

A LITERATURE REVIEW OF VENTURE CAPITAL FINANCING AND GROWTH OF SMES IN EMERGING ECONOMIES AND AN AGENDA FOR FUTURE RESEARCH

Ahmed Kato, University of South Africa

ABSTRACT

Orientation: *In spite of the dominance of the SMEs sector in emerging economies, access to sustainable financing for SMEs ' survival and growth, remains small and fragmented. There is a general consensus that VC is the most suitable funding model to revive the growth of the early-stage ventures. However, the fundamental impact of VC financing on the growth of the small-medium enterprises especially in the emerging economies has been under researched.*

Research purpose: *The paper seeks to conduct a comprehensive literature review from six emerging economies in Africa (South Africa, Nigeria, Kenya, Ghana, Egypt and Uganda) to substantiate the empirical studies underpinning the impact of VC financing on SMEs growth in emerging economies and offers a ground for future research agenda.*

Motivation for the paper: *SMEs are the teamsters of economic growth and development for both developed and emerging economies nonetheless; their growth is in jeopardy, due to absence of sufficient finance. Profoundly, VC is typically the only suitable financing mode for entrepreneurial firms with high growth potential.*

Research design, approach and method: *The paper used a systematic literature review strategy by exploring 50 recently published articles on VC performance from 2010 to 2019, by searching for internet accredited journals of entrepreneurship, business management and finance and economics using keywords like VC and SMEs performance, VC growth in emerging economies and Access to finance and SMEs growth.*

Findings/Results: *Empirical findings disclosed that VC financing positively influences the growth of VC- backed firms in terms of sales growth, job creation and increase in returns on investment.*

Practical/managerial implications: *This paper documents the relatively under-explored research areas and presents an agenda for future research in emerging economies.*

Contribution/value-add: *The paper presents valuable knowledge to policymakers and practitioners to assist in the design of appropriate policies in support of easy access to VC financing by SMEs for their growth.*

Keywords: VC Financing, Growth of SMEs in Emerging Economies, Literature Review and An Agenda for Future Research.

INTRODUCTION

Venture Capital (VC) financing is largely envisioned by many corporate finance researchers and practitioners as the viable patient capital for the survival and success of SMEs in emerging economies. The United States (US) VC industry has been hailed by several academics

and practitioners for being the engine of most worldwide technological and internet companies established in the last three decades among others Apple, Microsoft, Google, Compaq, and many others (Gompers & Lerner, 1998; Ning et al., 2015). The current studies reveal that many countries have been compelled to embark on diverse government policy reforms to boost the VC market development (Lerner, 2010; Baldock & North, 2015; Arundale, 2018). Despite the fact that VC financing has been extensively studied, there is little evidence from emerging economies that underwrites its contribution to the success of the early-stage enterprises (Agyeman, 2010; Divakaran et al., 2014; Antarciuc et al., 2018). This is because studies in this area have largely focused on developed economies, where VC has exhibited tremendous success (Gompers & Lerner, 1998; Lerner, 2010; Baldock & North, 2015; Puri & Zarutskie, 2012; Chemmanur et al., 2001; Tykvova, 2018; Bertoni & Tykvova, 2015). Similarly, (Esho & Verhoef, 2018) exposed that SMEs in emerging markets have an inferior implementation of PE/VC investment in comparison with the large firms due to the data irregularity and inadequate awareness of available VC opportunities.

Whereas VC financing has been present in the developed countries particularly in the US since 1946 (Puri & Zarutskie, 2012), it was brought to light in Africa, in the last decade with few participating countries such as Nigeria, Kenya, South Africa, Ghana, Egypt and Uganda (Wee Tracker, 2019) nevertheless our systematic review of extant literature discloses a huge finance deficiency in Africa Continent when compared with the developed economies like US, UK and Canada. Besides, the VC investors target specific sectors believed to attract high returns on investment, for instance, foreign VC firms chose to prioritize the high-tech companies which accounted for over 60% of the total global VC investment, and the spillover allotted to health, FMCG, manufacturing and Agribusiness yet these are the critical sectors for emerging markets. To sustain our assertion, earlier literature works disclosed that in 2019, the Fintech companies accounted for USD \$678.73 million out USD \$1.34 billion of the total VC investment in Africa (Wee Tracker, 2020). There is evidence of direct transplant of the matching VC ideology from Silicon Valley without necessarily tailoring it to the specific prerequisites of emerging economies (Baldock, 2018). For this reason, it is not surprising that SMEs in emerging economies are still grappling to survive due to lack of access to finance which inhibits their growth and expansion (Beck & Cull, 2014; World Bank, 2016; Turyahikayo, 2015; Ebes & Grietjie, 2018). In view of the latter declaration, there is evidence of a massive VC investment gap between the advanced and emerging economies, crying for urgent governments interventions tailored to enhancing the growth of VC landscape (Ernst & Young, 2018).

Notwithstanding the immense assembled literature in the public domain, diminutive rational and dependable literature review documents VC performance in emerging economies (Tykvova, 2017). Additionally, there are few theoretical studies done in emerging economies which highlight the literature gaps and suggest an agenda for future research. The vast extant literature available is empirical research, accounting for 81.2 % (Tykvova, 2017). While some scholars in the VC continuum conclude that VC financing positively influences SME growth Ning et al. (2015) others argued that it has a negative effect on the funded companies (Kamran & Shariff, 2014). Furthermore, Cumming & Vismara, (2017) argued that the shortcomings in the VC industry are not clearly explained by the current literature, there is evidence of research gaps. This is partly due to the limited literature review and absence of theoretical framework that synthesizes VC investment in emerging economies. In this angle, the paper delivers a systematic literature review from six emerging economies in Africa (South Africa, Nigeria, Kenya, Ghana, Egypt and Uganda) to substantiate empirical works underpropping the impact of VC financing

on SMEs growth. In addition, the paper offers a ground for an imminent research agenda with propositions to amplify the contemporary literature as it discloses research gaps compelling more future studies. Our findings further recommend governments of developing countries to increase VC access and awareness to business entrepreneurs.

This paper is organized as follows: we begin by discussing the theoretical perspective, empirical literature review, research methodology, and discussion of findings/results, limitations, policy considerations and conclusion and recommendations.

THEORETICAL PERSPECTIVE

VC plays an essential role in enhancing economic growth in the developing countries as it considerably benefits the entrepreneurs from an active VC market (Alkan & Bonini, 2012). Conversely, access to sources of finance for the early-stage firms is often limited which inhibits growth and innovation. Recent research has shown that increasing access to VC financing to SMEs delivers positive implications for the overall economy. Therefore government efforts must be geared towards developing the VC market (Lerner & Tag, 2013). In the last decade, scholars of corporate finance articulated the Resource Based View (RBV) theory as the protuberant concept to validate the growth of small firms. RBV has its roots from Penrose's "*Theory of Growth of the Firm of 1959*" who illuminated that a firm's growth is hindered due to lack of critical resources that involves both tangible and intangible assets. (Barney et al., 2011) enriched the RBV with a new concept of competitive advantage with delineation from the 1959 early literature of Penrose. Competitive advantage is defined as the competency of the business firm to perform its activity in a diverse way that other competitors cannot comprehend (Kotler, 2000). RBV further asserts that the most essential resources to an enterprise are capital and superior skills cardinal to supporting sustainable competitiveness and capability of firms to accumulate assets that fosters economic growth. RBV theory appears to perfectly resonate with the VC financing philosophy concomitant with VC financing for SMEs with high potential for growth and the technical skills the fund managers come along with to support the VC-backed firms blossom the entrepreneurship ecosystem.

Voluminous body of extant studies acknowledges RBV theory practical implications on SMEs growth if aligned well with the VC financing paradigm. In this case, we present typically two paramount components for a firm's growth: patient capital affordable to startups without requisite for collateral but somewhat VC firms' work with the business entrepreneurs as co investors to uphold sound performance of VC backed companies. The second aspect is the technical skills and competences stated by Barney as superior skills that fund managers possess to escalate VC performance of portfolio firms, by overseeing sound financial management and networking to nurture business performance. In view of above, RBV presupposes equilibrium of access to patient capital and superior skills to withstand a firm's growth. Recent literature suggests that satisfactory funding of SMEs has a significant positive effect on their growth and short of which, SMEs would find it problematic to grow. Alternatively, some scholars argue that a firm's acquisition of an exemplary knowledge base in isolation of adequate capital may not foster economic growth. Therefore access to VC finance as the practical source of finance is very important for firms' growth (World Bank, 2016, Shanthi, 2018, OECD, 2016). The key point to note here is that VC finance is cheaper as compared to bank lending and it comes along with technical skills development to boost firm's growth in conformity with Barney's theory of competitive advantage. However, RBV theory is criticized as it clings to an unbecomingly thin neoclassical economic shrewdness that undermines its future prospects to be adopted by the

business entrepreneurs. Conversely, no researcher has come out to illustrate how these resources can vehemently be applied to promote sustainable competitive advantage leading to profitability and asset growth.

LITERATURE REVIEW

This article engaged a systematic literature review by exploring the leading internationally published articles in Business Venturing, European Journal of Business and Management, Journal of Corporate Finance and so on, which underpin VC performance on SMEs growth. Several authors investigated the impact of VC focused on performance and total factor productivity of the VC-backed firms (Gompers & Lerner, 2001; Chemmanur & Krishnan, 2011; Croce et al., 2013). Recent extant literature concludes that VC-backed firms outperform the non VC backed companies in terms of sales revenue growth, increase in profitability, returns on assets and returns on investment but again, other scholars suggest that VC financing has inconsequential or negative implication on the growth of funded companies. The disparity in the theoretical domain and fragmented conclusions in the empirical literature, leave the researchers with questions surrounding how VC financing spurs performance of funded firms. This paper presents a critical analysis of extant literature highlighting research gaps and an agenda for future research.

VC Performance in Emerging Economies

There is a consensus from the scholars of finance highlighting the vital contribution of VC financing to the economic development of both the developed and emerging economies. In 2018, the global total VC investment hit its highest, boasting with \$172.1 billion, US contributing a lion share of \$88.1 billion, China underwrote 52.4 billion (Pitch Book, 2019; NVCA, 2019), and surprisingly the entire Africa continent accounted for only \$729 million (Wee tracker, 2019). To narrow our debate to the emerging economies in Africa, particularly Nigeria, South Africa, Kenya, Ghana, Uganda and Egypt, the VC industry in 2019 registered a gigantic increase from USD \$725.6 million to USD \$1,34 Trillion with a 46% increase. Surprisingly, over 75% of the total VC investment was largely concentrated in three countries, led by Nigeria, Kenya and South Africa. Analogous to the US VC market, the Fintech sector remained the favorite sector, attracting over US\$678.73 million (Forbes, 2019; Wee Tracker, 2019). In view of that point, before we can celebrate the steady growth of the VC industry in Africa, empirical evidence suggests that VC investment is actually intense in only three countries as earlier mentioned. Remarkably, our analysis of the VC investment in Africa, revealed that Nigeria and Kenya accounted for USD\$1.09 billion or a monstrous 81.5% share of the total VC funding raised in Africa (Wee Tracker, 2019). Other countries including Ghana, Egypt and Uganda trailed with diminutive statistics of VC performance.

On a generous note, recently foreign VC firms have developed interests in Africa viewed as the next VC destination, particularly in Nigeria, South Africa, Kenya, Ghana, Egypt and Uganda (Wee Tracker, 2018). These findings confirm that there is evidence of a positive growth in the VC industry, notwithstanding that Africa is still lagging behind as compared to other continents like Asia, Latin America and Europe. On this basis, in-depth investigation of earlier studies on VC financing performance is very critical since this sector has continued to suffer from acute financing gaps amidst the influx of VC investment in the continent.

Empirical Review of VC Financing Performance in Emerging Economies

By and large, VC financing has been pondered by both academics and practitioners as the utmost feasible funding model for early stage firms than bank loans. In reality, it is repeatedly illuminated in the finance literature that VC financing approach considerably underwrites the success of high-tech entrepreneurial ventures (Gompers & Lerner 2001; Cumming & Vismara, 2018). However, a large body of empirical studies suffers from adverse methodological impediments, biased samples and some of the studies fail to ruminate the endogeneity aspect of VC financing. Therefore, current literature ratifying that VC financing access certainly fosters the growth of VC funded companies is a matter of empirical investigation. In this episode, we present a comprehensive literature review of prior studies confirming the impact of VC financing on the growth of SMEs in emerging economies, as well having faith in the empirical findings from the advanced economies.

(Lerner, 2008) investigated the performance of the US government's Small Business Innovation Research (SBIR) program, a government initiative mandated to support high-tech firms. They found a substantial increase in employment and sales revenue growth for the SBIR program than similar firms that did not receive SBIR assistance. Similarly, (Jain & Kini, 1995), analyzed 136 companies listed on the US stock market that received VC funding prior to IPO equated to Non VC funded IPO of comparable size. The findings uncovered positive increase in sales growth from the year before and after the IPO. Secondly, VC backed companies significantly surpassed the Non VC funded. (Gompers & Lerner, 2001) alluded that VC funded firms grow faster, have sound financial performance, decent governance structures and are very innovative with high opportunities of going public (IPOs) compared with the non VC funded industries.

In a different standpoint, Capizzi et al. (2011) investigated the effects of PE/VC financing on the growth of 160 funded small companies in Italy, they found that PE/VC enhances value added per employee but only in the first year of VC funding. The paper also exposed that VC-backed firms easily attract bank loans after the VCs fixing the problem of financial asymmetries. These results were in conformity with the findings of Memba, (2011) who concluded that VC-backed firms in Kenya easily attracted external debt financing. (Paglia & Harjoto, 2014) argued that the participation of the VCs in the funded companies, positively influences their growth in terms of increased number of jobs, nonetheless, they explained that the impact is rather short lived for the VC backed firms. This submission was persistent with the findings of Capizzi et al. (2011). It is therefore obvious that the accepted influence of VC contribution on firm performance remains inaccurate.

In an unlike dimension, Manigart & Van Hyfte (2012) studied 187 Belgian VC-backed firms but the results disclosed insignificant growth in employment matched to non-VC-backed firms of identical size and comparable lifetime. In the same way, Guo & Jiang, (2013) did not establish any evidence of progress in sales growth or R&D investment of the VC-backed firms after receiving VC funding. Instead, Gompers, (1996) encapsulated that VCs have resilient motivations to attract attention, by compelling VC-backed firms to prematurely go public, to allow them exit and acquire returns on investment timely. Virtually most elucidations underscored by the authors suggest that VCs are literally interested in commercialization of funded companies in order to maximize returns on investments. Metrick & Yasuda, (2011) is in agreement with the foregoing statement, divulging that the principal purpose of the VC firms is to reap high financial returns from their investments. In a different forum, Kelly, (2011)

indicated that VC-backed firms provide derogatory returns on investment for VC firms. These results concur with Gompers, (1996) verdicts. Several studies have been conducted largely on measuring the impact of VC on firm performance, however, they present conflicting conclusions and have not reached a consensus.

(Hirukawa & Ueda 2011) evaluated the patenting undertakings of the VC funded firms in the US market, the econometric findings discovered a slowdown in the performance improvement of the VC funded companies subsequent to VC financing. (Kortum & Lerner 1998) tested the link between VC and innovation across 20 industries in the US for over three decades. They recognized that VC considerably amplified patenting and added about 15% of industrial innovation. Whereas Geronikolaou & Papachristou (2012) validated that in the European market, it is actually the patents that invite VC funding not vice versa, highlighting that innovation comes before VC investment. Alternatively, Faria & Barbosa (2014), concluded that VC financing influences firm's innovation in the advanced stage which suggests that VC is extra supportive in the commercialization of innovation results rather than to nurture its formation. In light of the above, extant literature seems to propose that the major goal of the VC firms is ultimately gaining high returns from their investments rather than promoting SMEs growth. The conflicting views of the scholars arising from the different researches conducted, is a motivation for a comprehensive literature review to formulate an agenda for future research in emerging economies where VC is still in the formative stages.

(Bertoni et al., 2011) evaluated a longitudinal dataset of Italian high tech firms, the results exhibited a momentous positive impact of VC on the funded firms in form of sales growth and employment. In the same development, the research of Croce et al. (2013) surveyed a large sample of 700 high tech companies below 20 years involving six countries from Europe, the outcomes disclosed an additional productivity growth of VC-backed firms as compared to non VC-backed firms. On the other side, Colombo et al. (2016) presented that VC had a positive effect on EU-funded R&D partnerships for new technology-based firms. (Gompers & Lerner 1998) scrutinized the contributing factor of VC financing for limited partnerships in the USA from 1972 to 1994, they recognized that a conducive environment empowering pension schemes with tax incentives and R&D investment had a positive impact on VC financing. There was evidence of demand for VC financing following a reduction in the capital gains tax rates as more business entrepreneurs were motivated to join business. In this regard, these findings all point to a clear testimony that VC financing is a viable funding source for the high- tech firms with growth potential.

(Baraka & Anyieni, 2015) executed a descriptive survey research that examined the influence of VC financing on the growth of VC-backed firms in Nairobi-Kenya. Their outcomes indicated that SMEs that received VC financing recognized significant growth in sales, profitability, asset growth and creation of job opportunities which improve the cost of living and contribute to alleviation of poverty. By the same token, (Memba, 2011); Ngima, (2014) conducted an empirical paper about the impact of VC on the performance on SMEs growth in Kenya, findings showed that VC-backed firms experienced improved growth in sales revenue, attracted other sources of funding and increased employment opportunities. Much as these studies were in support of VC financing, the primary data was only collected from the VC-backed firms before using a matching approach of before and after. This research methodology tends to eliminate the critical views of key players of the VC industry for instance, limited partners and government bodies whose role is crucial in determining the direction of the VC

investment. Based on this background, performing a future research involving the key VC stakeholders would add extra empirical evidence to the current literature.

(Carvalho et al., 2013) surveyed the influence of PE/VC financing on the performance of VC funded companies in Brazil, the outcomes from the paper, revealed higher profitability and sales growth of the PE/VC financed companies equated to non PE/VC-backed firms in the first 3 years after the IPO. The progress in sales and profitability growth was accredited to the direct involvement of the VCs in the management of SMEs as they play a pivotal role to mitigate the high risks associated with the startup firms. In a similar understanding, Minardi et al. (2014) investigated the Brazilian performance of PE/VC market between 1990 and 2013. The authors concluded that, although Brazilian PE/VC industries are young, early stage firms are slow to get to the maturity level of the first VC round with 72% of companies functional for over 5 years. The setback noticed in VC funding in Brazil, is that fund managers target firms of over 5 years. In such circumstances, SMEs below 5 years are constrained as a result of lack of access to patient capital necessary to enhance their growth. This therefore defeats the understanding of many scholars who believe that VC funding targets high risk firms with high growth potential. This paper bequeathed new dataset to the surviving scholarships through a literature review from emerging economies like South Africa, Kenya, Nigeria, Ghana, Uganda and Egypt for a better understanding of the VC ecosystem difficulties. Such that the policy makers and practitioners can develop strategies that will deal aggressively with the VC bottlenecks that may scare away foreign VC firms in the developing markets.

The paper of Kamran & Sharif (2014) that explored the Sugar Industries listed on the stock exchange in Karachi Pakistan, revealed a weak positive relationship between VC financing and SMEs performance. (Zouuari et al., 2014) concurs with the former in that their research on the effect of VC capital on both small and large firms, confirmed a negative relationship between VC funding and SMEs growth. Such mixed conclusions in the VC industry have attracted interest of policy makers and researchers. Despite the numerous studies carried out on VC especially in developed economies, some leading scholars propose that there is a limited dependable dataset. Both the VC firms and Portfolio companies are much protective of the financial data indicating their performance and once financial data is provided, it is often aggregated creating difficulties in measuring performance of specific VC investor companies (Steven et al. 2016). (Nina Rosenbusch, 2012) in the paper titled "Does acquiring VC pay off for the funded firms? Synthesized 76 firms with a sole aim to establish whether VC financing fosters growth of the funded companies. The authors did not find any significant impact of VC investment on funded firms' performance. On a threatening end, the performance result primarily communicates to firm growth despite the fact profitability is not affected. In addition, scholarships centering on IPO dealings, found to be the mainstream of studies, present a considerably limited performance conclusion. We deliberate on the theoretical conclusions and provide submissions for future research.

(Salerno, 2018) explored the relation between family participation in ownership and the performance of PE backed SMEs with a sample of 533 European PE backed SMEs. The research was restricted to the 15 old member states of the European Union to control for the robustness of results. The findings revealed that PE backed family SMEs outperform non family PE backed SMEs over the post-investment period. While, Murtinu et al. (2013) investigated the impact of VC funding on the European high tech portfolios firms concentrating on productivity growth, before and after the first round of VC financing. The paper relied on statistical matched samples of similar non-VC-backed firms as a benchmark. Emphasizing that Productivity growth is a

proficient approach to separate value-adding impact from funded firms. The paper confirmed that the impact of VC on European firms is typically compelled by financier's value added, and it was also noticed that productivity growth was not considerably changed among VC and non-VC-backed firms before the first round of VC financing, although substantial variances were observed in the first years afterward VC investment.

(Zhao, 2014) observed the impact of VC on both short-term and long-term firm performance China with a sample of companies listed on the Shenzhen stock exchange market between 2004 and 2012. Empirical results showed that VC-backed firms were prematurely pushed to IPO and unveiled larger IPO underpricing. Besides, VC backed firm's ideally recorded significantly greater decline in accounting performance including inferior quality of stock returns after the expiration of the lockup period. Results further confirmed government VC-backed firms over performed private-owned VC firms, suggesting that state owned VC firms have less incentive to grandstand. These results provide empirical evidence in accordance with Gompers, (1996) grandstanding hypothesis, suggesting that VC firms in China have strong incentives to take firms public prematurely in order to exit and realize investment returns early.

(Mbotto et al., 2018) assessed 40 VC- Backed SMEs from the Cross River State in Nigeria, the results presented a stereotype of growth in sales revenue, access to other sources of funding and Net Assets. However, authors revealed that among the limitations of the paper, VC financing and utilization is relatively new and impact greatly unnoticed in Nigeria. Still, authors seemingly demonstrated that most of the VC-backed firms were in their first fund round and they were not certain to secure deals for the second round of fundraising. The results from this paper were similar to the conclusions from Nigeria, Kenya, South Africa and Ghana (Memba, 2011; Biney, 2017; Gugu & Mworira, 2017). VC-backed firms are also praised to contribute government expenditure through taxes from their profits (Gugu & Mworira, 2017). Interestingly, there is lack of evidence demonstrating by what percentage VC-backed firms contribute to government revenue. These are grey areas that require future research to augment the current literature. The major limitation identified from most of the research conducted from Africa and similar emerging economies, was the obstacle of a small and undeveloped VC industry. For this reason, it was necessary to perform a comprehensive literature to bring to light such research gaps to formulate an agenda for future research in emerging economies.

Empirical research carried out by (Boadu et al., 2014; Kwame, 2017; Biney, 2018) from Nigeria examined the influence VC financing has on the performance of SMEs growth. Although different methodological data collection and data analysis methods were employed, all the results established that VC-backed companies reported exceedingly better performance than non-VC-backed firms. The performance was particularly observed in increased sales revenue and accelerated business growth, job creation and business expansion. These statistics point to nothing but an obvious positive prospect of VC investment in developing economies. Whereas the findings were in support of VC financing, our analysis of the results of Boadu (2014), revealed a much small growth of 33.3% on job creation, sales revenue increased by 33.3% and overall business growth of 16.7% compared with the earlier paper by Memba (2011) that indicated a higher revenue growth of over 87% and Job creation of 186%. Recent findings presented by Biney (2018) revealed a much lower impact of VC capital on annual sales and employment of venture-backed SMEs at 1.5 percent and 3.7 percent respectively. In view of the literature analysis, we may conclude that the profitability trend of early stage firms drops down as they move towards the exit stage of the VC firms.

(Fatoki, 2014; ABSA & SAVCA, 2014) argued that VC funding should not be too small to stifle the growth of SMES but rather adequate with minimal government interruptions. (Shanthi, 2014) asserted that even though PE/VC investment positively impacts on SMEs growth in emerging economies, massive VC investment is directed to large and established enterprises. It necessarily follows that little attention is given to the startup firms rendering them financially incapacitated to grow. On this basis, we may in fact conclude that whereas enormous literature states that VC financing is suitable for the startup firms, the truth is that the new financial intermediaries are very much selective, as very few startups qualify due to the rigorous due - diligence exercise. In addition, the lack of fully developed financial institutions was sighted in several developing countries as a major barrier to VC investment (Shanthi, 2018). Despite the need for financing, the feedback from stakeholders suggests that SMEs in developing countries are typically apprehensive about equity investments and have limited knowledge or awareness about how VC investment operates. Many SMEs are family-owned businesses and are unwilling to divulge their ownership and decision-making authority.

(Shojaei, 2018) analyzed the institutional barriers to VC financing in Iran, they found out several institutional barriers at different stages of VC investment, among other inappropriate financial regulations, inefficient tax regimes and government reluctance to render finance support were identified to be the major obstacles to the new VC capital industry in the Republic of Iran. There is a consensus among researchers that the VC financing is highly affected by institutional set-up. However, few scholars address the institutional barriers that constrain VC investments in different stages by using a comprehensive and integrated approach. (Baldock, 2018), observed that despite the vast differences in the operating environment between developed and emerging markets, VC investment systems in advanced economies were transplanted to emerging markets without making adjustments to reflect these differences. Such duplication of VC myopia, ultimately impedes on SMEs growth in emerging markets.

RESIGN DESIGN/METHODS

The paper conducted a systematic literature review of 50 articles meticulously appraised from the leading international published articles in the field of entrepreneurship & innovation, Business and management and Finance and Economics from 2010 to 2020. We aim to obtain a deeper understanding and knowledge of the literature gaps from prior studies. The systematic literature review process employs a research design that only identifies prior studies that meet a definite criteria which realistically ratify the evidence produced by hitherto published articles. The article relies on online literature searched from websites of internationally recognized journals deemed relevant to the paper which have presented evidence underpinning the VC market development, for instance Business Venturing, European Journal of Business Management, Journal of Business Economics, Journal of Banking and Finance, Journal of Finance.

Type of Journal	No of Articles sampled	% of Journal contribution
Business and Management	17	34%
Finance and Economics	21	42%
Entrepreneurship and innovation	12	24%
Total	50	100%

Source Author's Compilation 2018-2020.

It is evident from the Table 1 that the journals of finance and economics constituted the highest percentage of 42% of the selected journals, followed by Business and management with 34% and entrepreneurship and innovation journals trailing with 24%. We noted that studies on entrepreneurship and innovation have been under-reported yet is the backbone of small business growth. The model of VC relative to early-stage firms' is well labeled in the extant literature. Moreover, VC in emerging economies and the effect of different market approaches have been under researched. Therefore, our concept relies on the systematic literature review of earlier scholarships published in the accredited international journals.

In doing so, we conducted a comprehensive literature review on impact of VC financing on SMEs performance in the emerging economies with a particular focus on South Africa, Nigeria, Kenya, Ghana, Uganda and Egypt to satisfactorily capture the fundamental dynamics of the relation between VC and SMEs performance. Our literature review identifies the fundamental prerequisites for VC development in the emerging economies, existing gaps and research agenda for future research. The key words used to search for data included: Private equity and VC financing, impact of VC on SMEs growth in emerging economies. The research method was chosen because a system literature review provides a backup to figure out the researcher's understanding and insight into significant prior studies in preparation for empirical research (Saunders et al., 2012). The comprehensive literature and theoretical framework provided an organized critical account of information, ideas and knowledge that has been published on VC financing on SMEs growth in South Africa, Nigeria, Kenya, Ghana, Uganda and Egypt. The main weakness of the literature review as a research methodology is that it relies on secondary data, in the absence of the required data, and then specific questions on the new studies might not be adequately answered. Cognizant of the above setbacks, the paper applied a systematic and careful synthesis of the available literature in order to provide a firm foundation to the topic under paper.

FINDINGS

The central source for our findings is through a systematic literature review of previous scholarships wherein we present a comprehensive literature review from six emerging economies in Africa (South Africa, Nigeria, Kenya, Ghana, Egypt and Uganda) to substantiate the empirical studies underpinning the impact of VC financing on SMEs growth and offer a ground for future research agenda. Several empirical works uncovered a positive impact of VC financing on the early-stage firms' growth in terms of increase in sales turnover, profitability, job creation and returns on investment (Fatoki, 2014; Mthimkhulu & Aziakpon, 2015; Boadu et al., 2014; Kwame, 2017; Biney, 2018). In view of the above, it is undeniable to conclude that VC financing is definitely a spring board for growth of startup firms with high growth potential. However, it is noteworthy to stress that not all SMEs are potential beneficiaries from VC financing as it is restricted to a few firms, sectors and regions. As such there are mixed reactions about the impact of VC financing on the recipient companies, A further investigation using different methodological paradigms on the same data would enrich the extant literature with new knowledge.

Our comprehensive review of the published articles particularly the journals of entrepreneurship and innovation, Business and management and Finance and economics revealed that 90% of high growth potential firms managed to fill their financing gap by embracing the VC financing model during their early growth phases. This is because the traditional financing institutions consider the early-stage firms to be of high risks and thus often

reluctant to offer them loans to boost their growth. There is evidence to confirm that in the advanced economies of the United States, United Kingdom, Canada including emerging economies like Brazil, Israel and China, VC Investors have been successful in filling this gap by offering VC financing to the early-stage firms with growth potential (Wright & Robbie, 1998). The rise of this new financing asset has assisted to boost the success of several high-growth firms in the United Kingdom, United States, and numerous other developed economies. As it is seen, it is compulsory to deduce that VC is a fundamental driver in nurturing economic growth (Jeng & Wells, 2000; Saxenian, 1994). In recent times, VC growth has been observed in a few emerging economies in Africa such as South Africa, Nigeria, Kenya, Ghana, Uganda and Egypt wherein designated VC and Private equity Association were established to coordinate and encourage financing of early-stage firms with growth potential in the respective regions (Ernst et al. 2016).

Furthermore, we find a literature consensus recognizing that VC is associated with value-addition to the portfolio companies. But again, Scholars argue that VCs are highly skilled at selecting most successful portfolio companies in the utmost favorable businesses, nevertheless, logical studies demonstrating clearly the tangible Value-added to the VC-backed firms is principally not known. For the reason that it is not easy to obtain appropriate data validating the value –addition. A handful of some studies have attempted to explore this area, but conducting future research with probably a large sample size, would be a bonus to the existing VC literature.

Our findings also revealed that the VC market in Africa is largely confined in South Africa, Nigeria, Kenya which account for over 75% of the total VC investment in Africa continent (Forbes, 2019). Other countries like Ghana, Uganda, and Egypt are recognized as upcoming VC investment destinations but their VC portfolios are still small and fragmented compared to similar emerging economies like Brazil, China and India. Besides the fund managers seemingly sideline the manufacturing and agribusiness sector that accounts for over 70% of the SMEs sector (Gompers, 1995). Further research in this field would add more new data to the VC ecosystem. In addition, we find that emerging economies have emulated VC ideology (VC myopia) from the developed economies that are not customized to the specific needs of the VC ecosystem in emerging economies in Africa. This was witnessed with a large VC investment in high tech industries contributing over 60% of the total VC investment in Africa, a copycat from the US and Europe. Empirical evidence exposed that there has been little attention directed to manufacturing and agribusiness sectors in South Africa, Nigeria, Kenya, Uganda, Ghana and Egypt.

Empirical findings also suggest that the major goal of the VC firms is certainly gaining high returns from their investments through making portfolio companies go public or trade sale (Tykvova, 2017) rather than promoting SMEs growth. Some scholars have argued that the VC firms compel the VC-backed firms to go public to easily gain the returns on investment and pay back the capital to the General partners/development partners. Our findings also uncovered that VC-backed firms are very innovative as compared to the non VC-backed firms (Tykvova, 2017). However, it is uncertain if VCs genuinely stimulate innovation or strategically pick to only invest in innovative business undertakings.

Despite the growing interest in VC financing globally, considerable misapprehensions about this intermediary persevere. This is attributable to the lack of a comprehensive dataset, which poses a big challenge to academic researchers (Lerner, 2012; Tykvová, 2018). While most authors paint an intriguing picture of VC financing, some VC-funded companies do not blossom to expectations; however, there is inadequate evidence regarding failed VC-backed companies (Kaplan & Lerner, 2016). Recent research has shown that few empirical studies have been done

on VC financing in emerging economies. Additionally, the few studies conducted that examine VC performance are disjointed, and little is known about the effect of VC in the early stage of enterprise growth.

Agenda for Future Research

There is a consensus among researchers that the VC financing is highly affected by institutional set-up. However, few scholars address the institutional barriers that constrain VC investments. Conducting further research would provide an insight to understand the aftermath of institutional governance structures. The mixed conclusions presented by different scholars on the role of government in promoting the growth of the VC market in emerging economies, is a ground to carry out further empirical research to uncover its impact on the VC landscape. Thus, future studies should investigate the fluctuations in new jobs, sales generation, technology development, tax revenues, regional development and returns on investment by VC-backed companies.

The paper recommends extra research conducted involving latter stage funding or IPOs, to assess how VC influences IPOs or trade sales in the emerging markets. The research on later-stage funding and IPOs would contribute novel data to the current research. To sustain this endorsement, results from descriptive statistics revealed that 57% of the SMEs have operated their enterprise business for over 15 years. Unexpectedly, therefore the entrepreneurs/managers prefer to remain small, with a lack of interest to list on the stock exchange market, which is the prime channel for the VCs to exit the portfolio companies.

It would be very important to explore why the VC financing is not tailored to the needs of the emerging economies with a large share allotted to the Fintech sector with spillovers shared with the known key sectors of emerging economies like manufacturing and agribusiness. Several studies have investigated the impact of VC financing only involving VC backed and non VC backed firms. Such a paper eliminates the critical views of the limited partners and government bodies whose role is crucial in determining the direction of the VC investment; hence a research involving all VC key players would add more value to the existing data.

Several studies have been carried out assessing the impact of VC financing on SMEs growth, but clear evidence underwriting the success of VC backed companies in the last decade is rare, and when evidence does exist, decision-makers often do not know about it. It is important to carry a future empirical paper that brings to light some of the successful VC backed companies since 2010 to date outside the US repeatedly successful VC backed companies of 1980. This would assist to bring together the conclusions of leading researchers and decision-makers by ensuring that literature evidence contributes to tangible impact on economic growth. Several researchers conducted in the emerging economies lack evidence of the impact of VC financing on the performance of VC-backed firms after IPOs or trade sale to large VC firms. Conducting a future research examining the impact of VC backed companies before and after IPOs would avail new knowledge to assist in understanding the influence of the new finance asset on commercialization of SMEs.

Limitations

Whereas VC financing has been extensively studied, there is little evidence from emerging economies that underwrites its contribution to the success of the early-stage enterprises (Agyeman, 2010; Divakaran et al. 2014; Antarciuc et al. 2018). This is because studies in this

area have largely focused on developed economies, where VC has exhibited tremendous success (Gompers & Lerner, 1998; Lerner, 2010; Baldock & North, 2015; Puri & Zarutskie, 2012; Chemmanur et al., 2001; Tykvová, 2018; Bertoni & Tykvová, 2015). Similarly, Esho & Verhoef, (2018) revealed that SMEs have an inferior implementation of PE/VC investment in comparison with the large firms due to the data irregularity and inadequate awareness of available VC opportunities.

There is limited research on VC financing in emerging economies, as such entrepreneurs are unacquainted about the existence of VC as an alternative to bond the financing gap. Besides, the reviewed literature suggests that the VC scene is new and still small hence has not yet demonstrated significant impact on SMEs growth. There were a handful of VC financing empirical researches conducted in Africa continent, majorly in Kenya, Nigeria, Ghana and South Africa however, in Uganda and Egypt; there was little empirical studies to demonstrate VC performance. Owing to the limited empirical studies conducted from the emerging economies particularly in Africa, this paper was supported with evidence from the developed countries that have demonstrated good VC performance in stimulating SMEs growth. The paper was restricted to extant literature; as such dependence on secondary data was unable to address current issues concerning VC industry in emerging economies.

Implications and Recommendations

The paper offers a better understanding to key players in the VC industry to optimize VC financing in promoting business growth. The paper also presents valuable knowledge to policymakers and practitioners to assist in the design of appropriate policies in support of easy access to VC financing by SMEs for their growth. Finally, we provide a research agenda in the continuum of VC financing and SMEs growth by applauding a literature review and a conceptual framework that summarizes the previous conclusions on the impact of VC financing on growth of SMEs in emerging economies.

Early-stage firms in the emerging countries in Africa have continued to suffer from finance deficiency, which hampers their survival and growth (Mbabazi, 2012; Divakaran et al. 2014; Turyahikayo, 2015; Gemma & Kasirye, 2015; Ayyagari et al., 2011; Esho & Verhoef, 2018). Whereas SMEs struggle to secure external debt capital to bridge their financing gap, financial intermediaries consider them a high-risk investment and are therefore reluctant to provide a bank loan or financial credit (Berger & Udell, 1998; UIA, 2016; Ernst & Young, 2016; EU/OECD, 2016). In Uganda, which is the focus of this paper, the current literature indicates that 33.3% of new businesses do not survive beyond the first year of start-up (Mbabazi, 2012; Muriithi, 2017). (Okpara 2011) also reveals that SMEs in emerging nations close their businesses at a higher rate than those in technologically advanced countries. (Yeboah & Koffie 2016) showed that 75% of start-up firms in South Africa close in less than three years of formation - one of the highest SME mortality rates in the world. Without question, access to sustainable funding is the fundamental ingredient for the success and development of start-up firms, in both developed and emerging markets (Beck & Cull, 2014; Turyahikayo, 2015; Eniola & Ektebang, 2014).

Consequently, this increasing rate of SMEs' business failure has attracted global attention from the policymakers and practitioners, to find a suitable financing model with proficiency to boost the early-stage firms' survival and growth. On this basis, VC evolved as a suitable financing model that could close the equity gap that inhibits the growth of early-stage firms (Gompers & Lerner 2001; Deloitte & NVCA, 2009; Gompers & Lerner, 2004; Massimo, et al.,

2016; Muriithi, 2017; Shanthi et al., 2018; OECD, 2018; Tykvová, 2018). VC firms provide the needed capital in exchange for equity shares in the company, and they make key management decisions and have a minority seat on the Board of Directors (BOD) of a company, in order to ensure a high return on their investment (Monitor Group & SAVCA, 2011; Li & Zahra, 2012; Ibrahim & Shariff, 2016).

Recognizing the significant role played by VC financing in stimulating the growth of early-stage firms, a handful of government programs were developed and policy reforms undertaken, which aimed to: ensure easy access to patient capital; encourage enterprise growth (UIA, 2016; Gemma & Kasirye, 2015). Examples include government co-investment funds (CIFs), the Youth VC Fund, entrepreneurship skills development and annual private equity (PE) and VC conferences (UIA, 2016; Gemma & Kasirye, 2015). However, these are principally inception programs and their impact on the growth of the VC industry is yet to be recognized.

In addition, recent studies revealed many countries have been compelled to embark on diverse government policy reforms to boost VC market development (Lerner, 2010; Adongo, 2012; Baldock & North, 2015; Arundale, 2018). Despite government attempts, results supporting VC market growth and SME performance in Uganda remains unclear (UIA, 2015; UIA, 2016). Precisely, current diagnosis of Uganda's VC market revealed that it is under-explored, with little evidence to explain how VC financing has influenced SME performance (UIA, 2016).

Whereas VC financing has been extensively studied, there is little evidence from emerging economies that underwrites the contribution of VC financing to the success of the early-stage enterprises (Agyeman, 2010; Divakaran et al., 2014; Antarciuc et al., 2018). This is because studies in this area have largely focused on developed economies, where VC has exhibited tremendous success (Gompers & Lerner, 1998; Lerner, 2010; Baldock & North, 2015; Puri & Zarutskie, 2012; Chemmanur et al., 2001; Tykvová, 2018; Bertoni & Tykvová, 2015). Similarly, Esho & Verhoef (2018) revealed that SMEs have an inferior implementation of PE/VC investment in comparison with the large firms due to the data irregularity and inadequate awareness of available VC opportunities.

To reinforce this contention, earlier literature suggests that most of the researches conducted assessing the impact of VC financing on SMEs performance largely engaged business owners/ managers as the key respondents (Smolarski & Kut, 2011; Memba, 2011; Jagongo, 2012; Kwame, 2017; Biney, 2018). This paper is diverse in a way that involves all the key players in the VC market. The key respondents included: VC firms responsible for financing the SMEs; government agencies in charge of regulating the business environment; business entrepreneurs/managers the recipients for VC finance; non-VC backed firms. They assisted in matching performance to VC-backed firms and SMEs associations.

CONCLUSION

VC financing is largely envisioned by many corporate finance researchers and practitioners as the best viable patient capital for the survival and success of SMEs in emerging economies. The available reviewed literature disclosed that VC financing positively influences the growth of VC- backed firms in terms of sales growth, job creation and increase in returns on investment (Annette, 2015; Paglia & Harjoto, 2014; Carvalho et al., 2013; Biney, 2018; Memba, 2011). However, general consensus from the scholars uncovered that there is limited paper on VC financing in emerging economies, as such entrepreneurs are unfamiliar about the presence of new financial assets to bridge the financing gap. Besides, the VC market in Africa is largely confined to South Africa, Nigeria and Kenya, accounting for over 75% of the total VC investment

in the Africa continent (Forbes, 2019). Other countries like Ghana, Uganda Egypt contribute diminutive VC statistics since the VC landscape is small and fragmented compared to similar emerging economies like Brazil. This is attributed to the limited literature reviews and theoretical frameworks that critically synthesize VC financing on SMES growth in emerging economies. Despite the increasing interest of foreign VC firms in Africa, the VC landscape is comparatively new and little has been published to underwrite VC financing performance in the region. Furthermore, VC capital data is not open access; this creates difficulty in obtaining information for the consumption of the researchers and the prospective business entrepreneurs. By and large, it has been empirically demonstrated that VC financing has a significant impact on the growth of VC backed firms; it is incumbent upon the policy makers and practitioners to create an empowering environment for easy access and growth of the VC industry if the startup firms are to see light of day in the emerging economies.

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