Exploring the New Financing Initiative for SMEs: The Role of Nigeria's Alternative Securities Market (ASeM)

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Abstract

The role of the Alternative Securities Market (ASeM) in influencing funding, especially long-term finance, has been advocated in the world as well as in Nigeria. For being a pioneering study on the role ASeM plays in SME financing in Nigeria, this study tries to explore the effect of ASeM on SME equity finance for the quarterly period of 2013Q1 to 2021Q4. This quantitative study uses secondary data from the Securities and Exchange Commission (SEC) and the Central Bank of Nigeria (CBN). The Autoregressive distributed lag model (ARDL) approach is used for estimation, and the theory of information asymmetry is used to consider ASeM financing. From the study's findings, it can be concluded that ASeM boosted SME financing in Nigeria, despite the detrimental effects from first-tier capital market, per capita income, inflation, interest rates and exchange rates. In accordance with the findings, the study recommends that the Alternative Securities Market is a significant way to improve funding to SMEs in the country. To support the Alternative Securities Market (ASeM) in Nigeria and improve financing for Small and Medium Enterprises (SMEs), several strategies can be implemented, to include regulatory Reforms that simplify listing requirements, reduce compliance costs, and enhance transparency can attract more SMEs to ASeM; capacity building to provide training programs and workshops for SMEs on how to prepare for listing on ASeM; investor education about the benefits of investing in SMEs listed on ASeM; and market promotion of ASeM as a viable platform for SME financing through marketing campaigns.

Keywords: *Small and Medium Enterprises, SME financing, ASeM Nigeria, ARDL*

1. Introduction

Small and Medium-sized Enterprises (SMEs) are vital to the global economy contributing to job creation, innovation, and economic growth (Tahir et al, 2021). However, in Nigeria, accessing adequate financing is a major challenge (Anokwuru & Wike, 2021). SME financing refers to financial products and services designed specifically for SMEs, impacting their growth and sustainability (Obieche & Ihejirika, 2021). It fosters entrepreneurship and innovation, as SMEs often develop new products, services, and business models that drive economic growth and competitiveness. However, without sufficient funding, many innovative ideas may never reach the market. Access to affordable financing options is crucial for the success or failure of SMEs in Nigeria (Olalekan & Adenle, 2021). Traditional financial institutions often struggle to provide loans due to stringent collateral requirements, high interest rates, and lengthy approval processes. As a result, many SMEs resort to informal sources of finance, which may only provide short-term relief and are often insufficient to meet long-term financial needs.

The inability of SMEs to access formal financing channels has far-reaching implications for their growth prospects. Without adequate funding, SMEs find it challenging to invest in technology upgrades, expand their operations, hire skilled employees, or enter new markets. This lack of investment stifles innovation and limits the competitiveness of SMEs in both domestic and international markets. Moreover, constrained access to finance constrains job creation potential within the SME sector, exacerbating the financial exclusion in Nigeria (Yua et al, 2023). Furthermore, limited access to finance impedes the ability of SMEs to weather economic shocks and crises. SMEs with limited financial reserves are vulnerable during economic downturns or market volatility, often struggling to meet operational expenses, service debts, or adapt to changing market conditions. This often leads to closures or scaling backs. To address this, SMEs are seeking financing initiatives. These strategic programs aim to secure various financial solutions to bridge the funding gap between traditional funding and the resources needed for sustainable development. These initiatives encompass various financial products, addressing the financing needs for SMEs' sustainable growth.

Recognizing the importance of SME financing for economic development, various stakeholders in Nigeria have initiated measures to improve access to finance for small businesses (Olalekan & Adenle, 2021). The government has introduced policies and programs aimed at enhancing credit availability for SMEs through dedicated funds such as the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) Fund and Bank of Industry (BOI) loans targeted at small businesses. These initiatives seek to provide affordable credit facilities tailored to the needs of SMEs while reducing bureaucratic hurdles associated with traditional lending institutions. Owing to the inability of these financing initiatives to resolve the financing challenges of SMEs, Nigeria, like every other country, have embraced the Alternative Securities Equity Market (ASeM). The ASEM initiative in Nigeria, started in 2013, is a significant platform that provides opportunities for small and medium-sized enterprises (SMEs) to raise capital through the issuance of securities (Ajekwe et al, 2024). ASeM was established by the Nigerian Stock Exchange (NSE) to cater to the financing needs of SMEs that may not meet the stringent requirements of the main board. This market segment plays a crucial role in promoting economic growth, fostering entrepreneurship, and enhancing liquidity in the Nigerian capital market.

Nigeria is not the only country that have embraced the alternative securities market. These countries see this market as a platform for smaller and growing companies to access funding from investors seeking higher returns in exchange for higher risks. The alternative securities equity market has gained popularity in recent years as a viable option for companies looking to raise capital without the stringent regulations and requirements of major stock exchanges. In Africa, the Ghana Alternative Market (GAX), Rwanda Over-The-Counter Market (ROTC) and Kenya Growth Enterprise Market Segment (GEMS) all demonstrate commitments to supporting SMEs and promoting economic development through enhanced access to finance and investment opportunities. ASEM in Other Asian Countries include the Institutional Trading Platform (ITP) introduced by the Securities and Exchange Board of India (SEBI), Market for Alternative Investment (MAI) in Thailand, and the Catalist board operated by the Singapore Exchange (SGX) all demonstrate how various Asian countries have developed alternative securities markets or platforms tailored to the needs of SMEs and startups looking to access capital markets without facing the strict requirements of traditional stock exchanges.

Despite the numerous advantages of alternative securities market, coming from the evidence of its adoption in different countries, little empirical works have been done to exhaust how the ASEM have influenced SME financing in Nigeria. ASeM was established by the Nigerian Stock Exchange to provide a platform for SMEs to raise capital through the issuance of securities. However, there has been a lack of attention to how ASeM specifically impacts SME financing in Nigeria, which has hindered the effectiveness of this market segment in supporting SME growth. Available empirical works have examined the significance of financing to the performance of SME (Ogbuji et al, 2022; Adeyemo & Olateju, 2022; Salazar-Rebaza et al, 2022; Abiodun et al, 2021). The previous financing platforms have not provided for the funding gaps evident with the Nigerian SMEs. Gumel and Bardai (2021) availed that inadequate access, lack of education and experience, high interest rates, and gender discrimination further compounds the funding problems of Nigerian SMEs. On exploring how the ASeM initiative have fared, Ajekwe et al (2024) found that ASeM positively influenced long-term capital market financing in Nigeria. Armed with this claim, this study intends to explore if ASeM could also significantly boost SME financing in Nigeria. In doing this, the study will rely on quarterly data series from 2013 to 2021 with the Autoregressive Distributed (ARDL) model.

The study investigates the impact of the Alternative Securities Market (ASeM) on SME financing in Nigeria, a crucial area of research. ASeM, established by the Nigerian Stock Exchange, aims to provide a platform for SMEs to raise capital through securities issuance. However, there is limited research on its specific impact on SME financing in Nigeria. This study fills a gap in existing literature by examining the relationship between ASeM and SME financing in Nigeria. The findings can help policymakers, regulators, investors, and entrepreneurs understand the effectiveness of ASeM as a funding source for SMEs in Nigeria. The study also identifies potential challenges and opportunities faced by SMEs in the country's financial market, helping stakeholders devise strategies to improve the efficiency and effectiveness of ASeM as a funding mechanism for SMEs.

The study is divided into five sections: introduction, literature review, methodology, results, and conclusion, discussion and recommendations. The introduction provides background information, outlines the research problem, and outlines the objectives. The literature reviews existing research and scholarly works, identifying gaps in knowledge and establishing a theoretical framework. The methodology section outlines research design, data collection methods, sampling techniques, and analytical procedures. The results section presents the study's findings, and the discussion, conclusion and recommendation section interpret the analyzed results in relation to the research questions and hypotheses.

2. Literature Review

2.1 Conceptual Review

In an attempt to explore the role of Nigeria's alternative securities market (ASeM) financing initiatives for SMEs, the study is exposed to some adjoining concepts that needs to be explained. They include SME financing and the Alternative Securities Market (ASeM) in Nigeria.

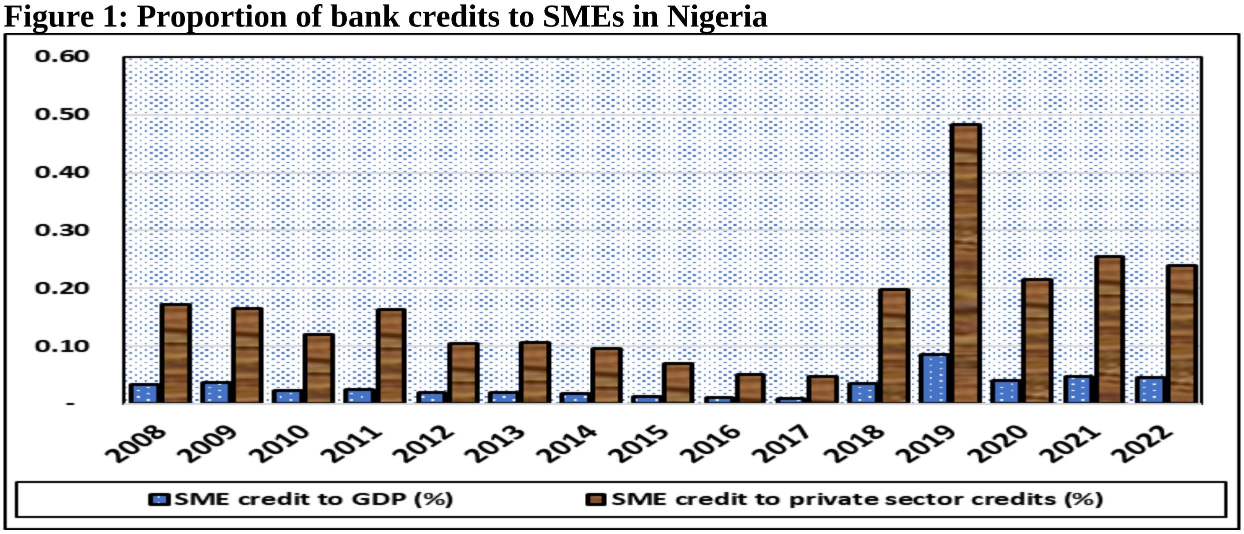
2.1.1 SME financing in Nigeria

SME financing refers to the financial support provided to small and medium-sized enterprises to help them start, grow, or expand their businesses (Adeyemo & Olateju, 2022; Ogbuji et al, 2022). This type of financing includes various financial products and services such as loans, lines of credit, equity investments, grants, and other forms of funding tailored to the specific needs of SMEs. Credit financing for SMEs involves raising capital through borrowing money from lenders such as banks, financial institutions, or alternative lending sources (Obieche & Ihejirika, 2021). SMEs can use credit financing to fund their operations, invest in new projects, purchase equipment or inventory, or expand their business activities. Credit financing typically involves repayment of the borrowed funds with interest over a specified period, and it is essential for SMEs to manage their credit obligations effectively to ensure financial sustainability. Also, equity financing for SMEs involves raising capital by selling ownership stakes in the business to investors in exchange for funding (Chitekuteku & Sandada, 2016). This form of financing allows SMEs to access funds without taking on additional debt obligations and provides investors with an opportunity to share in the company's profits and growth. Equity financing can be obtained from venture capitalists, angel investors, private equity firms, or through crowdfunding platforms.

Small and Medium-sized Enterprises (SMEs) are vital for economic growth, innovation, and job creation in both developed and developing countries (Tahir et al, 2021). However, accessing adequate financing is a major challenge for SMEs (Adeyemo & Olateju, 2022). SME financing provides capital for investment in equipment, technology, research and development, marketing, and other essential areas for growth. Without it, many SMEs struggle to survive or expand. SME financing also creates more job opportunities, contributing to overall employment levels in the economy, especially in developing countries. It also enables SMEs to invest in research and development activities, fostering innovation that leads to new products, services, and processes that drive competitiveness and economic growth. SME financing stimulates economic growth by supporting the expansion of small businesses, contributing to overall economic output and prosperity (Adeyemo & Olateju, 2022). Providing access to financing for SMEs promotes financial inclusion, allowing them to participate more actively in the formal economy, leading to increased financial stability and improved access to financial services.

Before now, bank credit was the main form of financing for small and medium enterprises (SMEs). Small and medium enterprises often face challenges in accessing financing due to their size and lack of collateral. As a result, they have traditionally relied on bank credit as a primary source of funding. Bank credit typically involves borrowing money from financial institutions such as banks, which provide SMEs with loans that must be repaid with interest over a specified period. Available data from the Central Bank of Nigeria (CBN) showed that bank credit proportions have been on a constant decline since the 1990s. For instance, the ratio of SME credits from banks to GDP was a paltry 2.25%, but when compared in the pool of private sector credit is 35.10%. The proportions respectively dropped to 0.30% and 3.87% in 2004. After the completion of the banking consolidation, the proportions for SME credits to GDP and private sector credits was 0.08% and 1.12% in 2006. By this fact, it is obviously looking like SME credit was being deemphasized as economy was growing. The neglect of SMEs was not solely by government, with the banks also being culpable.

Figure 1: Proportion of bank credits to SMEs in Nigeria



Source: Central Bank of Nigeria

Leading from 2008, in the post-global financial crisis era, the proportions of SME credits to GDP and private sector credits was 0.03% and 0.17%. This drop continued till 2019 when the proportions increased marginally to 0.09% and 0.48%, respectively. Because of the unsustainable efforts in this regard, the improvement in the proportion of SME credits dropped to 0.04% and

0.22%, respectively. The drop can also be excused due to the COVID 19 pandemic. Recall also that the Nigerian economy was in a recession. As the economy was picking up, the proportion of SME credit to GDP increased marginally to 0.05% in the year 2021 and 2022, respectively. On the other hand, the proportion of SME credits to private sector credits also increased from 0.22% to 0.25% and 0.24% in 2021 and 2022, respectively. It is evident that in Nigeria, small and medium-sized enterprises (SMEs) have faced challenges in accessing credit from banks compared to other sectors. This discrepancy in credit allocation has been a longstanding issue that has hindered the growth and development of SMEs in the country. Banks often perceive SMEs as riskier borrowers compared to larger corporations due to factors such as limited collateral, shorter operating histories, and higher failure rates among SMEs. This perception leads banks to be more cautious when extending credit to SMEs. For this reason, banks may prioritize low-risk investments that offer higher returns over lending to SMEs, which are perceived as higher risk. This preference for safer investments can lead banks to allocate credit disproportionately to other sectors at the expense of SMEs.

Recognizing the importance of SME financing for economic development, Nigeria is beginning to focus on improving access to finance for small businesses (SMEs) to support economic development. The government has introduced policies and programs to enhance credit availability for SMEs through dedicated funds like the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) Fund and Bank of Industry (BOI) loans. These initiatives aim to provide affordable credit facilities tailored to SMEs' needs while reducing bureaucratic hurdles. Financial institutions have also developed specialized products and services for SMEs, including microfinance banks, fintech companies, and non-bank financial institutions. These entities offer innovative financial products like microloans, invoice discounting services, supply chain financing solutions, and peer-to-peer lending platforms. Advancements in financial technology have revolutionized SME financing in Nigeria, enabling quick and convenient access to credit through digital platforms, digital payment systems, and credit scoring algorithms. These solutions not only streamline the lending process but also lower transaction costs for both lenders and borrowers.

2.1.2 SME financing in the capital market in Nigeria: The ASeM Financing initiative

Johnson and Kotey (2018), view an alternative securities exchange (or market) as a stock market created for the purpose of trading the shares and securities of small and medium-sized enterprises (SMEs) who may be too small to get admitted to the main board of the stock exchange. By their nature and mode of operations, SMEs find it difficult to access funds from the capital market which is the market segment established for the mobilization and utilization of long-term funds for social, economic and industrial development (Modinat & Edwin, 2012). The contribution of the capital market to SMEs funding is therefore negligible owing to this fact (Nwakoby & Okoye, 2018). Alternative securities exchanges or markets present an avenue for smaller firms (SMEs) to raise funds to facilitate their growth in such areas as expansion, innovation, investment in technology and research. The World Federation of Exchanges considers the SME exchange as a separate stock exchange targeted specifically at SMEs, which adopts less stringent listing requirements in order to accommodate SMEs' financing needs.

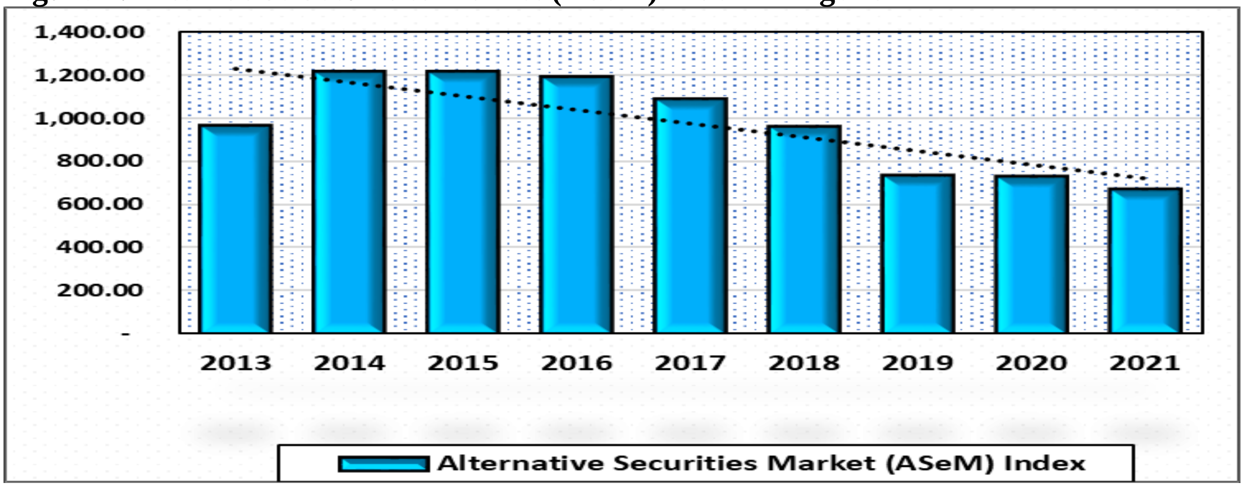
The importance of alternative securities exchanges (markets) lies in the fact that such exchanges provide visibility to the SMEs that list on them and affords investors the opportunity to identify and invest in such emerging high growth SMEs (Johnson & Kotey, 2018). Alternative securities exchanges generally offer more cost effective and long-term capital compared to banks. This is achieved by relaxing the listing and disclosure requirements to accommodate SMEs on these exchanges. The SMEs of any country are the backbone of the economy and play a significant role in generating employment, nurturing a culture of entrepreneurship, supporting large-scale industries and opening new business opportunities. This is possible through the access the SMEs have to funds through the alternative securities exchanges.

The concept of an alternative securities market for SMEs in Nigeria emerged as part of efforts to deepen the country’s capital market and provide a platform for smaller companies to access funding. The Nigerian Stock Exchange officially launched ASeM on August 25, 2013, with the aim of creating a conducive environment for SMEs to raise long-term capital through equity financing (Ajekwe et al, 2024). ASEM was designed to complement the existing primary and secondary markets by offering a tailored platform for emerging businesses with growth potential. ASeM operates as a separate board within the Nigerian Stock Exchange and is specifically dedicated to listing and trading securities issued by SMEs. Companies seeking to list on ASeM must meet certain eligibility criteria set by the NSE, including minimum share capital requirements, corporate governance standards, financial reporting obligations, and disclosure requirements. The market provides SMEs with access to a wider investor base and facilitates capital formation through public offerings or private placements.

The Alternative Securities Equity Market (ASeM) in Nigeria is regulated by the Securities and Exchange Commission (SEC) and the Nigerian Stock Exchange (Ajekwe et al, 2024; Teru & Friday, 2021; Ordue, Yua, Ityavyar, & Tarnongo, 2024). The regulatory framework aims to promote market integrity and sustainable growth within the alternative securities market. ASeM offers benefits to both SMEs and investors in Nigeria. SMEs can access long-term capital for business expansion, working capital needs, investment projects, and strategic initiatives. Investors gain exposure to high-growth potential companies at an early stage and participate in wealth creation through equity investments. ASeM also promotes financial inclusion by providing opportunities for retail investors to participate in the capital markets. Retail investors can invest in SMEs listed on ASeM through regulated brokerage firms, diversifying their investment portfolios and potentially earning attractive returns. This democratization of finance broadens the investor base and deepens Nigeria's capital markets.

From figure 2, it can be observed that ASeM market index in Nigeria appear to be averagely trending downwards. From 2013, when it was established the country, ASeM index in Nigeria was 963.02 and 1, 213.36 in 2014. The NSE-ASeM Index, which tracks the performance of companies listed on this segment of the market, showed a positive year-to-date (ytd) growth of 25.99% recorded in the year ended 2014. The ASeM index increased marginally to 1, 214.94 in 2014, meaning there was only a 0.13% increase. Contrary to expectation, the ASeM index fell by -2.08% and -8.60% to 1, 189.69 and 1, 087.32 in 2016 and 2017. Prior to COVID pandemic, the index fell further to 958.52 in 2018 and 734.99 in 2019. In 2020, the index was 729.87 making it a -0.70% change. The decline in investor confidence in listed companies, coupled with prevailing economic challenges like surging inflation, depreciating exchange rate, and persistent security concerns were reasons preferred for the fall back in the ASeM index.

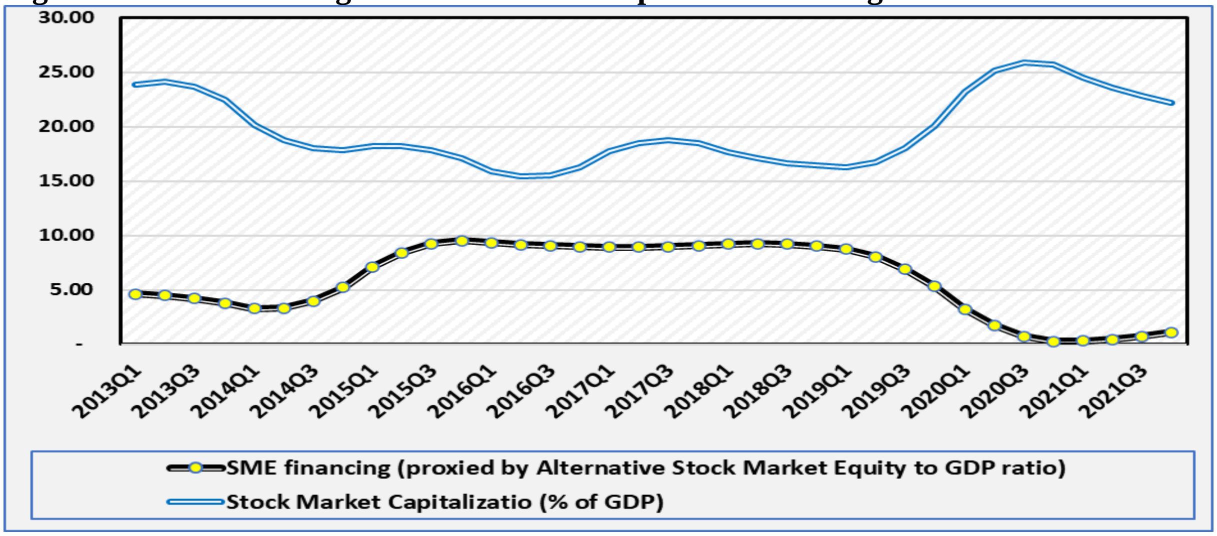
Figure 2: Alternative Securities Market (ASeM) Index in Nigeria



Source: Securities and Exchange Commission

Despite its potential advantages, ASeM in Nigeria faces various challenges that hinder its optimal functioning and growth. Some of these challenges include limited awareness among SMEs about the benefits of listing on ASeM, high compliance costs associated with regulatory requirements, lack of institutional support for capacity building among SMEs, illiquidity issues due to limited trading activity on the market, information asymmetry between investors and issuers, macroeconomic uncertainties affecting investor sentiment, and inadequate infrastructure for electronic trading. Besides these challenges, there is a negative financing externality from the first-tier securities market against the ASeM in Nigeria (see figure 3). A negative financing externality between the first-tier securities market and the Alternative Securities Market (ASeM) in Nigeria refers to a situation where the activities or decisions in one market have adverse effects on the other market in terms of financing opportunities, investor confidence, or overall market efficiency.

Figure 3: SME Financing Vs Stock Market Capitalization in Nigeria



Source: Securities and Exchange Commission

One of the key negative externalities between these two markets is related to investor perception and risk appetite. When investors perceive that companies listed on ASeM are riskier or less regulated compared to those listed on the main exchange, they may become more cautious about investing in Nigerian equities as a whole. This can lead to a decrease in overall market liquidity and valuation, affecting both ASeM-listed companies and those listed on the main exchange. Furthermore, there may be a crowding-out effect where larger companies that could potentially list on the main exchange choose instead to list on ASeM due to perceived lower listing requirements or regulatory burdens. This could deprive the main exchange of high-quality listings and reduce its attractiveness to institutional investors and foreign participants. Moreover, competition for resources such as investor attention, brokerage services, and analyst coverage between the two markets can further exacerbate negative externalities. If ASeM attracts disproportionate attention or resources at the expense of the main exchange, it could distort market dynamics and hinder efficient price discovery.

Looking ahead, the Alternative Securities Equity Market in Nigeria holds significant promise as a vital platform for fostering entrepreneurship, supporting economic development, attracting foreign investment inflows into SMEs sectors such as technology startups, agribusinesses, healthcare services, manufacturing, and renewable energy projects. By addressing key challenges such as enhancing market liquidity, increasing investor awareness, streamlining regulatory processes, improving corporate governance practices, and leveraging technology solutions to facilitate efficient trading mechanisms, ASEM can unlock its full potential as a catalyst for sustainable growth and innovation within Nigeria's capital market ecosystem.

2.2 Theoretical Review

As a framework for this study, the theory of Information Asymmetry (also known as theory of Imperfect Information) was developed by Akerlof in 1970. Myers and Majluf (1984), and Greenwald, Stiglitz and Weiss (1984) have also contributed to the development of this theory. Asymmetry Information theory in the opinion of Mishkin (1995) explain market failures that arise due to imbalances in information between parties involved in transactions. The core idea behind this theory is that when one party has more information than the other, it can lead to inefficiencies in the distribution of goods and services in a free market. In such scenarios, prices are not solely determined by the supply and demand dynamics but are influenced by the asymmetry of information between buyers and sellers.

In Nigeria, asymmetric information manifests in various sectors such as banking, healthcare, education, and agriculture (Yua et al, 2023). One notable example is in the banking sector, where borrowers may have more information about their creditworthiness than lenders. This information asymmetry can lead to adverse selection, where banks may unknowingly lend to high-risk borrowers who are more likely to default on their loans. As a result, banks may increase interest rates or reduce lending, which can hinder economic growth. Also in the Nigerian stock market, asymmetric information can arise in various ways. A common scenario is if investors believe that there is a significant information gap between themselves and insiders, they may become reluctant to trade or invest in the market. This can result in decreased liquidity and price inefficiencies, ultimately undermining the market's ability to allocate capital efficiently.

The theory of asymmetric information plays a crucial role in understanding the dynamics of small and medium-sized enterprise (SME) financing in the Nigerian Alternative Securities Market (ASeM) stock market. In the context of SME financing in the ASeM stock market, this theory sheds light on how information disparities between SMEs seeking capital and potential investors impact the efficiency and effectiveness of capital allocation. A major aspect of applying the theory of asymmetric information to SME financing in the Nigerian ASeM stock market is examining how information gaps affect investor perceptions and decision-making processes. Investors may be hesitant to invest in SMEs due to uncertainties about the quality of information disclosed by these companies. Asymmetric information can lead to adverse selection issues, where investors are unable to distinguish between high-quality and low-quality investment opportunities, potentially resulting in suboptimal capital allocation. Moreover, asymmetric information can also impact the cost of capital for SMEs operating in the ASeM stock market. Lack of transparency and incomplete disclosure of relevant financial and non-financial information by SMEs can increase perceived risk for investors, leading to higher required rates of return or lower valuations for these companies. This can create challenges for SMEs in raising capital at competitive terms and may limit their growth prospects.

2.3 Empirical Review

In the first instance, they are strands of studies that explore the significance of financing to SMEs' and even economic performance. Ogbuji, Onwuemele and Bello (2022) showed that deposit money banks' financing of SMEs significantly boosts Nigeria's economic growth, while monetary policy, inflation, and interest rates negatively impact GDP. Olalekan and Adenle (2021) showed that bank loans and overdrafts contribute up to 50% to small scale enterprises. However, expansion is hindered by finance, management skills, family problems, and power supply. Adeyemo and Olateju (2022) investigated the influence of access to finance on small and medium enterprises' growth in Nigeria. The study found that challenges such as lack of funding, government policies, epileptic power supply, taxation, and higher interest rates significantly influenced SME development, accounting for 65.3% of variance. Buttressing further, Gumel and Bardai (2021) found four barriers to accessing financial institution funding: inadequate access, lack of education and experience, high interest rates, and gender discrimination. With the Autoregressive Distributed lag (ARDL) Model approach, Anokwuru and Wike (2021) established that increased credit from banks' increase Nigerians' GDP per capita.

Obieche and Ihejirika (2021) had shown that bank loans to SMEs declined from 47.7% in 2003 to 0.56% in 2019, with a growing SMEs credit gap, affecting the corporate sector and causing an alarming financing gap. This is irrespective of the importance of finance to SMEs and economic advancement. Abiodun, Alabi, Adebisi and Olaoye (2021) found that credits to SMEs in agricultural sector and general commerce sector have positive effect on economic growth, with only the credits to agricultural SMEs turning out to be significant, despite the detrimental influence from inflation

On the other hand, there are studies that have explored about the Alternative Securities Market. With the aid of a literature review, Teru and Friday (2021) concluded from literatures that the NSE's innovation in ASeM funding is a welcome development, as it allows investors to access capital market funds to address operational challenges faced by listed SMEs, alongside other funding options. Valencia and Fernández (2022) argued that the alternative stock markets have become a viable financing option for small and medium enterprises, but international studies show they have not yielded expected results due to lack of interest in participation. There is a lack of research on alternative stock markets, particularly in Latin America. Ajekwe, Yua and Tyona (2024) analyzed the impact of the Alternative Securities Market (ASeM) on long-term capital market financing in Nigeria from 2013 to 2020. Results showed that equity issues negatively impacted financing, while the ASeM index positively impacted financing. Interest rates, inflation rates, and exchange rates also had negative but significant effects on financing. Overall, the study highlights the importance of considering these factors when assessing long-term capital market financing.

Sakariyahu and Jimoh (2023) showed that corporate governance variables significantly impact firm performance at a 5% level. Besides, Kawimbe, Saidi, Sishumba and Sikazwe (2022) identified four elements influencing SMEs' listing on the Alternative Securities Market: information accessibility, regulatory needs, business governance, and corporate governance. Access to information, regulatory environment, and sound governance promote listing. Also, Chitekuteku and Sandada (2016) identified four key factors determining SMEs' listing on the ASM: information accessibility, regulatory requirements, corporate governance, and SMEs support platforms, emphasizing their importance in SMEs' listing. Salazar-Rebaza, Aguilar-Sotelo, Zegarra-Alva and Cordova-Buiza (2022) showed that SMEs financed through alternative securities market (MAV) have a favorable economic and financial situation, allowing sustainable growth and diversification opportunities.

3. Data and Methodology

This study Explores how the new financing initiative for SMEs (Alternative Securities Market, ASeM) has affected SMEs financing in Nigeria. The population of the study is based on all the listed companies in the ASeM market segment of the Nigerian stock exchange (NSE). The ASeM index was calculated based on all the listed companies and published by the Nigerian Exchange Group between 2013Q1 and 2021Q4. This study primarily utilized the time series technique. The data is further analyzed using descriptive statistics as well as correlation analysis. The hypothesis was tested using long-run estimates. A multiple regression analysis, based on the Autoregressive Distributed Lag (ARDL), was employed to estimate the parameters of the model.

Model Specification and Method of Data Analysis

Based on the time series data, a model was adapted the composite frameworks of SMEs financing as Gumel and Bardai (2021), Obieche and Ihejirika (2021) and Olalekan and Adenle (2021) with ASeM effect as does Ajekwe, Yua and Tyona (2024). Further, Ajekwe et al (2024) advocates that macroeconomic factors (specifically, interest rates, inflation rates, and exchange rates) are to be important considerations when examining long-term capital market financing. To this end, this study include per capita income and first-tier capital market. So, the operational model specified for this study is stated thus:

$$SMEFIN = f(ASEMIND, MKTCAP, GDPK, INFR, INTR, EXCHR, DUM)$$

Where,

SMEFIN	-	SMEs financing, proxied by Alternative Securities Market (ASeM) Equity (expressed as percentage of GDP)
ASEMIND	-	Alternative Securities Market (ASeM) index
MKTCAP	-	first-tier stock market capitalization (expressed as percentage of GDP)
GDPK	-	gross domestic product per capita
INFR	-	inflation rate
INTR	-	interest rate proxied by monetary policy rate
EXCHR	-	exchange rate, proxied by official exchange rate
DUM	-	dummy variable used to capture recent economic recession from 2018

Based on the model specification, the study relies on the ARDL technique to estimate the parameters of the model. The ARDL technique has been previously used in related studies (see Anokwuru & Wike, 2021; Tahir, Ibrahim & Babawulle, 2021). The ARDL technique is most suited for this study because of its advantage for small data size, indifference to order of integration and capturing the elements of past effects (Epor, 2024; Yua et al. 2023). The ARDL model is state in three compartments, the bounds test, short-run and long-run models as thus:

$$\begin{aligned}\Delta SMEFIN_t = {} & \alpha_0 + \alpha_1 SMEFIN_{t-i} + \alpha_2 ASEMIND_{t-i} + \alpha_3 MKTCAP_{t-i} + \alpha_4 GDPK_{t-i} \\ & + \alpha_5 INFR_{t-i} + \alpha_6 INTR_{t-i} + \alpha_7 EXCHR_{t-i} + \alpha_8 DUM_{t-i} + \sum_{i=1}^{a} \beta_{1i} \Delta\, SMEFIN_{t-i} \\ & + \sum_{i=0}^{b_1} \beta_{2i} \Delta\, ASEMIND_{t-j} + \sum_{i=0}^{b_2} \beta_{3i} \Delta\, MKTCAP_{t-k} + \sum_{i=0}^{b_3} \beta_{4i} \Delta\, GDPK_{t-l} \\ & + \sum_{i=0}^{b_4} \beta_{5i} \Delta\, INFR_{t-m} + \sum_{i=0}^{b_5} \beta_{6i} \Delta\, INTR_{t-n} + \sum_{i=0}^{b_6} \beta_{7i} \Delta\, EXCHR_{t-p} \\ & + \sum_{i=0}^{b_7} \beta_{8i} \Delta\, DUM_{t-q} + \mu_t \qquad (1)\end{aligned}$$

$$\begin{aligned}SMEFIN_t = {} & \emptyset_0 + \emptyset_1 SMEFIN_{t-i} + \emptyset_2 ASEMIND_{t-i} + \emptyset_3 MKTCAP_{t-i} + \emptyset_4 GDPK_{t-i} \\ & + \emptyset_5 INFR_{t-i} + \emptyset_6 INTR_{t-i} + \emptyset_7 EXCHR_{t-i} + \emptyset_8 DUM_{t-i} \\ & + \in_t \qquad (2)\end{aligned}$$

$$\begin{aligned}\Delta SMEFIN_t = {} & \pi_0 + \sum_{i=1}^{a} \pi_{1i} \Delta\, SMEFIN_{t-i} + \sum_{i=0}^{b_1} \pi_{2i} \Delta\, ASEMIND_{t-j} + \sum_{i=0}^{b_2} \pi_{3i} \Delta\, MKTCAP_{t-k} \\ & + \sum_{i=0}^{b_3} \pi_{4i} \Delta\, GDPK_{t-l} + \sum_{i=0}^{b_4} \pi_{5i} \Delta\, INFR_{t-m} + \sum_{i=0}^{b_5} \pi_{6i} \Delta\, INTR_{t-n} \\ & + \sum_{i=0}^{b_6} \pi_{7i} \Delta\, EXCHR_{t-p} + \sum_{i=0}^{b_7} \pi_{8i} \Delta\, DUM_{t-q} + \boldsymbol{\Omega} ECT_{t-1} \\ & + \psi_t \qquad (3)\end{aligned}$$

where, (1), (2) and (3) are specifications for ARDL bounds test, long-run and short-run.

The hypothesis of the bounds test is specified as:

$$H_0: \alpha_1 = \alpha_2 = \alpha_3 = \alpha_4 = \alpha_5 = \alpha_6 = \alpha_7 = \alpha_8$$

$$H_1: \alpha_1 \neq \alpha_1 \neq \alpha_2 \neq \alpha_3 \neq \alpha_4 \neq \alpha_5 \neq \alpha_6 \neq \alpha_7 \neq \alpha_8$$

According to Pesaran, Shin and Smith (2001), the ARDL bounds test model specification, which depends on Wald test (F-statistic), can be useful in determining either cointegration or inconclusiveness in the model. By the F-statistic falling below the estimated lower bound value, the null hypothesis is accepted, if it is above the computed upper bound value, then reject the null hypothesis.

For the long-run in (2), $\emptyset_0$ is the long-run intercept; $\emptyset_1$–$\emptyset_8$ are coefficients of long-run estimates; and $\in_t$ is the error term of long-run estimates

For the short-run and error correction model (ECM) in (3), ECT is error correction term that makes the model an ECM; **Ω** is the speed of adjustment; and ψ_t *is* error term of the short-run model. The **Ω** is the coefficient of the error correction term, which must be negative, less than unity and statistically significant.

4. Analysis and Results

The data used in the research have been summarized in table 1, using descriptive analysis in the form of mean, standard deviation, minimum and maximum as well the correlational analysis of the variables used for the study. The number of observations (36) represent the time periods, in this case 36 quarters covering from 2013Q1 to 2021Q4. The mean of SMEs finance data was 5.94% of Nigeria's GDP, coming from a maximum of 9.54% and a lowest of 0.27%. The weight of first-tier capital market had a mean of 19.70% and never exceeded 25.93%. For the ASeM, the mean index for the period under review was 960.60, while the maximum and minimum values are 1253.66 and 523.85, respectively. For the underlying variables, per capita income (GDPK), inflation rates (INFR), interest rates (INTR) and exchange rates (EXCHR), their respective mean values are $2393.79, 12.53%, 12.61% and ₦266.52. Going that the standard deviation information in its absolute form lacks the ability to compare variations of data with different units, this study computed the coefficient of variation (CV). The coefficient is the ratio of standard deviation to means and describes the relative variation of data series. It has previously been used by Appiah, Nongu and Epor (2024). Armed with this, SMEs finance variable, with the highest CV level of 56.30%, has the highest level of variation and hence exhibited more volatility than all the other variables included in the study. This is an indication that SMEs finance is subject to more changes, the reason why this study is justified.

Table 1: Descriptive Statistics and Correlation Analysis

Descriptive Statistics

	SMEFIN	ASEMIND	MKTCAP	GDPK	INFR	INTR	EXCHR
Mean	5.94	960.60	19.70	2393.79	12.53	12.61	266.52
Median	7.01	1010.68	18.36	2211.24	12.37	12.71	298.50
Maximum	9.54	1253.66	25.93	3255.56	19.73	14.40	368.27
Minimum	0.27	523.85	15.41	1926.49	7.64	10.64	153.88
Std. Dev.	3.34	234.09	3.28	439.60	3.66	1.24	77.05
CV	56.30	24.37	16.67	18.36	29.27	9.88	28.91
Observations	36	36	36	36	36	36	36

Correlation Analysis

Probability	SMEFIN	ASEMIND	MKTCAP	GDPK	INFR	INTR	EXCHR
SMEFIN	1						
ASEMIND	0.61	1					
MKTCAP	-0.87	-0.61	1				
GDPK	-0.15	0.43	0.03	1			
INFR	0.09	-0.18	-0.07	-0.83	1		
INTR	0.65	0.40	-0.68	-0.21	0.27	1	
EXCHR	-0.20	-0.72	0.22	-0.90	0.67	0.00	1

Source: Researchers' Computation, 2024

The coefficients of correlation in the Pearson Correlation Coefficient matrix still in table 1 "indicates the strength of the linear relationship between the variables" (Yua, Daniel & Epor, 2023). From the Pearson Correlation Coefficient Matrix in table 1, it is observed that SMEs finance has positive linear relationship with ASeM index, as well as inflation and interest rates. On the other hand, SME finance is negatively related to first-tier market finance, per capita income and exchange rate. Also from table 1, there are no strong linear relationship among the independent variables. Since this is the case, there will be not need of dropping any variable.

For the purpose of not accommodating variables that are in order 2, that is I(2), the ARDL model requires unit root test (Yua, Daniel & Epor, 2023). The ADF tests represented in table 2 rejected the null hypothesis of the presence of unit root at levels for SMEs finance, ASeM and inflation rate, reasons that their respective test statistics produced probability values less than 5%. So, SMEFIN, ASEMIND and INFR series are integrated of order zero, that is *I*(0). On the other hand, the ADF test fails to reject the null hypothesis of no unit root for first-tier market capitalization, per capita income, interest rate and exchange rate, but they became stationary at first difference, making them integrated of order one, that is *I*(1) (Nongu & Epor, 2024).

It has been established by Pesaran, Shin and Smith (2001) that the bounds technique allows a mixture of I(1) and I(0) variables as regressors. Based on the grounds that the ARDL technique allows for the mixture of I(1) and I(0) variables (Pesaran et al, 2001), the progress path is to perform the ARDL bounds test for cointegration. When SMEs finance was modelled as the dependent variable, the associated model produced estimated F-statistic value that was greater than the critical values at 5% significance level (that is, 65.21052 > 3.21).

Table 3: Unit Root Tests and ARDL Bounds Test

Variables	ADF Tests: Levels				ADF Tests First Difference			
	Test Statistic	prob.	Critical Values @ 5%	Order of Integration	Test Statistic	prob.	Critical Values @ 5%	Order of Integration
SMEFIN	-3.5899	0.0113**	-2.9511	I(0)				
ASEMIND	-4.5960	0.0043***	-3.5485	I(0)				
MKTCAP	-1.7017	0.4211	-2.9540		-3.6420	0.0101**	-2.9540	I(1)
GDPK	-2.1726	0.2195	-2.9540		-3.2782	0.0242**	-2.9540	I(1)
INFR	-3.1434	0.0339**	-2.9640	I(0)				
INTR	-3.3462	0.0760*	-3.5485		-4.2601	0.0106**	-3.5629	I(1)
EXCHR	-1.2524	0.6395	-2.9540		-3.4141	0.0176**	-2.9540	I(1)

ARDL Bounds Test for Cointegration

F-statistic	65.21052***			I(0)	I(1)	Decision
		Sig. level	10%	1.92	2.89	Reject H0
			5%	2.17	3.21	Reject H0
			2.5%	2.43	3.51	Reject H0
			1%	2.73	3.9	Reject H0

*, **, *** are significance at 10%, 5% and 1%

Source: Researchers' Computation, 2024

So, one can conclude that sectoral credits collectively have long-run relationship with SMEs finance for the period 2013Q1 - 2021Q4. Based on the existence of long-run cointegrating relationship above, the ARDL modelling procedure used the Akaike model selection criteria as default.

In the model involving SMEs finance and ASeM, the lag selection criteria based on Akaike are as: ARDL (1, 0, 2, 1, 1, 0, 1, 0). Based on this, the ARDL long run model is given as:

$$SMEFIN = 0.0028 * ASEMIND - 1.0156 * MKTCAP - 0.0108 * GDPK - 0.2723 * INFR - 0.4882 * INTR - 0.0521 * EXCHR - 1.1134 * DUM + 74.5767$$

From the model estimation above, the coefficient of ASeM was positive for SMEs finance in Nigeria, while the coefficients of first-tier capital market, per capita income, inflation rate, interest rates, and exchange rates were negative.

As can be seen in Table 3, the error correction model coefficients in the ASeM-SMEs finance model in Nigeria showed the supposed negative coefficient, it is less than unity and statistically significant at 1% significance level (i.e., p = 0.0000). The implication of this result is that there is significant error taking place and there is also a correction of the error back to long-run equilibrium in the preceding periods. About 24.77% of error generated in past years was corrected in the ASeM-SMEs finance model.

Table 3: ARDL ECM and Long-run Model estimates

	ARDL ECM Estimates			ARDL Long-run Estimates		
	Variable	Coefficient	Prob.	Variable	Coefficient	Prob.
	D(MKTCAP)	-0.1729	0.0000***	ASEMIND	0.0028	0.0763*
	D(MKTCAP(-1))	0.1460	0.0000***	MKTCAP	-1.0156	0.0000****
	D(GDPK)	-0.0089	0.0000***	GDPK	-0.0108	0.0000****
	D(INFR)	-0.1700	0.0000***	INFR	-0.2723	0.0013***
	D(EXCHR)	-0.1097	0.0000***	INTR	-0.4882	0.0544**
	ECT(-1)*	-0.2477	0.0000***	EXCHR	-0.0521	0.0000***
				DUM	-1.1134	0.0113***
				C	74.5767	0.0000***
R-squared		0.9959			0.9998	
Adjusted R-squared		0.9952			0.9996	
Prob(F-statistic)					0.0000	
Durbin-Watson stat		2.1123			2.1123	

Note: *, **, *** represent approximate significance at 10%, 5%, and 1%

Source: Researchers' Computation, 2024

Also, the probability of the F-statistics, being highly significant (that is, p = 0.0000) for both the short-run and long-run estimates, means that the independent variables had had collective significant effects on SMEs finance in Nigeria. The adjusted R-squared values informs that of 99.52% and 99.96% of short-run and long-run variations in SMEs finance are due to changes in first-tier stock market, per capita income, inflation and exchange rates.

For the long-run relationship, only ASeM boosted SME finance. Although the p-values of first-tier stock market, per capita income, inflation, interest and exchange rates were less than 0.05, their influence on SME finance were significantly detrimental. The effect of ASeM was positive (β = 0.0028) on SMEs finance in Nigeria for the long-run period of 2013Q1 to 2021Q4. From the findings, it can be concluded that ASeM significantly determine SME finance, despite the detrimental effects from macroeconomic variables. So, the null hypothesis that ASeM have no significant effect on SMEs finance in Nigeria is rejected because the coefficients were significant.

Because the study estimated one (1) model, one diagnostic test will be carried out.

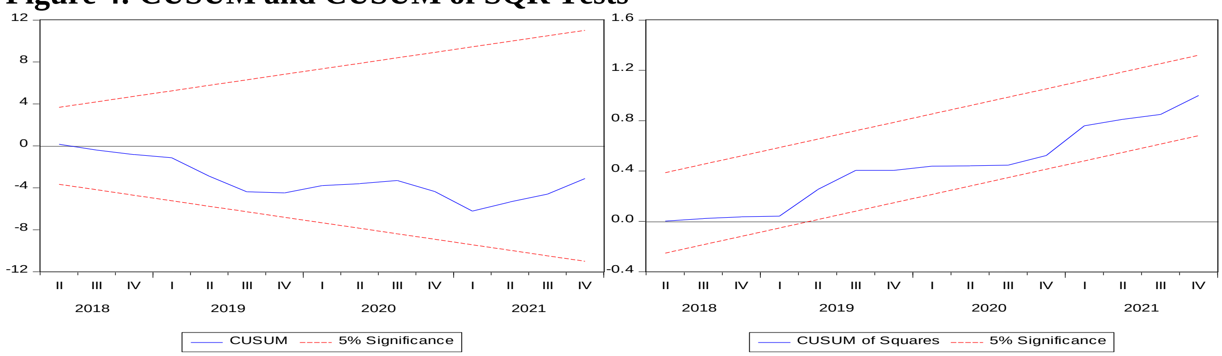
Table 5: Diagnostic Test Results

Test statistics	p-values	Decision
Jarque-Bera test for Normality	0.7147	Nomarlly distributed
Breusch-Godfrey Breusch-Godfrey Serial Correlation LM Test	0.4740	No serial correlation
Breusch-Pagan-Godfrey Heteroskedasticity Test	0.0954	Homoskedastic distribution

Source: Researchers' Computation, 2024

Since the p-value of the Jarque-Bera statistics, Breusch-Godfrey Serial Correlation LM test statistics and the Breusch-Pagan-Godfrey Test statistics for the ASeM-SMEs finance model were greater than 0.05 (i.e., respectively, 0.7147 > 0.05; 0.4740 > 0.05; and 0.0954 > 0.05), we conclude that there is no statistical evidence of the presence of no normality, presence of serial correlation nor heteroskedasticity in the ASeM-SMEs finance model for Nigeria.

Figure 4: CUSUM and CUSUM of SQR Tests



Source: Researchers' Computation, 2024

The CUSUM and CUMSUMQ stability test were used to ascertain the stability of the residuals in the system of models adopted. Since the CUSUM and CUMSUMQ lines in figure 4 are between the five percent (5%) lines, it indicates the stability of the residuals. So, we conclude that the ASeM-SMEs finance model in Nigeria indicates residual stability.

5. Discussion, Conclusion and Recommendation

Discussion of Findings

The study found that Alternative Securities Market (ASeM) positively impacted SME financing, despite the significant detrimental effects of inflation, interest rates, exchange rates, per capita income, and first-tier capital market. The significant positive effect of ASeM agrees with Teru and Friday (2021) who established from literatures that ASeM financing allows investors to access capital market funds to address operational challenges faced by listed SMEs, alongside other funding options. The alternative securities market is a vital tool for Nigerian Small and Medium Enterprises (SMEs) to access capital and improve their financial management. It offers access to capital outside traditional banking channels, enabling SMEs to expand operations, invest in new technologies, and create employment opportunities (Ajekwe et al, 2024). The market also enhances transparency and corporate governance practices by requiring SMEs to adhere to strict disclosure and reporting standards (Kawimbe et al, 2022). It also provides visibility and credibility for SMEs, enhancing their reputation and brand recognition. Listing on a regulated exchange can open up opportunities for strategic partnerships with larger corporations. Additionally, the alternative securities market facilitates liquidity for SME investors, allowing them to buy and sell shares more easily, making SMEs more attractive to a wider range of investors.

The detrimental effect of first-tier capital market, per capita income, inflation, interest rates and exchange rates confirm that the macroeconomic environment variable inhibits financing for SMEs. This was earlier confirmed by Ajekwe et al (2024) who found that interest rates, inflation rates, and exchange rates exert significant negative effects on long-term financing. High inflation rates in Nigeria erode the value of money over time, making it riskier for lenders to extend credit to SMEs. Unstable exchange rates introduce currency risk, which can lead to losses for both borrowers and lenders. Limited access to credit is a pervasive issue for SMEs in Nigeria, as financial institutions often prioritize larger corporations or government projects over smaller businesses. Political instability in the country also creates uncertainty for lenders, further deterring them from investing in SMEs.

Also, the first-tier capital market in Nigeria was found significantly inhibits SME finance. The first-tier capital market in Nigeria has emerged as a more attractive alternative to the Alternative Securities Market (ASeM) due to several reasons. The first-tier capital market, also known as the main board of the Nigerian Stock Exchange (NSE), offers a more established and regulated platform for companies to raise capital through the issuance of securities such as stocks and bonds. This market segment is characterized by higher liquidity, greater investor confidence, and increased visibility compared to the ASeM market.

Conclusion

The role of the Alternative Securities Market (ASeM) in influencing funding, especially long-term finance, has been advocated in the world as well as in Nigeria. For being a pioneering study on the role ASeM plays in SME financing in Nigeria, this study tries to explore the effect of ASeM on SME equity finance for the quarterly period of 2013Q1 to 2021Q4. The dependent variable was SME financing, proxied with SME equity and coded SMEFIN. The main independent variable is ASeM, associated with other independent variables like first-tier stock market capitalization (expressed as percentage of GDP) (MKTCAP), gross domestic product per capita (GDPK), inflation rate (INFR), interest rate proxied by monetary policy rate (INTR), exchange rate (EXCHR), and a dummy variable used to capture recent economic recession from 2018 (DUM). This quantitative study uses secondary data from the Securities and Exchange Commission (SEC) and the Central Bank of Nigeria (CBN). The Autoregressive distributed lag model (ARDL) approach is used for estimation, and the theory of information asymmetry is used to consider

ASeM financing. From the study's findings, it can be concluded that ASeM boosted SME financing in Nigeria, despite the detrimental effects from first-tier capital market, per capita income, inflation, interest rates and exchange rates.

Recommendation

In accordance with the findings/conclusions reached in this study, the study recommends that the Alternative Securities Market is a significant way to improve funding to SMEs in the country. To support the Alternative Securities Market (ASeM) in Nigeria and improve financing for Small and Medium Enterprises (SMEs), several strategies can be implemented. some ways to support ASeM market to enhance SME financing in Nigeria:

a) Regulatory Reforms: Implementing regulatory reforms that simplify listing requirements, reduce compliance costs, and enhance transparency can attract more SMEs to ASeM. Streamlining regulations can make it easier for SMEs to access capital markets for financing.
b) Capacity Building: Providing training programs and workshops for SMEs on how to prepare for listing on ASeM can increase their understanding of the process and requirements. Capacity building initiatives can empower SMEs to meet the necessary criteria for accessing capital through ASeM.
c) Investor Education: Educating investors about the benefits of investing in SMEs listed on ASeM can increase demand for such securities. Investor education programs can help build confidence in the market and attract more funding opportunities for SMEs.
d) Market Promotion: Promoting ASeM as a viable platform for SME financing through marketing campaigns, roadshows, and networking events can raise awareness among both SMEs seeking funding and investors looking for investment opportunities.

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