

UNIVERSITY OF TARTU

Faculty of Social Sciences  
School of Economics and Business Administration

Nino Nadiradze

**POSSIBILITIES TO LAUNCH ALTERNATIVE CAPITAL MARKET IN  
DEVELOPING COUNTRIES: CASE STUDY OF GEORGIA**

Master Thesis

Supervisor: Junior lecturer Mark Kantšukov

Tartu 2024

I have written this master's thesis independently. All viewpoints of other authors, literary sources and data from elsewhere used for writing this paper have been referenced

Nino Nadiradze

Signature-----

Date -----

## ABBREVIATIONS IN THE TEXT

<b>Abbreviation</b>	<b>Explanation</b>
ACM	Alternative Capital Markets
SME	Small and Medium-sized Enterprises
EU	European Union
MTF	Multilateral Trading Facility
GSE	Georgian Stock Exchange
IPO	Initial Public Offering
P2P	Peer-to-Peer
NBG	National Bank of Georgia
AIM	Alternative Investment Market
LSE	London Stock Exchange
NASDAQ	National Association of Securities Dealers Automated Quotations
EASDAQ	European Association of Securities Dealers Automated Quotations
MAC	The Alternative Capital Market in Italy
MAV	The Alternative Securities Market in Peru
OECD	Organization of Economic Co-Operation and Development
CMWG	Capital Market Working Group
CEO	Chief Executive Officer
GNI	Gross National Income
GCSD	Georgian Central Securities Depository
SARAS	Service for Accounting, Reporting and Auditing Supervision
Nomad	Nominated Advisers

## **Abstract**

The present paper examines the possibility of creating an alternative capital market as an SME external financing option in developing countries in the example of Georgia. The study employs qualitative research methods and techniques such as Desk Research and Interviewing. Using the experience of the European countries, the research analyses directly related factors, such as firms' characteristics, regulatory framework and the market infrastructure which are essential for the alternative trade facility creation and operation. The factors are not explicitly measurable, however, they are assessable. The high interest towards SME importance, support, development and enhancement determines the topic selection. From this point of view, the creation of alternative ways of financing is one of the main challenges for SMEs in many developed and developing countries. The results show that the strict regulatory framework towards market participants and the firms' readiness to issue securities are the main obstacles to launching an alternative market in Georgia. On the other hand, the supportive factor is the developed market infrastructure with the necessary attributes to operate.

Keywords: Alternative Capital Market, SME financing

## **Introduction**

The motivation behind the research is that an alternative capital market is one of the ways for Small and Medium Enterprises (SMEs) to raise funds for financing operations or investing in capital expenditures. This segment of firms plays an important role in sustainable economic growth. This is the reason why the topic attracts a lot of attention from the side of governments, policymakers and scholars around the world. Currently in Georgia for SMEs and even for larger corporations bank loans is the only option for fundraising. The lack of alternative options to competitively attract the capital slows down business development. The importance of this topic has been growing during the last decade, as Georgian companies have the opportunity to grow and become part of the regional or global economy.

Scientific studies show that the mechanisms of SME external financing vary from country to country. Formal options for SME financing are mainly provided by financial institutions (traditional bank loans, guarantees, leasing and document operations like Factoring) and direct access to capital via financial markets (Ioana-Carmen Bozintan (Cosma-Guler) 2023). However, financial markets' role in SME financing in the EU is minor.

Hence, SMEs financing rely mostly on bank loans. It makes them sensitive to financing long-term capital expenditures to avoid liquidity problems (Waliszewski 2017).

The studies also show that in the EU and not only, there are also steps towards SME financing from the point of view of capital market development. One of the examples is Tallinn First North (MTF) which operates under the NASDAQ umbrella and makes it possible for SMEs and investors to meet each other<sup>1</sup>. The document „First North Rules“ closely describes the conditions under which the issuers are admitted and the securities are registered in the trading system (Nasdaq Tallinn 2022). Tallinn First North’s example and experience may be useful for small developing countries like Georgia.

On the other hand, the academic papers which study alternative capital markets’ experience and performance in European countries show that not all alternative markets are successful. Even more, some scholars think that alternative markets in the EU are mostly pushed by political motives rather than economic factors. However, scholars do not argue that such market practice should be rejected at all (Aurelio Gurrea Martinez 2015), (Elliot Posner 2005) and others. Other scholars express the opinion that the alternative markets’ potential is not fully used and firms might have better economic and non-economic benefits (Mendoza 2011). Most scholars try to figure out the reasons for the success and the failure of alternative markets (Mendoza 2011, Katalin Kovács et al. 2020, Lewandowska 2010 and others).

To make it possible to understand the scope of the study it should be defined what type of companies are considered SMEs and how the alternative capital market is related to such companies. EU definition of SME relies on the three criteria:

- Number of employees- less than 250
- Annual turnover - less than or equal to 50 mln EUR
- Balance sheet - total assessment less than or equal to 43 mln EUR

(European Commission 2020). The definition of SMEs in Georgia was updated within the framework of the 2016-2020 SME Development Strategy of Georgia and generally is in the scope of the EU definition.

In the academic literature, one can see different definitions of alternative capital markets. Generally, it is described as a new form of lightly regulated markets, which aims to give a chance to small and high-growth companies to raise capital in financial markets with

---

<sup>1</sup> Tallinn First North official webpage <https://www.nasdaqbaltic.com/statistics/en/statistics>

reduced listing costs compared to conventional stock exchanges (Aurelio Gurrea Marti ´nez 2015).

As for the status „developing“ it should be specified that the Georgian economy is estimated with different statuses such as „Transition Economy“, „Emerging Economy“ and „Developing Economy“. The latest classification done by the International Monetary Fund is used in the thesis. According to the study, „the country is classified as an emerging market and middle-income economy (low-income developing country)“. ( World Economic Outlook 2024, p.121).

The challenging part of the study is that there are no academic attempts to investigate SMEs' needs in alternative capital markets in Georgia. For example, there are no surveys about readiness to make IPOs from the SME side and to invest from the investors' side. However, access to finances is one of the top three problems for SMEs in Georgia (SME Development Strategy of Georgia, 2021). To assess the demand from companies for alternative ways of financing in Georgia on a high level there can be used the study done by the Cambridge Center for Alternative Finance (Global Alternative Finance Market Benchmarking Report 2020, 24–165 p.). According to the study (the study is the latest one, there is no updated study), Georgian alternative lending by 2018 was 193 mln USD. This amount counts all types of lending including P2P. P2P lending is defined as a group of individual or institutional investors which provide a loan (secured or unsecured) to a consumer or business borrower. In most cases, P2P is a platform, which acts as a marketplace and connects the borrower and investor(s). The full risk of lending is on the investor. The model can be Crowdfunding, Marketplace Lending, Collaborative Financing or Crowdlending. So, no organised capital market with shared responsibilities is included. It must be mentioned that most of the options for alternative finances were either microfinance organisations or other credit-granting entities, which were not registered and were not under any type of supervision by the National Bank of Georgia (NBG). Those entities were granting so-called rapid loans using different online platforms. In 2018 NBG issued a Special Order, which forces those entities to be registered as Credit Granting Entities. With this Order, those entities more-less appeared under the supervision and most of them reduced their activities (The Order of The President of the National Bank of Georgia to Define The Rules of Registration, Registration Cancelling and Regulation of the Lender Entity, 2018)

The bright side is that there are significant efforts to stimulate the existing traditional capital market (Georgian Stock Exchange). The effort involves academic studies and practical research. However, there is not enough effort to study the potential or possibility of

launching an alternative capital market to support SMEs' financing and further growth. To fill this gap the Master's thesis aims to analyse the possibilities of establishing an alternative capital market in Georgia. To reach this goal, the thesis focuses on research questions like existing practices and experience mainly in EU countries, on the one hand, and the legal, institutional and business readiness in Georgia, on the other hand.

To reach the Master thesis goal the author conducted Desk Research. First of all, there was investigated the experience of EU countries, which established alternative markets successfully or faced challenges in this way. Further, the author studied the current status of Georgia from the point of view of capital markets generally, the existing experience and market infrastructure, legal framework and business readiness. Next, the thesis author conducted interviews with different parties from the Georgian Stock Exchange (GSE), the Tallinn First North, the economic policy-maker institution and the partner project. Most of the respondents are directly involved either in securities market operations or development. Those interviews make it possible to assess the theoretical research results and the current status of the capital market in Georgia.

The paper consists of three chapters. The first gives an overview of the alternative capital markets as a theoretical approach to the research. This chapter also underlines the methodologies employed by the research. The second part describes the data collection strategy and methods used in the study. The final part of empirical analysis concludes the discussion and attempts to answer questions defined by the research goal.

## **1. Literature review**

This chapter consists of two parts and introduces the theoretical framework of the research topic. Namely, the first part is dedicated to the literature review of previous scientific publications about alternative capital markets (ACM). The second part provides an academic overview of the scientific literature related to the capital market and SME financing in Georgia. The chapter also covers institutional and legal documents related to alternative financing and the SME sector in Georgia.

### **1.1. Literature Review on Alternative Capital Markets**

To assess the possibilities of implementing an Alternative Financial Market in Georgia, the research suggests looking back to the academic discussions assessing alternative capital markets' concept and role. European countries' experiences and assessments are the main focus.

For the thesis purposes, together with the Alternative Capital Markets (ACM) concept there will be briefly discussed Small and Medium Size Enterprises (SME).

ACM represents not only a theoretical concept but also has a significant practical impact on economies and welfare. The central research papers and investigations are done by scholars (Mendoza 2011, Aurelio Gurrea Martí ´nez 2015, Valencia and Fernández 2022, Carola Salazar-Rebaza et al. 2022, Elliot Posner 2005, and others) as well as qualified international institutions and consulting organisations (Global Alternative Finance Market Benchmarking Report 2020).

The interest towards ACM has been raised for the last 2-3 decades. The reasons why the topic attracts scholars' attention are: SME financing and access to the stock markets, and the firms' performance after their initial public offering (Valencia and Fernández 2022, p.799). However, the main reason why ACMs became actual in the 90<sup>th</sup> of the 20<sup>th</sup> century in Europe is to support small and untested companies to have more flexibility in fundraising through the stock markets (Elliot Posner 2005).

The scholars define alternative markets as a financing tool for new SMEs to raise additional capital. They serve companies to be presented on the financial markets (Lacalle Castillo, Portillo Pérez de Viñaspre, and Ruiz-Cabestre 2015, p.488).

More critical authors describe ACMs simply as a new form of lightly regulated markets, which aim to give a chance to small and high-growth companies to raise capital in financial markets with reduced listing costs compared to conventional stock exchanges (Aurelio Gurrea Martí ´nez 2015).

Another concept, which needs to be defined in the thesis is SME, because it may involve a wide range of firms based on the definitions in the literature. (Durst, Foli, and Edvardsson 2022). In European countries, the definition of SMEs is proposed by the European Commission (European Commission 2020), which will be used in the thesis. While the SME definition is very wide and may be built on different criteria worldwide, SMEs' role in economic development is recognized as highly important. Most scholars agree that SMEs play a vital role in any economy, especially in developing and developing countries (Ndiaye et al. 2018), (Durst et al. 2022), (World Federation of Exchange and The Milken Institute 2018), (Dambiski Gomes de Carvalho et al. 2021). That is why alternative ways of financing SMEs have become the subject of many discussions among scholars and policymakers. Some scholars define SME firms not only from an economic growth point of view but also from the point of view of society and individual development and as a way to transcend social inequality (Murphy 1996 p.3–27).



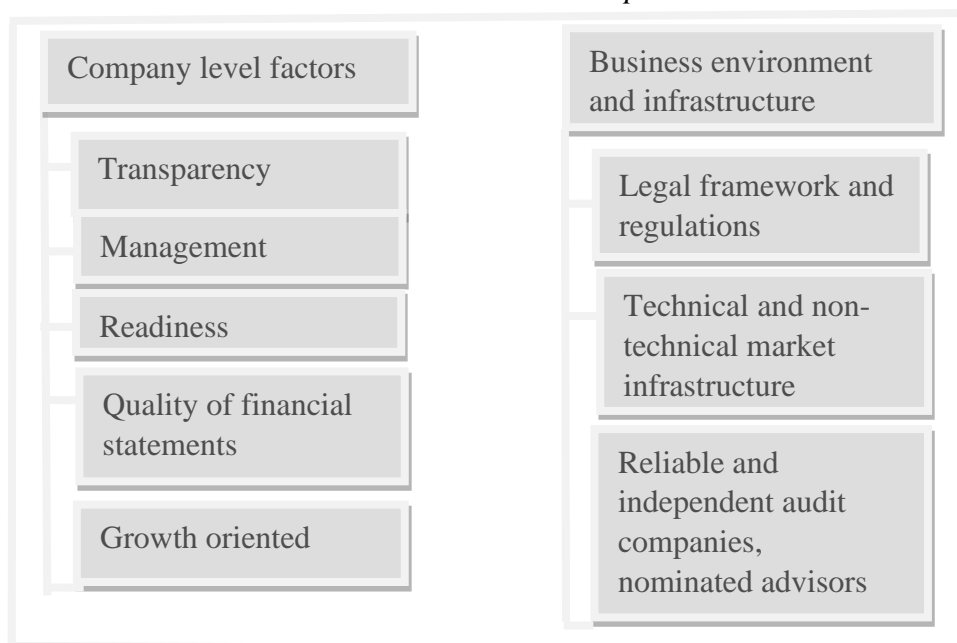
It is important to mention that small economies, which are less experienced in having financial and capital markets can successfully develop different financing options. A study done by the Cambridge Centre of Alternative Finance widely describes the forms of alternative financing for SMEs. The latest study shows the trends in alternative financing and demonstrates the importance of such resources for the companies. However, the study does not fully describe the details about why in some countries those markets perform successfully and in other countries, they show poor performance. (Global Alternative Finance Market Benchmarking Report 2020, p.74–105).

One more study showing the role of alternative financing for firms' development is done by another group of authors. This study excludes traditional bank loans and under the terms 'alternative finance' union all possible channels of financing and existing practices worldwide. The weak point of the study is that it has limitations as it relies only on the World Bank's data. However, the scholars use comparison and context analysis to show the trends. This study shows that alternative financing channels, starting from less organized lending sources (friends' loans etc.) and ending with credit unions and non-banking financial firms, play an equally important role in the firms' financing in developed and developing countries. However, traditional financing sources (banks and markets) have a significant role in developed countries. The authors also argue that alternative funds are more important in fast-growing economies. The paper is proof of existing economic demand for organized alternative financial channels such as financial markets. Besides, the authors highlight that the development of such organized markets needs costs, government support, experience sharing, cultural awareness and several years. That is the reason why in developing countries there are many unofficial and unorganized channels of alternative finances. (Allen et al. 2012).

The author created a list of the factors needed to launch alternative markets. The list is created based on the studies discussed in the Literature Review chapter. The scholars consider those factors the most important ones for an alternative market's successful performance. It should be mentioned that the important factors are proved by the practical experience of some European markets (Figure 1).

Figure 1

*Determinants needed to launch alternative capital market*



Note: the table is filled by the author

Young European alternative markets experienced failure when it was the first wave of trials to develop such markets in Europe (Elliot Posner 2005). Later, when ACMs were finally started, their performance became a subject of strong interest. A considerable number of important lessons were taught based on the experience of new alternative markets. For example, a case study performed based on the Spanish Alternative Investment Market describes the negative aspects of the Alternative Financial Market. Those aspects are as follows: 1. Less regulation and transparency, which includes insufficient distribution of responsibilities in the management of the listed firm; 2. The listed firm's auditing by a doubtful audit company; 3. Nominated Advisor's poor competency. However, the author does not put under question the effectiveness of the AMF itself and makes suggestions for improvement (Aurelio Gurrea Marti ´ nez 2015).

One more group of scholars focuses on the phenomena of Nomads and their role in the ACMs (see Figure 1). The study done on the example of the London Alternative Investment Market (AIM), analyses those factors which influenced the firms' performance in the market. The authors describe Nomad as a role holder, who acts as an IPO (Initial Public Offering) advisor for companies which express their willingness to be listed on the market. Also, Nomads are gatekeepers and perform as "decentralized regulators". They certify and control the quality of new listings and iteratively check compliance with the market standards

and rules. The linear model takes several variables such as Nomad reputation, IPO market activeness, the age of the company before the first IPO, the market capitalization of the IPO company at the IPO price, Initial return, new public price of the company, sales of the company before the IPO, insider ownership at the time of the IPO (%) and dummy variable in case the company is backed up by venture capital. Finally, the study showed that Nomad's reputation has a significant impact on IPO survival. Those firms which have reputable Nomads survive by about two years longer than those which have ordinary Nomads. Even though this study is mostly applicable to long-term investments and is done on the example of one market, it still is important to be considered by other markets, especially newer ones. (Espenlaub, Khurshed, and Mohamed 2012).

Another scholar focuses on the financial performance of the firms listed on the AIM and investigates their volatility and liquidity. The paper studies the financial metrics of the stocks owned by the firms which moved from the main market to the alternative market. Using several factors, such as cross-sectional analysis, the evolution of stock liquidity and volatility and a time-series framework, the study shows that such change does not positively affect the volatility and liquidity of the stocks. Even though such companies save costs with the change, in the long run, period it will not be profitable. (Mortazian 2022).

Generally, ACMs are subject to further development. Moreover, there is an opinion that the potential of Alternative Financial Markets is still untapped. Using the qualitative method the scholar describes the non-economic factors, which affect the markets' development, especially in developing countries (Figure 1). More precisely, he uses the term 'developing nations', which underlines that not only countries or the firms' economic performance matters but it is also important that the society is ready to build reputation-based institutions. (Mendoza 2011).

The study done by a group of authors gives one of the latest overviews of the European markets, considering their positive impact on the firm's growth, and lists the countries with the best practices in developing Alternative Financial Markets. This paper figures out six key enablers for the creation of alternative financing in each country. However, the authors do not argue that these are the only determinants. They suppose that other factors can also be defined as stimulators for alternative financing and SME development. (Katalin Kovács et al. 2020).

Some scholars support the theory that alternative markets which support innovations, may enhance the role of traditional regulated markets. A case study shows the connections

between the traditional or regulated capital markets, innovation and alternative markets. Using the qualitative method, this case study describes the cause-result connection between the capital market (regulated) and innovation development on the one hand. On the other hand, the author underlines that the regulated market, which was less known among the investors and firms was supported by the alternative market so the alternative market which is operating under the regulated market, supports and promotes the regulated market as well. (Lewandowska 2010). According to the research which was conducted by the World Federation of Exchanges and The Milken Institute later, there can be several other reasons why SMEs decide to be listed on the markets. Based on the study, those reasons can vary by country and region and the company's growing phases. Some firms declare that they want to position for growth, while others highlight the possibility of diversifying the investor base, improving the company or brand reputation, and improving financial reporting and transparency standards (Small and Medium-Sized Enterprises and SME Exchanges 2020, p.5).

A group of authors also examines determinants needed to successfully establish alternative markets and assesses their significance. According to the study, such determinants are legislation, rights of investors, minority protection, economic factors, financial system developments and so on (Bernstein, Dev, and Lerner 2020). Another group of scholars introduces firm-level determinants based on the study done in 12 European countries (78 CFOs) (Bancel and Mittoo 2007). According to the authors, determinants such as enhanced visibility and prestige, funding for growth, financial flexibility, and external monitoring etc. are important factors in going public (Figure 1).

Table 1

*Types of alternative capital markets*

	Type	Characteristics	Experience
By Segmentation	Sequential ( <i>'seasoning'</i> <i>market</i> )	-SMEs -Less regulations -Focus on growth companies to 'feed' the main market - No restrictions on target investors	<b>Initially, such markets were successful in the 90<sup>th</sup>, but current estimation is not positive (2012)</b>
	Sectoral ( <i>New Market</i> )	-SMEs -Less regulations	The markets were successful mostly in the 2000 <sup>th</sup>

		-Focus on high-tech sectors -No restrictions on target investors	
	Demand-side ( <i>Exchange-regulated markets</i> )	-Young firms -No official regulations -No prospectus if there is no public offering - Target investors: qualified institutional buyers	The model is adopted by most EU secondary markets
By Geographical area	Regional Stock Exchanges ( <i>RSE</i> )	-Small firms - Focus on growth companies -Supports local entrepreneurs	Depends on regional economic potential
By securities	Bond and equities market	-Small firms Focus on Growth - Less regulations	-Short-term instruments: current operations - Corporate bonds: longer-term projects -Equities: less chosen instrument.

Note: the table is filled by the author

Some scholars distinguish market models based on segmentation (Table 1). For example, Silvio Vismara and Stefano Paleari describe three models for alternative markets: Sequential, Sectoral, and Demand-side segmentation. The Sequential segmentation model organizes alternative financial markets based on the progression or sequence of financial instruments available for the participants. In this model, investors might start with lower-risk investments and gradually move towards higher-risk offerings. Markets with the Sectoral segmentation model work based on the industries or sectors in which the investments are made. According to this model, different sectors have unique characteristics, risks, and opportunities, and investors may choose to allocate their capital based on their preferences or beliefs about specific industries (real property markets, fuel markets and others). Demand-side segmentation model divides alternative financial markets based on the characteristics and preferences of investors (such preferences may include risk tolerance, ethical and social preferences, liquidity requirements, objectives and so on). Based on the empirical study alternative markets with Sequential and Sectoral models were not successfully operating and failed. The demand-side segmentation model is successful (AIM, Alternext by Euronext, the

Freiverkehr in Germany, and the MAC in Italy). (Vismara, Paleari, and Ritter 2012). Table 1 illustrates the models of alternative markets, which are discussed in the literature review.

Shima Amini and others (2012) discuss small companies' funding and regional stock exchanges (RSE) (Table 1). Using the regression technique, the authors analyse those firms which did the IPOs and are located in a region. The results show that the dynamic development of a region is the factor which mainly causes the difference in firms' activity across the regions. Thus, in those regions where the economic environment is active, the demand for IPO activity is higher (Amini, Keasey, and Hudson 2012).

A group of scholars analysed the alternative securities market (MAV) in Peru and the listed companies' financial performance by investigating their financial statements. The authors investigated what type of financial instruments are mostly used by the listed companies and performed an observation on the firms' profitability and other financial measurements against the funding obtained through the market. The results show that short-term instruments are mostly used for the firms' current operations and working capital, while corporate bonds are used mostly for longer-term projects. The authors mention that those firms' financial and economic performance grows sustainably, and liquidity and solvency are acceptable. It is notable that even though those companies have positive experiences trading their securities through the alternative financial market, they still do not tend to offer different types of instruments such as equities (Table 1). (Carola Salazar-Rebaza et al. 2022).

To summarize this part of the literature review, determinants of the creation of ACM in developing countries should be assessed from two ends: firms' characteristics and their need for alternative financing and the business environment. The theory and the practice show that there is a difference in the models of market operation. Many alternative markets operate as a sub-market under the umbrella of the conventional financial markets such as LSE, NASDAQ and others. It must be mentioned, that some scholars consider NASDAQ markets in the EU or EASDAQ as a political decision rather than demand-based market creation and development (Posner and Weber 2000). However, such markets operate and support the sub-markets like First North Alternative Market (Multilateral Trading Facility "MTF"). NASDAQ First North markets, like Tallinn First North, are oriented toward small firms and have fewer regulations and requirements towards the listing companies (NASDAQ Tallinn 2022).

## **1.2. Literature Review on Georgian Capital Market**

For the present research goals, this part of the literature review covers academic papers and documents related to the existing capital market in Georgia. As it was previously mentioned there is no organized alternative capital market in Georgia. Thus, there are no directly related academic research papers or documents. However, there is a significant focus on capital market development, on the one hand, and on the other hand SME development and support is one of the highlighted topics for the current and future reforms. One of the recent studies done by Georgian scholars underlines SMEs' impact on economic development and focuses on the enhancement of the ecosystem of financial innovations. Using the Desk Study method the authors of the paper conclude that the financing issues for the development of small and medium-sized firms is an important factor. Traditional financing institutions like banks offer minor novelty in business financing. The study does not discuss the alternative capital market, such as. It is more about the FinTech ecosystem's importance (Tamar and Lamara 2020).

Another study done by the Organization of Economic Co-Operation and Development (OECD) also underlines the issues related to financing options. According to the study high interest rates and requirements on collateral remain important issues for SME financing (SME Access to Green Finances in Georgia 2020, p.15–40).

Generally, capital market development is a significant challenge in Georgia. The strategic document adopted by the Government of Georgia shows the strategic directions and steps which should be taken to increase the market performance. At the same time, the strategy document defines that all legal acts and the parts of the overall framework which will be changed or will be newly adopted should be compliant with the EU norms and regulatory acts. However, this document does not consider SME companies' financing support as a particular step; or any type of alternative market creation support or such (Capital Market Development Strategy 2023).

To summarize the subchapter of the literature review, there are attempts to push the capital market as an alternative way of financing, but the topic is not widely studied at the academic level.

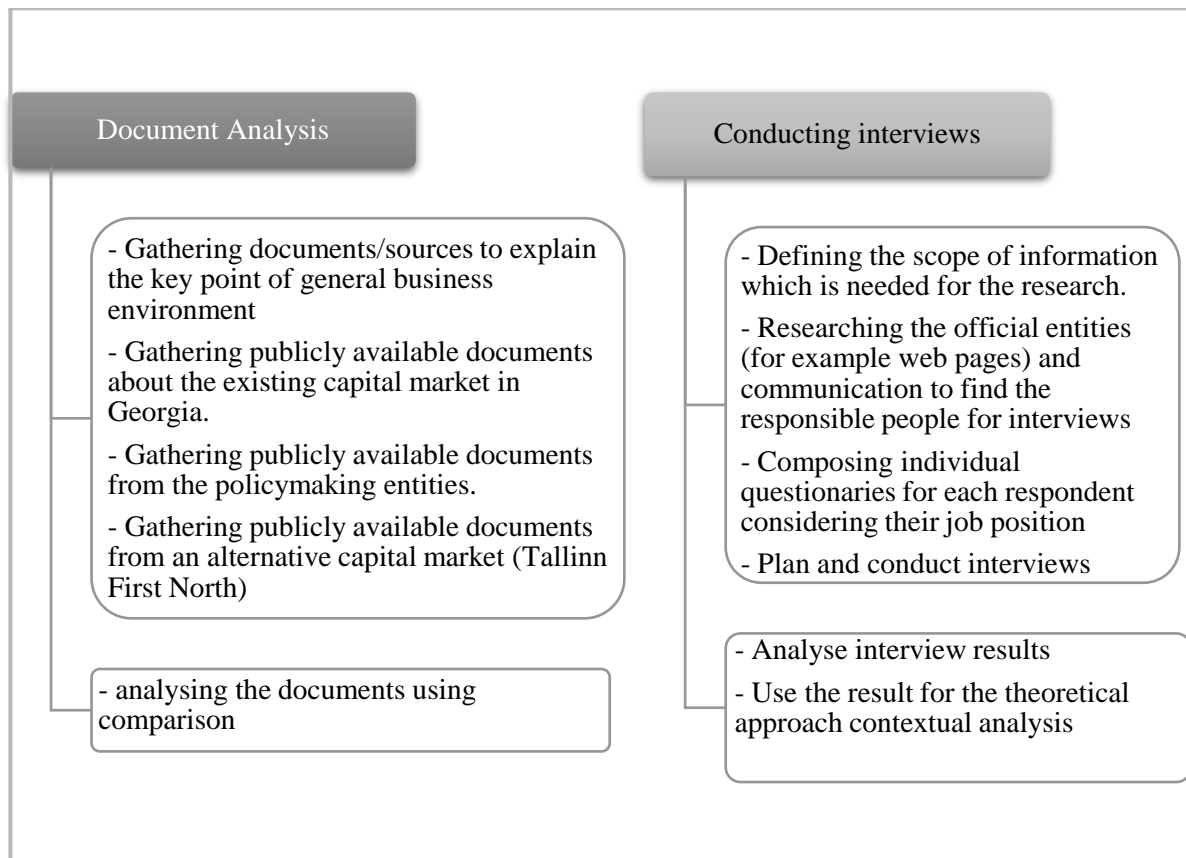
## **2. Methodology and Data**

The paper suggests studying the research phenomena in the example of Georgia. However, the research can be used for other developing countries as an example. Choosing the research methodology depends on the research objectives and expected results as well as the specification of the research problem. The presented Master's thesis aims to analyse the

possibilities of establishing an alternative capital market in Georgia. As was mentioned above, an alternative capital market does not exist in Georgia yet like many developing countries in the region. It prevents the researcher from having any quantitative data to analyse and perform quantitative research. Hence, the author performed qualitative research. To reach the Thesis goal the author employs the following methods: Document Analysis and Interviews. Note that part of the documents are in Georgian (the author’s native language). Three interviews are also conducted in Georgian.

It must be mentioned that previous studies use qualitative and quantitative methods considering the research goals. Those studies which perform research on existing practices mainly use qualitative methods to assess the significance of one or another factor. For example, the study done by Espenlaub, Khurshed, and Mohamed, 2012. several scholars use interviewing and document analysis. For example Bancel and Mittoo, 2007.

Figure 2  
*Used methods*



Note 1: the figure is filled by the author

The document Analysis method was selected because it can provide deep insights and a comprehensive understanding of the research topic. The main advantage of using this



method in this case is that the legal documents and rules related to the capital markets are publicly available and no need to make an effort to obtain them. Also, the publicly available documents cover most of the aspects of the research question. The aspects are the current status of Georgia from different angles such as the regulatory framework, the need for additional options of fundraising and the institutional readiness to establish alternative markets, which is one of the research questions. The knowledge from the document analysis was also used to prepare for the interview plan. The document selection was performed so that have a maximal contribution to the research goal.

Overall, three groups of documents are researched and analysed. As it is known capital markets are very sensitive towards business and economic fluctuations and trends, and are influenced by many directly and indirectly related factors. The first set of documents gives a brief overview of the key economic and business ecosystem points. Further, the author checked the laws, legal acts and rules which are related to the capital market regulatory framework in Georgia. The third set of investigated documents are related to the government strategies and initiatives which are directly related to enhancing SME support and external financing as well as capital markets. One more document which was investigated is the Tallinn First North rule and regulations, as an example of the existing and fast-growing alternative market.

However, the Document Analysis as a method has some limitations such as a lack of contextual information, difficulties in understanding specific points and a static nature. These limitations were covered with another method used in the research. The other method used to reach the goal is interviewing different parties (policymakers, capital markets, partners). The goal of conducting interviews was to obtain a deep understanding of the research topic from the participants' viewpoints considering the overall context. Also, the interviews helped to examine the theoretical viewpoints which were expressed in the previous research. The interviews were conducted online with the four respondents (Table 2).

Table 2.

*The list of conducted interviews*

Interviewee	Affiliation	Interview type	Interview Date	Interview length
Respondent 1	Acting CEO/CFO, GSE; CFO of GCSD	Online. Platform: WhatsApp	March 10, 2024	40 minutes

Respondent 2	Head of the Economic Analysis and Reforms Department at the Ministry of Economy and Sustainable Development of Georgia	Online. Platform: Zoom	April 17, 2024	45 minutes
Respondent 3	Account Manager, Nasdaq Tallinn / Baltic Markets	Online. Platform: Zoom	April 22, 2024	45 minutes
Respondent 4	The USAID Financial Innovation Program, Component 1 (Financial Market Legal and Regulatory Framework and Infrastructure) Lead	Online. Platform: Google Meet	May 9, 2024	45 minutes

Note: the table is filled by the author

All conducted interviews are semi-structured with open questions. The interview planning involves several steps. Pre-preparation steps for the interviewing were the literature review and the document analysis. Namely, Based on the previous studies the author learnt the challenging and supportive factors to create alternative markets. At the same time, the document analysis gave an understanding of the capital market infrastructure and existing experience (for example Tallinn First North). Further, the author searched the responsible entities and people working on specific topics. The thesis author aimed to interview people from different sides: capital market representatives, policymakers, and experts. Each interview aimed to receive deeper knowledge to contribute to the thesis research questions. The search for the respondents happened via the responsible entities' web pages. Initially, publicly available contact information was used to find accountable people in the organisation. LinkedIn was also used to review the responsible people's competencies and communicate with them in certain cases. After receiving the personal business emails, the author sent the interview questions and online meeting invitations.

Each interview covers different angles of the thesis research goal. Thus, the author had to prepare individual questions for each respondent (Appendix 1, 2, 3 and 4). Interviews with Georgian respondents were conducted in the Georgian language, thus the questions were prepared and sent in Georgia. In the Appendices only English translations are represented. While preparing each interview plan, the author also searched publicly available materials prepared by the interviewees (articles, publications), which might be related to the thesis research questions. It helped the author to be prepared better and be ready to ask additional questions during the interview.

As mentioned, the respondents were selected based on the objectives related to the research questions. Namely, Respondent 1 was chosen because the institution (GSE) represented by her is the only capital market in Georgia. The expected result was the respondent's reasoned opinion about the possibilities of creating an alternative market based on experience and knowledge; another goal was to assess the key challenges the capital market faces to perform successfully. Respondent 3 was interviewed to get a deeper understanding of the fast-progressing Tallinn First North experience and mechanism. This interview was also important because of the expectation to assess theoretically determined factors referring to alternative market success. After the thesis author had sent an email to the Tallinn First North information centre the respondent replied that he was the responsible person to participate in the interview.

Respondent 2 was selected for a better understanding of the context of ongoing reforms from the point of view of SME financing support. As far as alternative markets represent one of the options for fundraising for small and medium companies, the expectation was to get knowledge about the policymakers' approach towards them. One of the goals of interviewing the respondents was to assess the business readiness for going to a capital market. This aspect is important for the research question to assess the demand for alternative capital markets. The meeting was followed by the next interview with respondent 4, who is directly involved in the adoption of the latest initiative proposed by the Government. The initiative offers technical and financial support to small and medium companies to issue securities. The goal of the interview with Respondent 4 was to obtain knowledge under her competency about firms' readiness to issue the securities. Another reason for selecting the respondent was to receive her reasonable opinion about the challenges for alternative market creation in Georgia.

It should be mentioned that the thesis author tried to have interviews with four other parties: 1. Head of Securities Market Department, National Bank of Georgia; 2. Vice President, TBC capital; 3. Two representatives of the Small and Medium Enterprises Development Association (SMEDA);

The first communication with the first three parties was established and the questions were sent via official emails (sent by themselves). However, the meetings were postponed several times and were not conducted. The fourth potential respondent was also sent the interview questions twice, but the communication failed without any response.

### **3. Results and discussion**

This chapter consists of two subchapters. The first one covers the results of document analysis. It also gives a brief overview of some key points of the business ecosystem in Georgia. The second subchapter is devoted to the interview analyses and results.

#### **3.1. Document analyses**

As was mentioned to reach the research goal different types of documents were analysed. As the very first step, the key economic and business-environment points were touched to give a general, brief overview of the country's economic and business ecosystem status. For this overview, there were used documents like the World Bank overview and survey (World Bank Overview 2023), (Explore Economies-Enterprise Survey, World Bank 2023), and Doing Business annual report (World Bank 2020).

The analysis shows that Georgia's reforms to increase economic welfare have positive trends, especially during the last two decades. „Georgia has been growing faster than other upper-middle-income countries, and GNI per capita increased from \$3,048 in 2010 to \$5,073 in 2022 (constant 2015 USD). The poverty rate (measured by the national poverty line) was more than halved over the same period. Georgia has a solid foundation to continue growing fast, including a favourable business environment, but it also faces some structural challenges. These include population ageing, weak productivity growth, limited high-quality job creation, and poor learning outcomes.“ ( World Bank Overview 2023).

The policymakers, together with the international partners make relevant steps and perform different reforms to increase the competitiveness of the country in making the business environment attractive (Schueth 2011). As a result, the country has one of the highest rankings in the Doing Business survey (World Bank 2020). However, in the justified and competitive business environment, SME financing remains among the top three obstacles for firms (the first two obstacles are factors like political instability and labour education) (World Bank 2023). Accordingly, policymakers are trying to make steps in this direction. “SME Development Strategy of Georgia 2021-2025” was created to support the companies in many directions. External financing is among those directions. One of the results of those steps is decreased rejection of loan applications from the banks (Explore Economies-Enterprise Survey, World Bank 2023). Policymakers work towards capital market enhancement as well. “Capital Market Development Strategy of Georgia 2023-2028” was

created as a mapping document in this way. However, analysis shows that there are not any tangible results in this direction, no increased number of listed companies or securities. As for the policymakers' steps towards increasing SME access to capital, the new initiative was adopted recently (March 2024). The document states the rules of technical and financial support for SMEs if they decide to issue securities and go public for additional capital raising (Ordinance of the Government of Georgia to Prove the State Program About Supporting Capital Markets 2024). As far as it is a new initiative it does not have any practical results yet. Another attempt is related to Securitization ("Law Of Georgia On Investment Funds" (2020), and "Law of Georgia on Securitization" 2023). The law allows firms to register definite types of activities and use them as securities for fundraising. Analysis of the documents shows that there are still several open questions. For example, in which market those securities are allowed to be traded.

Regarding this question the author investigated the existing traditional capital market infrastructure and regulations "Law of Georgia On Securities Market", (1998), "Law Of Georgia On Investment Funds" (2020), "Georgian Capital Market Diagnostic Report" (2015), "Rules on Admission of Securities to the Trading System and Listing of the Georgian Stock Exchange" (1999), "Charter of Georgian Central Securities Depository" (2018) and "Code of Procedures of Georgian Central Securities Depository" (1999) and related standards set by the Service for Accounting, Reporting and Auditing Supervision. The analysis of the documents shows that the regulations towards the emittents are rather strict and even for larger companies it is difficult to access the market. Namely, according to the law the listed companies have to submit financial statements, consolidated financial statements, management statements, consolidated management statements, reports on payments made to the state and in cases provided for by law, an audit report within the specified time limits. To issue stocks and bonds a company must make a public or private offering. A public offering is an issue of 100 or more securities or an unspecified number of investors. Private offering is made for less than 100 investors. Public offering has significantly high costs and is supposed for larger companies. Private offering costs and standards are lower compared to public offering but requirements towards potential investors are strict. So, the existing market in Georgia is not accessible for small and medium companies. According to the market data by the end of the first quarter of 2024, the market capitalisation is about GEL 6 billion (about 2,1 billion EUR), which is 2,6 times more than the amount of the same period in 2023 (2,2 billion GEL). However, the market annual turnover in 2023 was about GEL 162500 (EUR 58000).

As of September 2023, the total number of companies which have listed security for trading is 64, but only part of them trade actively<sup>2</sup>.

Unlike the regulated market an alternative market has fewer costs and regulations. For research purposes the “Rules of Multilateral Trading Facility First North” (NASDAQ Tallinn, 2022) was done. The rules of listing to the market are relatively simpler and the costs are lower. The companies who would like to be listed have to choose a Certified Adviser. It can be a corporate finance firm, an accounting firm, or an investment bank authorized by Nasdaq Baltic. There are no requirements on the quantity of financial instruments to be issued. An issuer should submit audited financial statements for at least two years together with the application of admission and other documents. The case is that requirements towards the financial statements and other application documents are not strict, but there are strict requirements for the disclosure of the documents. Certified Advisors play an important role in the success of the company on its way to going public.

The document analysis reveals that Georgia has a strong foundation and a favourable business environment. Some attempts and implementation of the strategies are going on to enhance SME access to capital and develop the capital market, but tangible results are yet to be seen. Notably, the recent initiative to support SMEs in issuing securities is promising but still too new to evaluate its effectiveness, especially without offering the market in which the securities can be traded.

### **3.2. Interview analysis**

As was mentioned above, four interviews were conducted with different parties. For the analysis, there will be highlighted three key points which are covered by those interviews: the main challenges and supportive factors for launching an alternative capital market in Georgia, and the need for an alternative capital market and readiness from the side of companies.

**Main challenges for launching alternative capital market in Georgia.** This point was covered by the three respondents from Georgia. To summarize the answers the first and major obstacle is a heavy regulatory burden from different sides: market regulator (NBG) and accounting and reporting standards (SARAS). The regulations affect both the issuer and the investor. As it was mentioned by the Respondent 1 „Georgian capital market is not ready to meet the needs of risk-seeker investors“. The same point of view was proved by Respondent

---

<sup>2</sup> List of registered securities <https://www.gcsd.ge/Securities>

4, which underlined the negative influence of the concept of „Sophisticated investor“. It refers to the strict requirements towards the investors. With this approach, the regulator tries to defend the investors from taking high risks. Respondent 2 mainly agrees about the strict regulations towards the companies and highlights the regulator’s requirements rather than requirements towards the accounting and reporting standards. So, in the case of creating an alternative capital market, there will be a need to have lighter and more reasonable requirements on both sides: issuers and investors. As was mentioned by Respondent 3 one of the reasons for Tallin First's new success is fewer requirements towards the companies’ reporting standards, unlike the regulated market. Another obstacle to the creation of an alternative capital market is the service fees and commissions for the issuers. Respondent 2 thinks that such costs will be an additional burden for companies, especially in the beginning. As a result, many companies may refrain from going public and prefer bank lending. As Respondent 2 mentions deep and clear communication with the firms is needed to explain to them the advantages of being listed on the market. Respondent 3 mentioned that initially, it took time for Estonian companies to go public after the creation of the Tallinn First North. Advisers played an important role in explaining to the companies that in the cost-benefit analysis of going public, the benefit compared to the cost.

**Supportive factors for launching alternative capital market in Georgia.** From the supportive factors, the first one is existing capital market infrastructure including technical one. Respondent 2 and Respondent 4 were rather optimistic about it and agreed that the existing processes are rather well-operating including professional consulting companies and brokerage firms. So, the creation of a new alternative market under the umbrella of the main market is possible, as was mentioned by them. Respondent 1’s point of view about the topic was controversial. She was very sceptic about the alternative capital market launch, especially under the umbrella of the main market. As she mentioned, for creation of a capital market independently needs a licence from the regulator, which seems very unlikely to be granted. On the other hand, the creation of an alternative market under the umbrella of the main market is doubtful as far as the management of the market is not interested in it. Lack of resources and human capital is also an obstacle in this way, as she mentioned.

It must be mentioned that the experience of Tallinn First North looks different in this case. Namely, Respondent 3 underlined that Tallin NASDAQ, as the main market supported and promoted the alternative market creation. The main motivation to create such a market is that those small new companies are expected to grow and move to the main market. As the Respondent mentioned, there are no such cases yet when a company moved from the smaller

market to the main market, but still, the main market continues to hold an alternative market under the umbrella and supports it.

**Readiness of the SMEs to be listed in the capital market.** The respondents from Georgia have different points of view on this topic. Name, Respondent 2 based on her experience of working on SME topics and reforms argued that a significant number of companies have gathered enough knowledge, financial literacy and transparency to issue securities and go public. But she was more sceptical about the cultural factors: companies may issue bonds and debt securities, rather than equities. Respondent 4 was more sceptic about companies' readiness to go public. She mentioned that medium-size companies are more expected to issue securities, but small ones are not ready for such decisions. She also was sceptic about the investors and whether they may trust the companies and invest their money. Respondent 1 was also sceptic about the readiness of the companies because of many factors: lack of capital, financial opacity, lack of corporate standards in the management, financial literacy and cultural specifications.

Concerning this Respondent 3 from the Tallinn First North mentioned that when the alternative market was initially launched, companies were not ready to be listed. Thus, for the first several years the market did not have operations. But after 2020, when the first company was listed successfully, the growth of the market started and currently about 20 companies are listed and actively traded. The Respondent also mentioned that the government support was minimal. This fact does not support the opinion expressed by some scholars that European alternative markets are mostly supported based on political decisions and market conditions, such as demand for such markets (Elliot Posner, 2005).

The interview analysis shows mixed sentiments about launching an alternative capital market in Georgia. The primary challenges identified include heavy regulatory burdens from market regulators and strict investor requirements. These regulations are seen as necessary to protect investors but are also viewed as a significant hindrance to market development. Service fees and commissions for issuers are another barrier that may discourage companies from going public.



## **Conclusion**

In conclusion, while Georgia has made considerable progress in reforming its business environment, creating an alternative capital market will face different obstacles. These include regulatory burdens, high service fees, and the readiness of SMEs. However, leveraging existing infrastructure and learning from international experiences, such as Tallinn First North, may provide a viable path forward. Continued efforts and gradual adjustments in policies and support mechanisms will be crucial to fostering a conducive environment for an alternative capital market in Georgia.

The primary challenges identified include heavy regulatory burdens from market regulators and strict investor requirements. Service fees and commissions for issuers are another barrier that may discourage companies from going public.

Supportive factors for creating an alternative capital market include the existing capital market infrastructure and professional consulting firms, suggesting that a new market could potentially be established under the umbrella of the main market. However, opinions vary, with some scepticism about the feasibility and interest of the main market's management in supporting an alternative market.

The readiness of SMEs to participate in the capital market is also debated. While some respondents believe that several SMEs have developed the necessary financial literacy and transparency, cultural factors and a general lack of readiness among smaller companies are significant concerns.

The results show that the thesis goal to analyse the possibilities of establishing an alternative capital market in Georgia is achieved. The key challenging and supportive factors influencing the creation of an alternative capital market in developing countries were detected and analysed. Prior scientific studies in Georgia do not touch on alternative capital market topics at all. Also, scientific studies, generally are focused on research of existing alternative markets and their performance. Accordingly, the thesis authors' trial to research ACM creation possibilities for developing countries is an attempt to examine the topic differently.

The research has several limitations. The first limitation is data obtained from the Georgian firms, which in the future perspective should be the main consumers of the alternative market. The reasons behind this limitation are the following: a) A wide investigation of the demand for alternative financial markets requires needs meetings with a significant number of companies CEOs and is related to resources. b) A small number of interviews would not give significant information. c) While the alternative market does not exist in Georgia the interviews could be as so-called "MOM's Test" if only several

companies are interviewed. To receive competent and useful responses from the firms need first to have pre-interview meetings to raise awareness about the alternative market phenomena.

Another limitation is the scope of the study. Namely, the research does not focus on political, geopolitical, systemic and cultural determinants which can support or can be an obstacle to the creation of an alternative financial market in emerging countries. Even more, the research does not cover wide economic factors such as education level or human capital. The paper concentrates on specific areas of interest such as institutional and general legal readiness levels of having alternative market for developing SME financing options and ways. Taking into consideration all the limitations described, further research can be conducted to cover the following topics: 1. Assessment of SMEs' readiness to be listed; 2. Cultural aspects of going public for SMEs. While working on further research questions, one should consider that conducting interviews is the challenging part. Namely, each respondent is responsible for a specific area and it is not easy to replace the respondents.

## List of references

1. Allen, F., Carletti, E., & Valenzuela, P. (2013). Financial intermediation, markets, and alternative financial sectors. *Handbook of the Economics of Finance*, 2, 759-798.
2. Altfinator 2020, 'White Paper on Alternative Finance', Retrieved from: <https://ec.europa.eu/research/participants/documents/downloadPublic?documentIds=080166e5cec08e77&appId=PPGMS>
3. Amini, S., Keasey, K., & Hudson, R. (2012). The equity funding of smaller growing companies and regional stock exchanges. *International Small Business Journal*, 30(8), 832-849.
4. Association of Young Economists Georgia. 2023. 'The Importance of Corporate Governance and Corporate Accounting System in Georgia'. Retrieved from: <http://www.economists.ge/ka/activities/publications/145-korporatsiuli-martvis-mnishvneloba-dakorporatsiuli-angarishgebis-sistema-saqartveloshi>.
5. Bancel, F., & Mittoo, U. R. (2009). Why do European firms go public?. *European financial management*, 15(4), 844-884.
6. Batrancea, L. M., Balci, M. A., Chermezan, L., Akgüller, Ö., Masca, E. S., & Gaban, L. (2022). Sources of SMEs financing and their impact on economic growth across the European Union: Insights from a panel data study spanning sixteen years. *Sustainability*, 14(22), 15318.
7. Bernstein, S., Dev, A., & Lerner, J. (2020). The creation and evolution of entrepreneurial public markets. *Journal of Financial Economics*, 136(2), 307-329.
8. Bozintan, I. C. (2022). SMEs Finacing-An Overview of direct Financing on capital market Vs. Financial Institutions. *The Annals of the University of Oradea. Economic Sciences*, 31, 92-102.
9. Cambridge Centre for Alternative Finance. 2020. 'Global Alternative Finance Market Benchmarking Report'. Retrieved from: <file:///C:/Users/Kasutaja/Desktop/Master%20thesis/Global%20Alternative%20finance%20market%20benchmarking.pdf>
10. Dambiski Gomes de Carvalho, G., Resende, L. M. M. D., Pontes, J., Gomes de Carvalho, H., & Mendes Betim, L. (2021). Innovation and management in MSMEs: A literature review of highly cited papers. *SAGE Open*, 11(4), 21582440211052555.

11. Durst, S., Foli, S., & Edvardsson, I. R. (2024). A systematic literature review on knowledge management in SMEs: current trends and future directions. *Management Review Quarterly*, 74(1), 263-288.
12. Espenlaub, S., Khurshed, A., & Mohamed, A. (2012). IPO survival in a reputational market. *Journal of Business Finance & Accounting*, 39(3-4), 427-463.
13. Eastern Partnership Civil Society Forum Georgian National Platform 2016 ‘Small Business Act and Legislative Environment in Georgia in the Context of the EU-Georgia Association Agreement  
Retrieved from: <https://eap-csf.ge/index.php/public-policy-papers/?lang=en>
14. European Commission. 2020. ‘User Guide to the SME Definition’. Retrieved from: [file:///C:/Users/Kasutaja/Downloads/user%20guide%20to%20the%20sme%20definition-ET0117660ENN%20\(1\).pdf](file:///C:/Users/Kasutaja/Downloads/user%20guide%20to%20the%20sme%20definition-ET0117660ENN%20(1).pdf)
15. Gamsakhurdia, T., & Kadagidze, L. (2020). Innovative Financial Instruments to Ensure the Advancement of SME in Georgia. *European Science Review*, (3-4), 73-80.
16. Georgian Central Securities Depository 2023. ‘Georgian Central Securities Depository Admitted Securities’. Retrieved from: (<https://www.gcsd.ge/en/Securities>)
17. Government of Georgia 2024. ‘Ordinance of the Government of Georgia to Prove the State Program About Supporting Capital Markets’. Retrieved from: (<https://matsne.gov.ge/en/document/view/6141763>).
18. Government of Georgia. Capital Market Working Group (CMWG ). 2015. ‘Georgian Capital Market Diagnostic Report’. Retrieved from: [https://www.economy.ge/uploads/meniu\\_publicaciebi/ouer/CMWG\\_Diagnostic\\_Report\\_12\\_May\\_2015.\\_GEO.pdf](https://www.economy.ge/uploads/meniu_publicaciebi/ouer/CMWG_Diagnostic_Report_12_May_2015._GEO.pdf)
19. Gurrea Martínez, A. (2015). Alternative investment markets under criticism: Reasons to be worried? Lessons from Gowex. *Journal of Financial Regulation*, 1(1), 164-168.
20. International Monetary Fund 2024 ‘World Economic Outlook’. Retrieved from: <https://www.imf.org/en/Publications/WEO/Issues/2024/04/16/world-economic-outlook-april-2024>
21. Kherkhadze, Alim. 2022. ‘Potential And Possible Effect Of The Development Of Georgian Financial Markets’. *Economic Profile* 17(1(23)):152–65. doi: 10.52244/ep.2022.23.09.

22. Lacalle Castillo, I., Portillo Pérez de Viñaspre, F., & Ruiz-Cabestre, F. J. (2015). Formación de precios de las acciones tras el acceso al MAB. *Spanish Journal of Finance and Accounting/Revista Española de Financiación y Contabilidad*, 44(4), 487-508.
23. Lewandowska, L. (2010). NewConnect-an alternative platform for new innovative companies. *Comparative Economic Research. Central and Eastern Europe*, 13(1-2), 65-77.
24. Machavariani N., and Zurabishvili M. 2019. ‘Challenges and Reforms of Capital Market in Georgia’. *AAF -Monthly Journal for intreprenuers and Finansists*. Retrieved 6 April 2024 (<http://www.aaf.ge/index.php?menu=1&jurn=0&rubr=2&mas=3901>).
25. Mendoza, J. M. (2011). The untapped potential of alternative markets. *Capital Markets Law Journal*, 6(3), 364-395.
26. Ministry of Economy and Sustainable Development of Georgia. 2021. ‘SME Development Strategy of Georgia’. Retrieved from: [https://www.economy.ge/uploads/files/2017/ek\\_\\_politika/sme\\_strategy/2022/sme\\_strategy\\_2021\\_2025\\_eng\\_2.pdf](https://www.economy.ge/uploads/files/2017/ek__politika/sme_strategy/2022/sme_strategy_2021_2025_eng_2.pdf)
27. Ministry of Economy and Sustainable Development of Georgia. 2023. ‘Capital Market Development Strategy of Georgia 2023-2028’. Retrieved from: [https://www.economy.ge/uploads/files/2017/reformebi/kapitalisbazris\\_strategia/2023/cmds\\_sakartvelos\\_kapitalis\\_bazrebis\\_ganvitarebis\\_strategia\\_2023\\_2028.pdf](https://www.economy.ge/uploads/files/2017/reformebi/kapitalisbazris_strategia/2023/cmds_sakartvelos_kapitalis_bazrebis_ganvitarebis_strategia_2023_2028.pdf)
28. Mortazian, M. (2022). Liquidity and volatility of stocks moved from the main market to the alternative investment market (AIM). *Asia-Pacific Financial Markets*, 29(2), 195-220.
29. Murphy, M. 1996. *Small Business Management*. Vol. 282 pages. 1st ed. Pearson Education.
30. NASDAQ TALLINN. 2022. ‘Rules of Multilateral Trading Facility First North’. Retrieved from: <https://nasdaqbaltic.com/wp-content/uploads/page/nasdaq-tallinn-rules/First-North-TLN-01-04-2022-eng-clean-Final.pdf>
31. National Bank of Georgia. 2018. ‘The Order of The President of the National Bank of Georgia to Define The Rules of Registration, Registration Cancelling and Regulation of the Lender Entity’. Retrieved from <https://matsne.gov.ge/ka/document/view/4334433>.

32. National Bank of Georgia, Skhirtladze S., Kvaratskhelia A., Bakhuashvili Sh., Gujaraidze G., 2020. 'Capturing International Insights For Capital Market Development In Small Economies', Retrieved from <https://nbg.gov.ge/en/publications/presentations?page=2>.
33. Ndiaye, N., Razak, L. A., Nagayev, R., & Ng, A. (2018). Demystifying small and medium enterprises' (SMEs) performance in emerging and developing economies. *Borsa Istanbul Review*, 18(4), 269-281.
34. OECD. 2020. *SME Access to Green Finances in Georgia*. OECD Publishing. Retrieved from: <https://www.oecd.org/industry/943e0535-ka.htm>
35. Parliament of Georgia. 1998. 'LAW OF GEORGIA ON SECURITIES MARKET'. Retrieved <https://matsne.gov.ge/ka/document/view/18196>.
36. Parliament of Georgia. 2020. 'LAW OF GEORGIA ON INVESTMENT FUNDS'. Retrieved <https://matsne.gov.ge/ka/document/view/4924135>
37. Parliament of Georgia. 2023. 'Low Of Georgia on Securitization'. Retrieved from: <https://matsne.gov.ge/ka/document/view/6001175>.
38. Posner, E. (2005). Sources of institutional change: the supranational origins of Europe's new stock markets. *World Politics*, 58(1), 1-40.
39. Rao, D. S., & Reddy, A. V. (2013). An examination of the role of conceptualization and operationalization in empirical social research. *ZENITH International Journal of Multidisciplinary Research*, 3(7), 108-114.
40. Salazar-Rebaza, C., Aguilar-Sotelo, F., Zegarra-Alva, M., & Cordova-Buiza, F. (2022). Financing in the alternative securities market: Economic and financial impact on SMEs.
41. Sauka, A., & Chepureenko, A. (Eds.). (2017). *Entrepreneurship in transition economies: Diversity, trends, and perspectives* (Vol. 10, pp. 978-3). Cham, Switzerland: Springer.
42. Schueth, S. (2011). Assembling international competitiveness: The Republic of Georgia, USAID, and the Doing Business project. *Economic geography*, 87(1), 51-77.
43. Valencia, L. R., & Fernández, P. L. (2022). Insights into alternative stock markets: A systematic review of academic literature. *Modern Economy*, 13(6), 789-809.
44. Vismara, S., Paleari, S., & Ritter, J. R. (2012). Europe's second market for small companies. *European Financial Management*, 18(3), 352-388.

45. Waliszewski, K. (2017). The Capital Markets Union from the perspective of SMEs financing in the EU—expected benefits; constraints and risks. *Financial Sciences. Nauki o Finansach*, (2 (31), 102-116.
46. Weber, S., & Posner, E. (2000). Creating a pan-European equity market: the origins of EASDAQ. *Review of International Political Economy*, 7(4), 529-573.
47. World Bank. 2020. ‘Doing Business’. Retrieved from *World Bank*:  
<https://archive.doingbusiness.org/en/doingbusiness>
48. World Bank. 2023. ‘Explore Economies’. Retrieved from *World Bank*:  
<https://www.enterprisesurveys.org/en/data/exploreeconomies>
49. World Federation of Exchange and The Milken Institute. 2018. ‘An Overview of SME Markets Report’.
50. World Federation of Exchange and The Milken Institute. 2020. ‘Small and Medium-Sized Enterprises and SME Exchanges’.

## **Appendix 1**

Interviewee: Respondent 1

The list of the questions:

1. What is the position of the Georgian Stock Exchange among the world or EU stock exchanges?
2. How easy is it to be listed on the GSE and make an IPO?
3. Which instruments are mostly used by the market participants and why they are dominants?
4. How government supports the GSE?
5. Based on the current status (market conditions, legislation, business environment) how much important is it to have alternative financial markets for SME support?
6. Has there been any discussions about pushing the alternative market for SME financing or has it been discussed to allow small companies to be listed on the GSE?
7. Which economic factors are the biggest challenges for capital markets development and activation?
8. Are there any claims or significant market failures during the GSE history?



## **Appendix 2**

Interviewee: Respondent 2

The list of the questions:

1. If you consider your responsibility, what is the touch point with the SME development and external financing questions?
2. What is Georgia's position against EU countries in terms of SME support and external financing?
3. Based on the information which is known to the policy-makers what are the challenges for SMEs in terms of external financing?
4. Have there been any discussions about SMEs' access to the Georgian Stock Exchange?
5. What is your expert-level attitude about Alternative Financial Markets in Georgia?
6. Based on the experience, is there readiness to develop an alternative financial market:
  - 6.1. In terms of institutions
  - 6.2. The SMEs readiness
  - 6.3. Social and cultural level
7. What is the biggest challenge for the alternative capital market development

### **Appendix 3**

Interviewee: Respondent 3

The list of the questions:

1. What is the area of your responsibility in the Tallinn First North?
2. Based on which circumstances Tallinn First North was established? (the focus is mainly on the economic factors such as the country's internal demand on such a type of market or similar).
3. What was the main challenge for the Tallinn First North? (again, economic, legislative or social-cultural factors)
4. What are the key reasons for the market success?
5. Was there any government support or involvement to establish Tallinn First North?
6. How is it promoted for both- companies and investors to list and trade?
7. Are there any companies which have moved to the main market?

## **Appendix 4**

Interviewee: Respondent 4

The list of the questions:

1. If you consider your responsibility, what is the touch point with SME development and capital market development in Georgia? What are your main findings?
2. What are the main challenges for capital markets in Georgia? The scope is directly related to questions such as legal or institutional framework.
3. What is your point of view about the alternative capital markets development in Georgia? Can they support SME financing?
4. Which supportive and challenging questions can be considered in the case of launching an alternative capital market?
5. Based on your experience which instruments are expected to be developed?
6. Based on your experience and knowledge are small and medium companies ready to use alternative options of financing such as capital markets?

## Resümee

### ALTERNATIIVSE KAPITALITURU LOOMISE VÕIMALUSED ARENGUMAADES: GRUUSIA JUHTUMIUURING

Nino Nadiradze

Kokkuvõtteks võib öelda, et kuigi Gruusia on teinud märkimisväärseid edusamme oma ettevõtluskeskkonna reformimisel, seisab alternatiivse kapitalituru loomine silmitsi erinevate takistustega. Nende hulka kuuluvad regulatiivne koormus, kõrged teenustasud ja VKEde valmisolek. Olemasoleva taristu võimendamine ja rahvusvahelistest kogemustest, nagu Tallinn First North, õppimine võib siiski olla elujõuline tee edasi. Jätkuvad jõupingutused ning poliitika ja toetusmehhanismide järkjärguline kohandamine on üliolulised, et edendada Gruusia alternatiivse kapitalituru jaoks soodsat keskkonda.

Peamised tuvastatud probleemid hõlmavad turureguleerijate suurt regulatiivset koormust ja rangeid nõudeid investoritele. Emitentide teenustasud ja komisjonitasud on veel üks takistus, mis võib heidutada ettevõtteid börsile minemast.

Alternatiivse kapitalituru loomist toetavate tegurite hulka kuuluvad olemasolev kapitaliturgude taristu ja professionaalsed konsultatsioonifirmad, mis viitab sellele, et põhituru raames võiks potentsiaalselt luua uue turu. Arvamused on siiski erinevad, mõningase skeptilisusega põhituru juhtkonna teostatavuse ja huvi suhtes alternatiivset turgu toetada.

Samuti arutletakse VKEde valmisoleku üle osaleda kapitaliturul. Kuigi mõned vastajad usuvad, et mitmed VKEd on omandanud vajaliku finantskirjaoskuse ja läbipaistvuse, on kultuurilised tegurid ja väiksemate ettevõtete üldine valmisoleku puudumine märkimisväärne probleem.

Tulemused näitavad, et doktoritöö eesmärk analüüsida alternatiivse kapitalituru loomise võimalusi Gruusias on saavutatud. Avastati ja analüüsiti peamisi väljakutseid tekitavaid ja toetavaid tegureid, mis mõjutavad alternatiivse kapitalituru loomist arengumaades. Varasemad teaduslikud uuringud Gruusias ei puuduta üldse alternatiivse kapitalituru teemasid. Samuti keskenduvad teaduslikud uuringud üldiselt olemasolevate alternatiivsete turgude ja nende tulemuslikkuse uurimisele. Sellest tulenevalt on doktoritöö autorite katse uurida ACM-i loomise võimalusi arengumaadele katse teemat teisiti uurida.

Uuringul on mitmeid piiranguid. Esimene piirang on andmed, mis on saadud Gruusia ettevõtetelt, kes peaksid tulevikus olema alternatiivturu peamised tarbijad. Teine piirang on uuringu ulatus. Nimelt ei keskendu teadusuuringud poliitilistele, geopoliitilistele, süsteemsetele ja kultuurilistele teguritele, mis võivad toetada või olla takistuseks alternatiivse finantsturu loomisele tärkava turumajandusega riikides. Võttes arvesse kõiki kirjeldatud piiranguid, võib läbi viia täiendavaid uuringuid, mis hõlmavad järgmisi teemasid: 1. VKEde noteerimisvalmiduse hindamine; 2. VKEde jaoks börsile mineku kultuurilised aspektid. Edasiste uurimisküsimustega töötades tuleb arvestada, et intervjuude läbiviimine on keeruline osa. Nimelt vastutab iga vastaja konkreetse valdkonna eest ja vastajaid ei ole lihtne asendada.

## **Non-exclusive licence to reproduce the thesis and make the thesis public**

I, Nino Nadiradze,

1. grant the University of Tartu a free permit (non-exclusive licence) to reproduce, for the purpose of preservation, including for adding to the DSpace digital archives until the expiry of the term of copyright, my thesis

„Possibilities To Launch Alternative Capital Market In Developing Countries: Case Study Of Georgia“

Supervised by Junior lecturer Mark Kantšukov

2. I grant the University of Tartu a permit to make the thesis specified in point 1 available to the public via the web environment of the University of Tartu, including via the DSpace digital archives, under the Creative Commons licence CC BY NC ND 4.0, which allows, by giving appropriate credit to the author, to reproduce, distribute the work and communicate it to the public, and prohibits the creation of derivative works and any commercial use of the work until the expiry of the term of copyright.
3. I am aware of the fact that the author retains the rights specified in points 1 and 2.
4. I confirm that granting the non-exclusive licence does not infringe other persons' intellectual property rights or rights arising from the personal data protection legislation.

Nino Nadiradze

**21.05.2024**