

CREATIVITY FOR DRIVING CAPITAL MARKET INCLUSION

HOW TO
DEEPEN THE
CAPITAL
MARKET
THROUGH
INNOVATION &
INCLUSION

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OVERVIEW

- The participants in the capital market are largely banked and financially literate individuals.
- A good number of individuals and institutions in the informal markets do not participate or participate passively in the capital market
- According to a World Bank report in May 2021, the Nigerian informal sector employs about 80.4% of Nigerians, 10% in the formal sector, and 9.6% in households. This report further stated that 82.1 percent of these informal workers were women and 78.8% are men.
- These individuals include casual day labourers, domestic workers, industrial outworkers, undeclared workers, part-time or temporary workers without secure contracts, worker benefits, or social protection.
- Informal businesses seek capital from alternative finance markets

PROBLEMS OF INCLUSION



Low level of awareness



Limited products



Limited channels



Financial illiteracy



Regulatory environment

M-AKIBA

A Kenyan government bond sold through a mobile phone in 2017

- A 3-year bond sold in denominations as small as \$30 (KSHs 3,000) with a coupon rate of 10% paid semi-annually and a tax-free status in line with infrastructure bonds
- Retail investors could open a securities account, purchase, pay, receive periodic interest/coupon and principal amount invested and trade their securities in the secondary market through their mobile phones
- The offer was for \$10m (KShs 1 billion) but only \$2.4m (KShs 247.75 million) was raised
- The product was fairly successful as a new range of customers invested in the government paper but the uptake was low. The post-issuance survey conducted by FSD Africa indicated that it appealed mostly to educated persons, there was poor education on the product, wrong timing, not as attractive based on the returns, weak customer care practices, etc.

MUTUAL INSURANCE FUNDS IN MEXICO- FONDOS MODEL

- It provides insurance to its members by pooling funds together to pay for future indemnities and reinsures itself from major systemic risks that could hurt its members simultaneously
- The main benefits of the Fondos approach are the co-insurance among communities (sharing of risk) and their deep knowledge of local conditions.
- It is an insurance mutual fund insurance for farmers
- Between 2001 and 2012, they have ensured a total area of 9.5 million hectares (an average of 865,000 per year) of crops with a total sum insured of MXP 83 billion and a premium income of MXP 6 billion.
- World Bank has proposed ways to strengthen the risk management framework and scale up the operations

INITIATIVES TO PROMOTE CAPITAL MARKET IN ITALY

The Italian government introduced several complementary initiatives to increase the attractiveness of capital market finance and reduce corporate leverage, especially for smaller firms. The measures have sought to reduce regulatory burdens, address tax disincentives, improve access to trading venues and incentivize market demand.

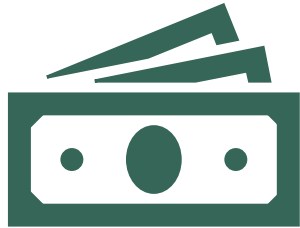
A regulatory regime to extend mini-bonds issuance by unlisted companies was introduced in 2012. It removed legal and tax barriers that penalized unlisted companies.

Borsa Italiana launched ExtraMOT Pro, a new market segment of the ExtraMOT market created specifically for SMEs in 2013. The ExtraMOT Pro platform guarantees transparency and efficiency in the price formation mechanism, while being characterized by less stringent and costly admission requirements. Currently, most mini-bonds are listed on the ExtraMOT Pro segment.

Borsa Italiana instituted the Elite programme to coach SMEs on corporate governance and capital-raising. Furthermore, the process for SMEs' listing on the stock exchange was simplified by establishing a dedicated market (Alternative Investment Market, AIM Italia), with minimum entry requirements.

An investment savings plan called PIR (Piani Individuali di Risparmio, or Individual Savings Plans) was introduced by the Italian government in 2016. PIRs offer favourable tax treatment if the subscribers keep their initial investment in the scheme for at least five years. One objective of PIRs is to channel funds from individual investors into SMEs, as at least 70% of these funds have to be invested in Italy-based firms, with at least 30% of that in SMEs.

INFORMAL NEEDS



Informal businesses

Nano and small businesses require funding, but the capital market does not cater to their needs today. They seek funds from the alternative financing markets



Informal investors

Individuals working for these businesses need investment products best suited to them

OPEN INNOVATION FRAMEWORK



Regulatory support
for new business
models



Research on
customer needs



Financial literacy
programmes



Collaboration with
informal groups



Organize innovation
challenges

DEVELOP AN OPEN INNOVATION FRAMEWORK

Government-sponsored innovation challenges

Regulatory sandbox

Licensing new business models

Collaboration with idea incubators

THANK YOU

SOURCES

- <https://punchng.com/80-4-of-nigerian-employment-in-informal-sector-says-wbank/#:~:text=A%20total%20of%2078.8%20per,8.3%20per%20cent%20in%20households.&text=The%20report%20said%2082.1%20per,per%20cent%20were%20in%20households.>
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