 Finance Manager and the Finance Function in Business Sustainability

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Abstract: Managerial oversight rather than inadequate finance has been ascribed as the necessitating fundamental to business failure in less-developed countries. Finance plays a crucial role in the establishment, growth and sustainability of business. However, it is delicate; its inadequacy or excess is as dangerous as ineffective management. This paper examines the importance of finance function, the imperativeness of financial strategies and the role of finance manager in business sustainability. In addition, a reflection is made of the financial management practices of businesses in African countries, and recommendations made for changes required for their sustainability.

Key words: Business, Business finance, Finance function, Finance manager and Business sustainability.

I. Introduction

Experiences from developed countries have shown that the establishment of economically-viable business enterprises is what less-developed countries need, particularly in Africa to transform their economies. Strong and viable enterprises are a vital component of every successful economy. This is because of their potential for employment generation, economic empowerment, poverty alleviation and income re-distribution. They have been acknowledged to equally expand the production capacity of the economy through innovations and managerial competencies (Atieno, 2009; Chittithaworn, Islam, Keawchana and Yusuf, 2011).

In recognition of the developmental roles of business enterprises, less-developed countries have shown increased interest in the promotion and establishment of a variety of businesses in their territories in an attempt to narrow development gap (Akpakpan and Okpokpong, 2010). This stance has been successively reflected in various monetary, fiscal and industrial policies and interventions employed to provide appropriate financing and incentives for the development of indigenous entrepreneurship. These efforts have however, not yielded the expected results as the number of enterprises are still very few and their mortality rate remains consistently high. The situation has heightened criticisms by business operators and entrepreneurs who have decried the inadequate financing of business, warning that if the state of affairs continues unabated the closure of businesses will continue to rise. In the African scene, commentators and analysts expressed regrets that despite bank reforms and regulations by most national governments, financial institutions do not demonstrate sincerity in tackling financial needs of businesses. Enterprises in the continent of Africa still suffer a lot of financial deprivations including repressive interest charges and cumbersome credit requirements which threaten their sustainability (Kishore, 2010).

While the criticism of inadequate funding of businesses subsists as the necessitating fundamental to business failure, a claim has it that poor financial management, rather than inadequate finance is the bane of business sustainability in the less-developed countries (Agyei-Mensah, 2014). It is argued that businesses perform poorly because of the business environment, government policies and infrastructural facilities, lack of experience in terms of marketing, production and finance, with managerial oversights added as overbearing (Ekpenyong and Nyong, 1992; Ojo, 2010). The argument as further extended by Kishore (2010), is that the failure of many businesses in less-developed countries, particularly in Africa can be traceable to restricted access to finance that they require to grow, and even worse, lack of executive capacity to manage the limited funds at their disposal. This is because of the crucial nature of the finance function as the nucleus of any business entity and cycle. The purpose of this paper is, therefore, to examine the role of finance manager and the finance function in business sustainability in developing countries, with emphasis on Africa.
The finance manager is the principal personnel responsible for the financial management of the business, including financial records and reports. He is in charge of all decisions relating to investment, financing, dividend and liquidity or short-term asset mix of the entity. Long-term sustainability of business depends largely on the ability of the finance manager to drive the finance process (Nguyen, 2001). In order to ensure the growth and survival of the business, he is expected to provide the basis for assessing the financial implications of decisions made in other areas of management. The scope of his responsibilities is wide because of the interrelationship between finance and other functional areas of business (production, marketing, personnel, etc.). For instance, the production and marketing of goods are not finance functions, but because they require outlay of cash the finance manager must be involved. Similarly, the recruitment and promotion of staff though clearly the responsibilities of the human resources department require payment of salaries and other benefits and thus involve finance.

There is no doubt that virtually every business transaction directly or indirectly require the procurement and utilization of funds. Thus the nature of the finance function places enormous responsibilities on the finance manager. In this wise, he is duty bound to plan, control and take responsibility on the types and sources of finance the enterprise may employ, how they may be accessed and how to choose among them. He must plan strategically on ways of ensuring that finance entrusted on different activities realize the anticipated returns. The essence is to achieve the overall objective of maximising the economic welfare of the business owners. Finance, in the context of this paper, is viewed from the perspective of an aggregate activities involved in securing business resources at favourable prices and allocating those resources throughout the business. It entails the procurement of funds from the best possible mix of sources and the allocation of same in a manner that promotes growth of the business. Business sustainability too, is viewed as an enterprise’s ability to manage its financials, social and environmental risks, in a manner that will create acceptable outcomes and enhance long-term value for the stakeholders. In this paper, we focus mainly on the business sustainability impacts of finance and its management.

II. Understanding Finance

The best way to understand finance is to view it from different perspectives; as an instrument, as a managerial function, as an area of study and as a process (McMahon, 1995). As an instrument, finance refers to money, money convertibles or money’s worth. Finance as managerial function refers to the finance and accounts department which is vested with the responsibilities of carrying out finance and accounts functions of the organisation. As a discipline, finance is a field of study; and as a process, financierelates to the aggregate activities of identifying, estimating, sourcing, allocating, returning, and appropriating pecuniary values of economic units.

According to Ngerebo (2002), whichever way finance is defined, the ultimate concern is that the management of these instruments, the optimal performance of these functions, the understanding of the dynamics of this study, and the maximal application of the process refer to the subject of “finance or financial management”. However, for the purpose of this paper, finance as a process, involves three main activities. The first activity is the planning of how much funds the business needs. By nature, business funds are not only limited but have alternative uses, and must therefore, be properly planned to guard against decisions that may be regretted afterwards. The second activity is determining the best sources or mix of sources to procure the funds at reasonable costs to ensure business operations are sustained. The third activity is application of the funds among competing projects and programmes of the entity with a view to maximising the objectives of the firm or obtaining reasonable returns on investment.

From the foregoing explanations, the finance process undoubtedly, requires creative thinking and actions on matters such as the provision of financial information for management and other business stakeholders, investment selection and financing, mergers and acquisitions, liquidity and dividend policies, obtaining stock exchange listing, and raising of capital to start up new ventures or shore-up existing capital base. Virtually every organisational activity has monetary implications in today’s economy as one would hardly come by any aspect of entrepreneurial efforts that is not monetised (Udofot & Udoidem, 2014). Business firms rely on the flow of funds from different sources such as retained earnings, disposal of financial assets or securities (shares, bonds or debentures), trade and expense creditors and investment in stocks. The funds generated from these sources are committed to production of goods and/or services, acquisition of current and non-current assets, among other needs. Firms expect to receive returns from these investments, which in turn are allocated among stakeholders, including shareholders, employees, government and the host communities. To harness the finance activities effectively requires meticulous and coordinated managerial efforts which can be discussed under executive and operative finance functions.
III. Executive finance function

Business sustainability is a function of the practical understanding of the executive finance functions. Sustainable growth of the business depends on the skills with which the executive finance functions are performed (Butt, Hunggra and Rehman, 2010). The functions entail making decisions in such areas as: determining which capital expenditure to undertake and the funding model to adopt. It is a function that prioritises the expenditure needs of the enterprise. For instance, the executives must choose among capital investment projects (which may be in the form of real and/or financial assets) to be funded and also manage other recurrent expenditures of the business to achieve needed goal(s). The decisions are taken in the consideration of the estimated risk-return-payoff of the prioritised projects. Details of the prioritised projects and the cash flow projections are usually packaged in the budget document (Ekpo, 2002). The budget document is prepared, taking into consideration uncertainties and timing of the estimated cash flows, effects on the current accounting profits, internal rate of returns and the applicable cost of capital.

Deciding on the funding models to adopt for budgeted projects is crucial. The moment the budget document is approved by the executive, the method of financing becomes prominent. Possible sources of funds are, but not limited to new equity issues, loans, retained earnings and sale of assets. The financing task requires relevant information such as the available sources of funds and conditions for accessing them, the enterprise’s level of gearing as well as the timing and projection of cash flows. The essence is for the management to obtain an optimal financial structure which can meet the firm’s objective of maximizing its market value. This decision must be taken with caution because whatever option that is adopted would usually affect the market value of the firm’s shares. Moreover, the executives are expected to make optimal decision that will enhance the value of the firm, without undermining the shareholders’ expectations. These functions are the responsibilities of top management under the directives of the finance manager.

Shareholders’ expectations must be accorded priority as owners of the firm. The interest puts the executives into yet another unique task of deciding what to do with the returns on investment (whether to distribute all to the shareholders, or retain some or retain all). For this function to be thoroughly executed, financial information like the shareholders’ preference for current income, the need to maintain a high share price and the opportunity for internal use of retained earnings should be required. Within this decision framework, the executives must also decide on the amount of funds to tie up in current assets to promote liquidity, and to achieve appropriate trade-off between liquidity for short-term survival and profitability as a pre-requisite for long-term growth.

Beyond the three core areas of investment, financing and dividend decisions, other priority areas of executive finance function include taxation, assets and risk management. In addition, the executives are required to consistently monitor and evaluate the entire finance process. This calls for the establishment of standards and policies to which outputs and performances are measured. The task embraces establishing finance policies and setting standards for expenditure controls, income, revenues, and other benefits accruing to the entity. It entails the provision of regular performance reports, correction of deviations, monitoring of liquidity positions, and undertaking surprise checks on persons and responsibility centres to inculcate a sense of discipline in those entrusted with the resources of the entity.

Apparently, finance functions inter-connect and interrelate with one another. The identification, selection and execution of an investment project can only be possible when the source of financing is secured. A potential source of finance is the retained earnings, which means a restriction of funds, which could have otherwise been available for distribution as dividend. In effect, the functions inter-relate because the primary objective of all the finance functions is one – maximization of the business owners’ wealth.

IV. Operative Finance Function

Operative finance function relates to the regular, procedural and clerical duties (that is, the day-to-day routine) intended to facilitate the actualization of the executive financial functions. According to English (1990), operative finance function covers all aspects of cash flow management, including the supervision of cash receipts and payments, as well as ensuring safety of cash and cash equivalents.

It utilizes accounting as a tool for the coordination and control of the activities. It involves keeping track record of all monetary transactions. Examples include records of purchases of inventories, staff wages and salaries, revenue generated from sale of goods and services, etc. these information are also required by the management for planning and control purposes, especially those relating to performance measurement and the day-to-day business decisions.

V. Finance, Financial Strategies and Business Sustainability

Finance has been generally described as the blood stream of business. It is one of the most significant functions of any business, and a key factor in managing growth (Aktan and Bulut, 2008). Like blood, its undersupply is as dangerous as oversupply. It involves activities that enable an entity to obtain capital; ensures efficient allocation of resources, and maximises income generating potential of the business for survival and
sustainability. Business sustainability depends largely upon the manner in which finance functions are performed. The finance function is much more than planning for funds, it entails the management and control of available financial resources within the organization. Therefore, finance plays key role in the sustenance of business by increasing operational efficiency within the enterprise, and judiciously allocating funds among activities within and outside the firm.

Businesses are financed in one or a combination of ways, namely, equity financing, debt financing, utilization of retained earnings and disposal of assets. Each of the financing methods is unique and has some cost implications. Thus, a combination of financial strategies is required for optimal financing of business operations (Kotha, 1995). For instance, equity financing entails the parting of ownership interest in exchange for funds, and the more the spread of ownership the greater the extent of dilution of ownership interest. A business that is entirely equity financed is not only losing considerable amount of decision–making authority, but deprives itself of the inherent benefits of debt financing which is considered to be cheaper than equity (Brockington, 1994; Akinsulire, 2005). Equity financing is usually in the form of shares, bonds or private investors.

Debt financing on the other hand, requires fixed obligations for repayment. The interest charges are fixed by contract irrespective of the profit performance of the business. While retained earnings and sale of assets can serve as a good source of finance for business sustainability, they may not be adequate. Accordingly, it may be necessary that businesses obtain funds from externalsources to augment. But, a strategic balance must be taken to obtain optimum combination of finance to guard against much exposure to debt. Businesses with high amount of debts in relation to equity are over-leveraged, implying that a greater part of profits would be used in servicing debts. Therefore, applying good financial strategies to obtain optimal combination of financing can promote sustainable growth of business. Financial models such as capital asset pricing model and the weighted average cost of capital are proven strategic tools for optimal decisions on business financing.

Maximization of market value is one of the indices for measuring the sophistication of financial strategies, and of course, business sustainability. This is because the concept provides a holistic picture of growth in terms of profits, sales revenue, market share, employment and output as well as stakeholders satisfaction. The maximization of market value is akin to maximizing the net present value (or wealth) of a course of action; which is the difference between the present value of benefits and the present value of costs associated with a course of action (Pandey, 2005; ICAN, 2006).

VI. The Finance Manager and Business Sustainability

The role expected of the finance manager within the enterprise can be discussed under three main headings: development of financial strategy, treasury management and controlling function.

VII. Development of Financial Strategy

The starting point for the development of financial strategy is to determine the financial objectives of the enterprise. Financial management should be in consonance with the broad objectives of the business in order to have good control and direction for the flow of funds (Ross, Westerfield and Jaffee, 1999). The strategy should consider principally the goals of finance, the nature of business and its activities and their relationship with other aspects of management. Effective development of financial strategy requires a comprehensive review of business policies, portfolio of investments, budget documents, and cash flow profile, among others.

Financial strategy is a subset of business strategy that relates to financial management, and includes, decisions such as determining the financial objectives of the enterprise, long and short term planning models as well as capital structure decisions (Nmadu, 2007). It includes all organisational activities, schemes and programmes pertaining to sources and application of funds. ICAN (2006, p. 2) defines strategic financial management as “the identification of the possible strategies capable of maximizing an organisation’s net present value, the allocation of scarce capital resources between the competing opportunities and the implementation and monitoring of the chosen strategy so as to achieve stated objectives”. It follows therefore that strict implementation and monitoring of the established strategies would bring about optimal performance that would in turn, guarantee sustainable growth of the enterprise.

It is the responsibility of the finance manager to see to the development, implementation and monitoring of strategies to ensure actualisation of the intended objectives. He must maintain current operating records to monitor the implementation of strategic plans, and acting promptly where implementations are inconsistent with objectives. He reviews strategies at the appropriate time intervals with a view to initiating urgent actions that will prevent the possibility of retaining an outdated or non-productive strategy.

VIII. Treasury Management

This is one of the most important roles the finance manager has to play for the firm to stay solvent. The finance manager must ensure that the firm has sufficient liquid funds to meet its debts as and when due; and to provide the means for future expansion and growth. The treasury function involves the responsibility of
obtaining funds, managing the firm’s cash flow, controlling the working capital, investing of surplus fund maintaining a functional relationship with financial institutions (Van-Horne, 2004). It includes the raising of short and long term finances, foreign exchange management as well as the management of returns for different interest groups, including pension funds investment.

The finance manager should have a clear understanding of the dynamics of the capital market, and the risks involved in trading on shares and debentures. He should plan the business profit, decide when to distribute it as dividends and when to invest part or all in the business to enhance growth. He should ensure good asset structure and optimal allocation of funds in an attempt to maximise the overall market value of the business. Where the finance manager performs all the foregoing roles conscientiously, the business should be sustained. A proper management of the treasury would safeguard the firm against the dangers of illiquidity and insolvency.

IX. Controlling Function

The finance manager has a duty to inspect and ensure that funds are applied efficiently in the operations of the firm. He must ensure that every capital expenditure helps the enterprise along its chosen strategic path towards achieving its objectives. For this to function, there must be a monitoring and follow-up mechanism within the system.

The first aspect of the controlling procedure is the budget. Regular comparison of performance against target, and the analysis of variance give the finance manager the direction in which the firm is going. It is therefore possible for him to see how close he is to his profit target, and to take corrective actions against disadvantageous situations.

Other aspects of the controlling procedure include book-keeping and accounts, auditing and reconciliation of office and banks’ records staff payroll, taxes and dividends. With adequate control measures, growth is bound to be achieved in the enterprise.

It is however, instructive to note that the finance manager places primary emphasis on financial planning and control. He uses the financial statements (statement of financial position, statement of comprehensive income, statement of changes in net assets/equity and cash flow statement, among others) as a source of information to performing the planning and control tasks. The aim is to make informed decisions about the enterprise’s financial condition, and to advise the management and other stakeholders about the turn of events (Ray and Hutchison, 1983).

These functions have also created a number of challenges which limit the financial manager’s ability to perform his roles optimally. These challenges are but not exclusive to those imposed by the economic, financial, and business environment. In order to overcome these challenges, the finance manager is expected to have sound knowledge of the happenings around the business community, statutory institutions and agencies, and the prevailing economic activities as affecting various fiscal and monetary policy issues as well as trends in government reforms and regulations.

The strength of the finance manager lies in his ability to integrate the knowledge from various specialized subjects to gain a proper perspective for decision making. This multi-disciplinary knowledge-based qualities give the finance manager the ability to think and act strategically. The qualities of the finance manager are therefore, worth examining, because of the importance in business entity. The finance manager needs the right education, attitude, skills and qualities to succeed in coordinating the finance functions. He requires a number of personal attributes to drive business success. He must display strong analytical skills and ability to apply theories and models propounded by scholars in business decisions. He must be circumspect and have eyes on details, with less tolerance for avoidable mistakes which may not only be erroneous but misleading in decision making. In order to share information with other employees and management clearly and logically, he must have good command of both oral and written form of the acceptable language of communication. More so, he should have a positive mind-set that is solution-focused. He requires a strong work ethics that would enable him plan and direct different jobs and responsibilities.

X. Dimensions of Business Finance and Managerial Oversight in African Countries

The failure of finance to realize the transformation and sustainable growth of business in African continents has been ascribed to the problems of limited finances and missed priority in the management of available funds (Joshua, 2008). The efforts of central governments in banking reforms and regulations in most African countries which were expected to improve liquidity and induce substantial fall in interest rates for businesses have not yielded the desired results. It was thought that the inflow of funds from recapitalization of banks would enhance the capacity of banks to lend to businesses. In contrary, banks’ conditions and guidelines for loan facilities are increasingly unfriendly and stringent making it difficult for business establishments to raise funds for their operations. It does appear that the liquidity arising from the recapitalization and merger of banks in most Africa countries have not enhanced their capacity to lend to the real sector. Also, government regulatory framework appears ineffectual to protect businesses from undue exploitation by the financial
intermediaries. For instance, the West African Supervisory Authority (WAMZ), which was expected to serve as a centralized regional supervisory body to ensure not only the financial stability of banks in the zone, but also the effective performance of their intermediation role to promote the growth of businesses is not creating the desired impact.

The reforms in the capital markets too, havenot generated the expected benefits to businesses, especially the small and medium scale enterprises. The role of the capital market in the management of risks associated with short-term volatility of economic outcomes cannot be overemphasized. The capital markets supposed to provide the mechanism through which medium and long-term funds and other financial instruments with maturity of more than one year are sold and purchased. An efficient capital market is a factor in the long-term growth of enterprises (Chong, 2008). The capital markets in most African countries are underdeveloped. The market cannot afford businesses the opportunity to raise long-term funds through dealings on stocks. More so, the bond market is weak to be a major source of finance for businesses because of the attendant costs, which is inconsistent with the competitiveness of businesses.

While much of the blames go to the financial market and its operators, business concerns have their fair share of the blame. African businesses have been variously blamed for inadequate attention to financial management in their operations. Ekpo (2015) maintained that most businesses in Africa have weak accounting and internal control systems, with working capital being poorly planned, while capital budgeting is relatively unknown in investment planning. Alasadi and Abdelrahim (2007)argued that monitoring of cash flows is a challenging task for most businesses in Africa because of their inability to prepare and implement budgets. Businesses are either not familiar or are less concerned about the preparation of budgets such as sales budgets, labour budgets, overhead cost budgets, selling and administration expenses budgets and cash budgets. Lack of functional budgets makes it difficult for firms to monitor and control costs, as well as gauge the effects of different activity levels on profits. Consequently, it is presumed that borrowed funds would not be managed wisely, which probably is what discourages banks from granting them loans.

The small-scale enterprises, which constitute the largest population of businesses in Africa, frequently lack the requisite knowledge and skills to access funds from the financial markets (Kishore, 2010). They are incapable of establishing functional relationships with the development finance and other formal credit institutions because of their size and limited knowledge of presenting financial cases. Consequently, most of them resort to the informal sources of financing such as local money lenders and rotating credit contributions.

Most African businesses carry on business operations with no functional accounting system, sometimes maintaining only memorandum records of customers to whom goods are sold or services rendered on account, as well as lists of suppliers who sold goods or rendered services to them on account (Uwonda, et al, 2013). This observation corroborates the findings of Balagot (2009) that a lot of businesses in the continent do not have accounting staff to keep accounting records such as cash books, bank books and general ledger, and to reconcile accounting records and bank statements as and when due. These limitations have far reaching implications on the growth and sustainability of business enterprises.

Ojo (2010), summarizes the types of finance available for businesses in Africa. They include owners’ equity, retained profits, trade credit, family assistance, friends’ loans, buyer advances, rotating credit contributions, bank overdrafts, leasing, hire purchase, personal savings, long-term loans and factoring. Due to the limited nature of owners’ equity which inhibits business growth, businesses are always on the search for external source of finance. Often times, the available sources are on short-term basis with the attendant high and unregulated charges, ranging between 10 percent and 40 percent in different countries. This kind of finance does not permit the businesses to invest in long-term projects that would enhance their sustainability. The main reasons they resort to informal sources of finance are (1) lack of assets to offer as collateral, (2) the rigor and stress of going through bank lending processes, and (3) exorbitant interest charges on bank loans.

Arising from the foregoing, most African businesses are undercapitalized as financing during and after the establishment are basically from the informal sources with limited volume of funds. This state of affairs has resulted in the mismatch of financial strategies in several instances, with businesses financing their capital expenditures with short-term sources of funds, and current liabilities outstripping current assets. There are cases of gearing ratios getting out of hand because of excessive borrowings which puts undue pressure on interest and scheduled capital repayment.

With respect to taxation and tax management, businesses in Africa do not take their tax obligations seriously. Employees in most African countries are taxed on the basis of pay as you earn (PAYE), while corporate tax is a percentage of taxable profits. PAYE scheme is such that tax is deducted from the income of an employee at source of payment. In practice, this is not often the case. In Nigeria for instance, a lot of businesses do not prepare their staff salaries formally, nor deduct the relevant taxes. The tax authorities have been complaining about the poor attitude of businesses toward payment of their PAYE and corporate taxes which supposed to be paid on the preceding year basis at the rate of 30% on taxable profits as reported in the audited financial statements.
It has also been established that in spite of the value of audited financial statements, most businesses in Africa only consider auditing their accounts when they have to support loan applications with the financial statements as a requirement from loan providers, or when they have to file their annual returns with their relevant government agencies (Ekpo, 2015). Financial statements are also deemed necessary when businesses have need to investigate fraud or irregularities in the system, or are under pressure to tender expression of interest for contract jobs in other organizations. Financial statements are detailed reports of the management, intended to serve as an instrument of accountability by which management submits itself for scrutiny of its stakeholders. This attitude is anti-developmental, and does not portray the businesses in good light as responsible corporate citizens.

XI. Conclusion and Recommendations

This paper aims at drawing attention to the link between finance manager, the finance function and business sustainability. The work was carried out using structured review of the relevant literature. It has been established that finance and its effective management are sine qua non for any growth oriented enterprise. This calls for a sound and experienced finance manager to drive the growth process. Although the theoretical nature of the paper alone cannot prove a causal relationship among finance manager, finance function and business sustainability, it is nevertheless striking. We conclude that finance and the finance manager play an important role in the sustainable growth of business. Further research could analyse the relationship among these variables. Undoubtedly, the primary functions of finance and the strategic role of the finance manager are basic pre-requisites for the survival and long-term sustainable growth of business. Based on the above conclusions, it is important to recommend that business enterprises in Africa change their attitude to financial management; the management culture should be entrenched in dignity and global outlook. Hence, there is need to address the challenges of finance and its management oversight with the adoption of the following measures:

(i) The state of affairs in Africa calls for constant capacity building for business operators, particularly the owner-managers who double as financial managers in most cases. This will keep them abreast with the state-of-art of business finance and financial strategies, among others.

(ii) Finance managers should be at the forefront of ensuring financial discipline and integrity in order to minimize the rate of business discontinuities. Thus, there is the compelling need to strengthen the enforcement of ethical standards among those entrusted with the management of business funds which is essential for inducing business sustainability.

(iii) Banks and other financial institutions should help businesses to prepare business plans and lead them through their implementations. In this way, the banks would be sure that loans granted for such projects are repaid with the associated interests as and when due.

(iv) The governments of African countries should strengthen their regulatory provisions, in line with international best practices to entrench rules and principles that would enhance effective credit delivery of banks to businesses.

(v) There is need to broaden and deepen the capital markets in Africa for improved intermediary role as well as a vibrant bond market that would give businesses opportunity to invest in debt instruments.

References


