has not been realized. The companies currently listed at the NSE include Adswitch plc, Afrik Pharmaceuticals plc, Anino International plc, Capital Oil plc, Juli plc, McNichols Consolidated plc, Rak Unity Petroleum plc, Rokana Industries plc, Smart Products Nigeria plc, Union Venture & Petroleum plc, and West Africa Aluminum Products plc, Courteville Business Solutions Plc. All of these listed SMEs has the capacity to raise funds via

the ASEM at the NSE. (SEC Capital Market Financing for SMEs. However, the benefits of been listed as SMEs cannot be over emphasized as captured below.

The benefits of listing SMEs.

The benefits derived in SMEs listing cannot be over stressed. Nevertheless, in the Nigerian context the Stock Exchange in 2013 stated the following as benefits of SMEs being listed, they are as follows:

1. Access to long term capital for growth in terms of improved technology, adding a new product line, improving the workforce and expansion.
2. Platform for facilitating long term sustainability of the company,
3. Reduction of financial burden and spreading of risks amongst shareholders.
4. Access to investors focused on high growth potential SMEs in emerging markets.
5. Professional guidance (Designated Adviser) to ensure company benefits.
6. Opportunity for initial investors to realize some or all of their investments.
7. Liquidity of the market.
8. Reduced stringent listing requirements.
9. Transparent price discovery mechanism.

Nwakoby and Uchenna (2018) in their research stated that, why SMEs do not procure long term finance from the capital market as well as determining the conditions on which SMEs will be willing to procure long term fund from the capital market. Findings from the survey conducted shows that information about the activities and operations of the capital market among SMEs specifically, in respect of its relevance to access to long term funding for the SMEs is still low. The few SMEs that are aware of such vital information fear losing control of their companies to wealthy shareholders. This is based on the mind-set that some people cannot start a business but will want to control the companies founded by others because of large number of shares they can buy from such companies if listed on the exchange. In their study it was found that cost of listing and requirements are obstacles to procuring fund from the capital market. Their findings exhibit clearly that the major bottleneck to SMEs accessing fund from the capital market is the listing challenge. Nigerian Stock Exchange should carefully consider the constraints identified by the SMEs with a view to reviewing them for the benefit of SMEs without jeopardizing the integrity of the Nigerian Stock Exchange (Nwakoby & Uchenna, 2018).

Business growth of SMEs in Nigeria

Traditional notions of business growth vary from one firm to the other. While some focus on productivity, profit, growth, and stability under a rational system, others may focus on the assets' durability and customers' satisfaction (Olajide, Bisi & Temitope 2016). Hitherto, the major barrier to rapid development of the SME sector is shortage of both debt and equity financing (Idowu, 2011).

From this qualitative research, the various financing options available for listed and non-listed SMEs are retained business profit, personal savings, credits from banks, government grant for non-listed SMEs and ASEM for listed SMEs. However, in this context the research work concentrated on the financing option available for listed SMEs which has been established already as ASEM in relation to business growth. Hence, it is pertinent to note that despite the fact that ASEM was initiated by the NSE only for listed SMEs. Listed SMEs can still explore other means available to finance their businesses as mentioned above which contributes to various aspect of the business. Consequently, the need for SMEs to be listed for initial and additional financing cannot be over emphasized considering the leverage available to enhance their business growth. Hence, the relationship this financing option ASEM has on business growth of SMEs in Nigeria is stated below.

According to Business Dictionary, business growth is the process of improving some measure of an enterprise's success. Business growth can be achieved either by boosting the top line or revenue of the business with greater product sales or services income, or by increasing the bottom line or profitability of the operation by minimising cost.

Business growth is an increase in the gross or net revenue of a business. Growth is commonly a primary goal of a business that provides motivation to invest, innovate and improve its operations (Spacey, 2018). Growth is often good for a business. An expanding company will usually be increasing sales and strengthening its position in the market. However, growth isn't a strictly defined concept as a growing business is one that is expanding in one or more ways. There is no single metric used to measure growth. Instead, several data points can be highlighted to show how a company is growing. These include, revenue/sales/profits, company value, number of employees, number of customers, expansion/diversification.

Companies can grow in some of these metrics but not in others. For example, revenue can grow without an increase in customers if the gains are caused by existing clients buying more. It's even possible for one metric to increase while another decreases; if sales growth is brought about by a reduction in product price, a business's overall revenue could still go down.

This means defining growth can be difficult. Those intending to grow their business should look at their business goals to establish the growth metrics they find important. For some ambitious start-ups, this could mean doing everything they can to increase the total number of customers, even if they make a huge loss in early phases of growth. However, other businesses will benefit from slowly increasing revenue and sales to ensure money is coming in to help cover costs. This cost relates to funding which ASEM has a role to play. In Nigeria business growth has been seen in the area of job creation.

According to Premium Times April 7th, 2020. Micro, small and medium-scale enterprises (MSMEs), account for more than 84 per cent jobs in Nigeria, the Ministry of Industry, Trade and Investment has said. This was part of the presentation on energizing the MSMEs sector as a major economic growth driver at the National Economic Council, NEC, meeting in Abuja presided by the Vice President, Yemi Osinbajo. In a presentation on financing opportunities critical for development of MSMEs, the governor of Central Bank of Nigeria, CBN, Godwin Emefiele, gave reasons why the bank was involved. Mr. Emefiele said it was to increase lending, provide access to affordable credit facility, and diversify the country's economic base, create jobs and improve micro-economic stability.

Aremu and Adeyemi (2011) examined the role of small and medium scale enterprises as a survival strategy for employment generation in Nigeria. The study observed that the SME sector is the main driving force behind job creation, poverty reduction, wealth creation, income distribution and reduction in income disparities in Nigeria and that most of the government interventions failed to create a much needed transformation due to poor coordination and monitoring and policy inconsistencies. The Small and medium-scale Enterprise (SMEs) have been at the fore-front of economic development especially the developing nations. The provision of employments in the public and private sectors are insufficient. Hence, there is need for SMEs to augment the low rate of employment existing currently (Iloh & Nnanyelugo, 2015).

According to the International Council for Small Business (ICSB), Micro, Small and Medium-sized Enterprises (MSMEs) make up over 90% of all firms and account for an average of 60 to 70% of total employment. Also, the President and Chairman of Council of Nigerian Association of Small and Medium Enterprises (NASME), Prince Agboade, said Nigeria has over 37 million MSMEs, which employ over 54 million skilled and unskilled labour. Listed SMEs that has the opportunity to access ASEM stands the chance of enhancing the needed funds for their operations which by extension can improve the human capital requirement of their businesses and the needed growth.

Accessing ASEM

Accessing ASEM as financing option available for SMEs at the stock markets has a general laid down criteria. Apart from individual country's requirement on SMEs listing as discussed above, there is a general criteria set out by the International Organization of Securities Commissions (IOSCO) as guideline to ease SMEs' access to capital markets in its detailed report on SME financing through capital markets.

Consequently, the IOSCO issued the following seven recommendations to make it easier for SMEs to access capital market:

- a. Review current securities regulatory requirements on SMEs.
- b. Offer alternatives to a public offering.
- c. Ensure investor protection.
- d. Support the market for SME shares.
- e. Increase financial literacy/public awareness for the need of SMEs financing.
- f. Set up a system to ensure that SMEs comply with regulatory requirements.
- g. Foster investor demand for SME shares.

The very essence of setting up these criteria is to achieve transparency, accountability and a robust operational efficiency in SMEs access to equity funds which over the years has being pivotal in terms of economic development and poverty reduction in both developed and developing nations of the world.

This study is theoretical with in-depth explanation and illustrative description, producing results that give meaning, experience and views. Using data from secondary sources ASEM financing and business growth of listed SMEs in Nigeria has been explained to help SMEs and the general public acquaint themselves with ASEM financing and listing requirements.

Conclusion and recommendation.

SMEs so far is a major tool for economic advancement therefore, the government of Nigeria must do everything possible to ensure it sustainability which is generally acceptable as the sure way to poverty reduction, job creation, contribution to GDP to mention but few. The innovation of ASEM by the NSE should be considered a welcome development because aside other funding options available for listed SMEs, ASEM funding has been made available to enable investors take advantage of this unique opportunity to raise funds from the capital market in order for them to address some of their operational challenges.

To achieve these the government, regulators and policymakers apart from relaxing the listing requirements should;

- a. Make provision towards reducing the cost burden of SMEs in other for it to strive.
- b. Formulate policies that would ease SMEs participation especially in the area of excise duties, interest rate, tax holidays and so on, to make long term funding from the capital market attractive.
- c. Increase financial literacy/public awareness concerning ASEM financing.
- d. Organised promotional campaigns, public seminars and conferences to increasing public awareness on the importance, benefits and the need for SMEs listing for the purpose of accessing ASEM financing.
- e. Conduct surveys to determine why SMEs fail to exploit the full advantage of the capital markets, so as to encourage their willingness to access the capital market.
- f. Set up an internal working group or development team to promote SME access to capital market financing.
- g. Train and educate investors in order to promote SMEs compliance.
- h. Set up teams that will respond to SME questions as regards regulatory requirements.
- i. Monitor closely regulatory requirements. By establishing a special team and advisers for direct monitoring of SME compliance. The team and the advisers are to be registered with the stock exchange and will assist SMEs during the application procedure for listing on the stock exchange. Both parties to be liable jointly with the issuer for the accuracy of the information and documents disclosed to the public.
- j. Collaborate with SME agencies, governmental bodies, stock exchanges and public authorities to harmonise their efforts towards exploring alternatives.
- k. Provide measures to promote long term institutional investor demand for SME securities as retail investments are likely to remain an inadequate source of financing.
- l. Consider top rated SMEs for inclusion into pooled securities structures in order to draw institutional investors and lower transaction costs.

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