



Regulation, SME Performance and Growth in Cameroon's manufacturing and retail sectors

By

Ms Emilie C. Kinack Djoumessi & Prof. Oludele A. Akinboade ¹

University of South Africa (UNISA)

Pretoria, South Africa

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¹ Authors contact: emilie_kinack@yahoo.fr, economist_oa@yahoo.com

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ABSTRACT

Research into small business activity has grown impressively over the last decade, though studies on the impact of regulation on business performance remains relatively under-explored. SMEs in Africa face difficulties in infrastructure, finance, as well as in complying with regulations and other governmental requirements. Confronted with poor economic performance, Cameroon began looking at policies to improve SMEs performance and to promote economic growth. This study hence examined the impact of regulation on SMEs performance and growth in Cameroon. The Tax department and the Municipality are the most well-known regulators. Businesses that are aware of their status as SMEs also legally register their companies. However, regulatory compliance of SMEs is low. Therefore the study recommends the establishment of one-stop shop for SMEs registration in Cameroon.

Key words: Cameroon, Regulation, Small and Medium enterprises,

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ACRONYMS

AFDB	African development Bank
APDF	Africa Project Development Facility
BEAC	Banque des Etats de l’Afrique Centrale
CCIMA	Cameroon Chamber of commerce for industry mines and artisans
CEA	Commission Economique pour l’Afrique
CRETES	Centre de recherche et d’étude en économie et sondages
DGI	Direction Général des Impôts
FOGAPE	Fond de garantie pour les petites et moyennes entreprises
OECD	Organization for economic co-operation and development
PEP Africa	Private enterprise partnership for Africa
SME and SMME	Small and medium size enterprises
UNIDO	United Nations industrial development organization
WAEMU	West African Economic and Monetary Union

I. Introduction

I.1. Background to the study

Achieving the Millennium Development Goals (MDG) of eradicating extreme poverty and hunger among other factors will require rapid and sustained growth for African countries. It is now widely acknowledged that small and medium enterprises (SMEs) are an important force for economic development² and industrialization in poor countries (odd-helge et al., 2006). SMEs might contribute significantly to job creation³ and poverty alleviation in most countries. If small

² According to *Saravanan et al (2008)* SMEs comprise over 90 percent of African business operations and contribute to over 50 percent of African employment and GDP. SMEs sector has shown positive signs in South Africa, Mauritius and North Africa. In fact following the democratic elections of 1994, small, medium and micro-enterprise (SMME) development was identified by the new South African government as a priority in creating jobs to solve the high unemployment rate in the country. As such the Small Business Act was introduced in 1996 (Nieman, 2001). Clusters of SMEs are little developed in Africa and are concentrated mainly in South Africa, Kenya Nigeria, Tanzania and Zimbabwe. In South Africa, SMEs constitute 22 percent of gross domestic product (GDP) in the year 2003. SMEs constitute 95 percent of formal manufacturing activity in Nigeria. Senegal and Kenya have provided conducive environment for SMEs. SMEs in Uganda constitute 90 percent of the private sector, with 80 percent being located in urban areas and, are largely involved in trade, agro-processing, and small manufacturing (Hatega, 2007), SMEs contribute approximately 75 percent of the gross domestic product (GDP) and employ approximately 2.5 million people. Congo has 2,100 firms in the formal and 10 000 in the informal sector, around 80 per cent of firms in Congo have fewer than five workers. A 1997 survey in Benin showed that of the 666 SMEs counted, half were in commerce and the rest were mostly in construction, or were pharmacies and restaurants. Only 17 per cent were in manufacturing. SMEs in Senegal contribute about 20 per cent of national value-added. In Morocco, 93 per cent of all industrial firms are SMEs and account for 38 per cent of production, 33 per cent of investment, 30 per cent of exports and 46 per cent of all jobs

³ SMEs in Africa also contribute to job creation. In Kenya SME employed some 3.2 million people in 2003 and accounted for 18 per cent of national GDP. SMEs in Nigeria account for some 95 per cent of formal manufacturing activity and 70 per cent of industrial jobs. Micro and very small businesses in South Africa provided more than 55 per cent of total employment in 2003. Small firms accounted for 16 per cent of both jobs and production and medium and large firms 26 per cent of jobs and 62 per cent of production.(*Source: African Development Bank and OECD Development Centre, African Economic Outlook (2004-2005)*). As of 2007, there were 1.5 million SMMEs in South Africa, small firms are economically vital, taken together collectively; they also amount to “big” business. Small businesses are vital to any economy. For instance in UK SME are around 3.8 million, they account more than 99% of the total number of UK firms, they generate more than half of total UK business turnover, they employ 12.6 million of people (58% of the private sector workforce) and they are drivers of innovation and new efficiencies (federation of small business FSB 2004).

and medium enterprises promotion increases growth, this by itself is likely to imply reduced poverty. Other things being equal, the faster the economic growth that is achieved, and the greater the chance of poverty reduction, as growth tends to be good for the poor (Dollar and Kraay, 2002). Thus, in developing countries like Cameroon, a need to improve the environment of those SMEs is urgent. The SME promotion can also help to develop private sector economy allowing it to function more efficiently.

Accordingly, fostering an environment favourable to SMEs has become a priority in the development strategies of many developing governments, and has been given increasing emphasis by the international donor community⁴. Two factors have been worldwide identified as major constraint to the development of SMEs, this included, the regulatory/policy environment, and access to finance. The present study will only focus on the first constraint which the regulatory environment of SMEs.

According to Mail and Guardian, (2005), an appropriate regulatory environment is the single most important element in an economic growth strategy. Regulations are vital to the fair and sustainable working of market economies, but even the most socially necessary regulations create costs as well as benefits, and some of these costs may be unnecessarily high. Regulation of the private sector is believed to be necessary to ensure competition and fair trade, but unnecessary regulation burdens the private sector and leads to fewer enterprises, less efficient enterprises, and reduced competition. Appropriate regulation is therefore essential for a robust private sector. In terms of the legal framework, business needs to operate under the rule of law. No strong private sector can exist unless an adequate legal framework exists in which to resolve disputes and facilitate efficient transactions, as well as to protect property rights.

⁴ UK Commission for Africa: It advocated the creation of an African Enterprise Challenge Fund, to be backed by US\$ 100 million of investment, and is designed to support private sector initiatives targeted at SME development.

-African Development Bank: AFDB launched a Small and Medium Enterprise Facility in Africa (SMEF-Africa) to complement its existing franchisee to support SMEs development programme.

-International Finance Corporation: It published the work of its Africa Project Development Facility (APDF) to support SMEs and, in collaboration with other donors, established the Private Enterprise Partnership for Africa (PEP-Africa) to build on the work of the APDF in establishing a strong private sector in Africa.

-United Nations Industrial Development Organisation: UNIDO established a Cluster/Network Development Programme so as to provide access to training, information and advice on business management for SMEs.

The issue of regulation and its adverse impacts upon businesses is also well researched in the literature. It is generally believed that small businesses suffer disproportionately from business regulation. However, SME are usually disproportionately affected by regulatory requirements, red tape (excessive use of or adherence of formalities) and burdens. Regulation can undermine their competitiveness, capacity to grow and viability. Recently questions regarding regulations and the regulatory environment for SME development have began to generate a considerable volume of very detailed research investigations. At the level of macro studies, Djankov et al (2006) show that national economies with better regulations do grow faster. Researchers at the World Bank quantify the potential benefits of better regulation. They show that improving from the worst quartile of business regulations to the best implies a 2.3 percentage point increase in annual growth.

I.2. Problem statement

Since 1980s Cameroon's economic performance has not been that impressive. The results have been mixed sometimes with performance showing improvement and another time going down. High level of corruption, declining of per capita GDP, lack of infrastructure, crushing internal debt etc. have not provided an environment conducive to development. Government of Cameroon has started looking at policies to improve the small and medium size enterprises sector in order to promote economic growth. It is acknowledge that private sector can constitute an important factor in the development of the country, but for this to be effective, government should provide a macro-economic environment favourable for their development.

The private sector which in the past in Cameroon was not so important is now being recognised as an engine to economic growth in the country. In most developing countries the private sector is mainly represented by small and medium enterprises (SME), this is also the case in Cameroon. Thus in Cameroon SMEs could play a critical role in stimulating and alleviating poverty. It is widely acknowledged that SMEs are an effective instrument for employment creation, income generation and economic growth, even in developed countries such as United States and in Europe, SMEs significantly and highly contribute to the GDP.

When Cameroon attained independence in 1960, country focused its development strategy on promoting large enterprises. Government initiated amongst others, investment code with the aim of attracting foreign investment which the young state needed so much for the realisation of its

development objectives. Hence, for a decade, large and unprofitable foreign and local businesses that existed in the country were not always driven by efficiency. In view of the inefficient nature of its first approach, the country has changed its policies and refocused, since 1976, on SMEs as the key sector for achieving economic growth.

Following this change, Cameroon put in place a number of tools to support the growth of SMEs. In 2004 in order to reinforce and improve the business environment for SMEs, government established a new ministry namely “the Ministry of Small and Medium Size Enterprises and craft” with responsibilities to:

- Promote and supervise Small and Medium Enterprises;
- Promote SME products;
- Monitor the activity of organizations providing support to SMEs;
- Monitor professional SME organizations;
- Establish, with professional organizations, a databank and projects for investors in the SME sector;
- Identify, mentor and train informal sector actors to foster their migration towards SMEs.

These missions can be grouped into the following strategic objectives:

- Restructuring of the legal and institutional framework to render it more attractive;
- Building the capacities of actors and improving competitiveness;
- Improving access to financing through the financing institutions as well as guaranteeing mechanisms.

Despite the effort of the government in order to improve the SMEs in Cameroon, the country still has a rigid business environment that hinders the development of local small enterprises and entry opportunity for foreign investors. This argument is supported by selected indicators of business environment and investment climate of the country extracted from World Bank indicator (2008). Conditions for doing business in Cameroon have deteriorated significantly. The country was ranked at 147th in 2005, 152nd in 2006 as against 164 in 2008 (see Table 15 annexes). Cameroon performs poorly compared with other African countries measures of the ease of doing business and investment climate of the country (World Bank, 2008). Of the 51 African countries covered by the World Bank’s ease of doing business survey in 2008,

Cameroon occupied the 37th position. With the exception of the indicator of employment, other indicators have become progressively worse since 2005.

There are several obstacles when creating a business in Cameroon. Among others, one can cite the right regulation procedure. The regulation process in the country is extremely confusing, may be because of the large number of regulators. In the country there are a large number of regulations such as fiscal, employment and economic regulation which constitute a heavy burden to the development of SME, because it takes time to be registered and it is costly. In Cameroon, it takes about 37 days to start a business and there are 12 procedures to follow. This can cost about 152.2 % of the gross national income (GNI). Meanwhile, according to a survey conducted by the *Commission Economique pour l'Afrique* (CEA) in the country an entrepreneur must give as deposit to a bank an amount which is equivalent to about 216.5% of the GNI per capita of the country.

Business license and the agreement for the operation of the business take 15 steps which an average cost of 1094.2% of the GNI per capita. The World Bank (several years) gives some indicators of the business environment in the country. From these it is clear that the time taken for the registration of an enterprise and the cost incurred constitute one of the main problems for business in Cameroon. Beside the time and the cost, there are other factors that hinder the development of SMEs in the country. Among others, the lack of an appropriate judicial system and the lack of infrastructure are important. Indeed the security/protection of property and of investors is an important element for the development of business in any country and the government is aware that a well-functioning judicial system is essential to investment security. Institutional and administrative reforms of the legal system and of the judiciary are envisaged that will permit the proper and rapid execution of commercial and financial contracts.

The challenge is to establish an environment allowing the judiciary to work in conditions that guarantee its independence and its dignity, in strict conformity with the law and with its professional code of ethics. In Cameroon the judicial system is weak, there is a lack of confidence in the judiciary for the institution to uphold property rights and this constitutes a heavy burden for the country's investment climate. According to World Bank⁵ the protection of

⁵ See table 18 in appendix

investors in the country is getting worse and worse. The country was ranked 58th in 2005, 60th in 2006 against 113 in 2008th. This lack of confidence in the judicial system in the country can also make things difficult for SMEs and affects their ability to get credit from banks or other financial institutions.

Infrastructure and lack of information also constitute an obstacle for the development of the SME in the Cameroon. The process of getting for example a telephone landline, or electricity connection, and the costs of all these essentials are still very high in the country. The time it takes to obtain phone connection is 365 days, electricity service 90 days and water connection 75 days. Besides the poor infrastructure of the country, the population also has a very low purchasing power, with a growth rate that sometimes is negative, under the condition of limited local market.

I.3. Objectives of the study

Studies seeking to understand firm performance in Cameroon, as for many African countries, have tended to focus on financing issues. In this regard, a new joint African-European Union study Co-sponsored by the Cameroon Chamber of Commerce for Industry, Mines and Artisans (CCIMA) and the Brussels-based Africa Caribbean Pacific Business Climate Facility (BizClim) will attempt to identify the mechanisms that are appropriate for the financing of very small and small enterprises (VSSEs) in Cameroon. It is generally perceived that the medium sized companies represent the so-called “missing middle” and they are undercapitalised. On the other hand, small manufacturing companies, small farmers and artisans are desperately looking for finance. Little research has been undertaken on the impact of regulation on firm performance in this country.

The main objectives of this study is to examine the impact of regulation on business performance and growth in Cameroon in order to investigate the diverse ways that regulation might contribute and/or hinder businesses performance and outcomes. The specific objectives are the following:

- 1) To assess SMEs’ knowledge of the number of regulators and the nature of the contact with those operating in their sector.
- 2) To assess SMEs’ understanding of various aspects of the regulatory processes.
- 3) To assess SMEs’ opinion of the ease or complexity of understanding the requirements and enforcement.

- 4) To assess SMEs' understanding of the benefit and their estimate of the cost of compliance.

The study seeks to determine whether these results can be explained by socio economics variables such as age, gender education level, etc of the owner/manager of the business. Furthermore the study seeks to explain whether these result significantly differ between in the two region we investigate (littoral and central), and by size of business.

II. SMEs in Cameroon

II.1. Definition of SME in Cameroon

There is no universally accepted definition of Small and Medium Enterprises (SMEs). This is due to the fact there are a large number of micro, small and medium enterprises which differ in their sector of operation, activities and in the environment where they develop. Most definitions of Small and Medium Enterprises (SME) include ranges of assets or turnover per year, and number of employees. Usually the definition follows one or more of the following approaches: **Criterion approach⁶, Institutional approach⁷ and Typological approach⁸.**

In Cameroon the official definition of SME is based on the first two approaches identified earlier viz: the criterion and institution approaches. Thus, in the country there are four main definitions of SME. These definitions⁹ are given by the *investment law*, *FOGAPE BEAC* and the economic and social concern.

⁶ This approach relies on a set of quantitative criteria such as the amount of investment, the capital turnover, the number of employees, the total assets etc. thus SME are classified in term of all these criteria previously named. Although these criteria give an idea of the SME, they do not always show their reality. Others qualitative criteria have them been used, focusing on the sector and or activity of the enterprise. Thus for example, one enterprise can be considered as SME if they produce certain product instead of other.

⁷ In this approach, the definition of the SME can vary according to the institutions and usually those institutions define SME according to their interventions on the activities of SME.

⁸ The typological approach reflects better the reality of the SME, because it defines SME according to their sector of activities. This definition is more explicit than the others and more suitable for research on SME because usually it gives more details about SME.

⁹ It should be noted that these two definitions have been taken when the parity of the country was still pegged to 1 French franc to 50 FCFA

- 1) According to the **investment code** (“decree no 90/007 of the 08/11/1990”) an enterprise is considered as SME if:
 - At least 35 percent of its share (at least) is owned by Cameroonian(s).
 - Investment is less than or equal to 1, 5 billion FCFA”.

- 2) According to **FOGAPE** (“decree no 84/510 of the 13 June 1984”) an enterprise is considered as SME if
 - If 51 % of the capital turnover is owned by and the manager is/are Cameroonian(s)
 - If the capital turnover is less than or equal to 1 billion FCFA per year.
 - If the total investment is more than 500 million FCFA per year.
 - If the short-term credit is less than 200 million FCFA.

- 3) According to **BEAC** (“decree no 71/MINFI/DCE/D of the 16/06/1989”), a SME is an enterprise where:
 - The majority of the capital turnover owned by and the manager is Cameroonian.
 - Own participation is less than 100 million FCAF
 - The total credit is less than 100 million FCFA

- 4) The **economic and social** concern however gives a more explicit definition. According to the latter
 - a *small enterprise* is an enterprise with
 - The majority of share is owned by a Cameroonian
 - The majority of managers are Cameroonians
 - Limited income
 - Employing less than 10 persons
 - The total investment is less than or equal to 20 million FCFA.

 - A *medium enterprise* is an enterprise with:
 - A capital turnover is less than or equal to 1, 5 billion FCFA
 - Number of employees is between 10 and 100
 - Capital turnover is less than or equal to 1, 5 billion FCFA

- Own participation is less than or equal to 100 million FCFA

Nevertheless the definition that this study will consider is the definition gives by the economic and social concern.

II.2. General conditions for enterprise creation in Cameroon

As is obtained elsewhere, in order to carry out a formal business in Cameroon, certain regulation processes and procedures are involved. These include, among others, getting a business license and the agreement to operate in the market, registering business property, registering for and paying taxes, obtaining a credit, and so on. Table 1 below summarises all the procedures, the administration responsible and the number of days each procedure must take. From this table, one can note, the procedure to open an enterprise in Cameroon involve so many administration which are department of taxation (ministry of finance), ministry of justice, ministry of labour, National Insurance Fund, “*Chambre de commerce*” and other ministry depending on the sector of activities of the enterprise. The problem with having so many departments managing SME is that, there can be conflict of authority between them. There are four types of SME in Cameroon, and each of them has its own specific administrative process for registration. These are:

- *Individual enterprise*: here there is only one shareholder and it is the only one who supports the loss in investment if this occurs. In order to open an individual enterprise , steps 2 to 7 in Table 2 below must be followed
- *Common interest Groups (CIG) or cooperative*: it is a group of people that come together in order to establish a business enterprise and other forms of business. The registration of a CIG follows steps 1, 2, 5 and 6.
- *Limited liability Company (LLC)*: the establishment of this requires at least two partners with a minimum capital turnover of 500,000 FCFA. The process to register an LLC follows all the steps in the Table 1 below
- *Corporation*: the creation of a corporation requires a minimum of seven shareholders and a minimum capital of 2,500,000 FCFA. The process here is the same as that of a limited liability company.

Table 1: The general procedure to open an enterprise in Cameroon

Step	Number of days	Procedures	Administration responsible
1	2	Have an attorney notary draft the memorandum and article of association; sign company bylaws before the notary	Notary public
2	10	Certificate of registration in the list of commerce and Credit Mobilier (“Registre du commerce et credit Mobilier (RCCM)”))	Ministry of justice
3	1	Deposit the initial capital in a bank and obtain a receipt	Bank
4	1	Present the physical location plan to the tax department and obtain an attestation of business premises or a taxpayer number.	Ministry of finance (department of taxation)
5	3	Pay the business tax (patente) based on an estimated amount of Turnover	Ministry of finance (department of taxation)
6		Declare the existence of the company and the personnel employed	National Insurance Fund (Caisse nationale de prévoyance sociale CNPS)
7	8	Registration in the “fichier consulaire” (Registration in the consular registration file)	Department of trade, industry, mines and craft (chambre de commerce, d’industrie des mines et de l’artisanat)
8		Agreement and license to operate in the market	The ministry or department depend on the sector of the activity of the enterprise

Source: Department of taxation in Cameroon and World Bank (2008)

II.3. Economic importance of SMEs in Cameroon

In Cameroon, according to the ministry of small and medium enterprise and craft, in 2004 SMEs accounted for about 22 percent of the GDP of the country. Many studies conducted in this regard include the one of Beck et al (2005), Ayyagari et al (2005), Sackey (2006)¹⁰, Beyene (2002), Njanyou (2001) which have shown that the small and medium enterprises are significant for economic growth in Cameroon. They nearly always conclude that the main problem that faces SMEs in Cameroon is that of financial constraint. Nevertheless, it has also been recognised that there are other internal explanations for this, such as the poor environment of business in the

¹⁰ www.uneca.org/aec/dAocuments/Harry%20A%20Sackey.pdf - [Similar pages](#)

country. SMEs in the country are, in addition, confronted with a number of difficulties which slow down their development and thus prevent them from reaching firm objectives and growth. Investments remain low in Cameroon, a situation that limits efforts to diversify economic structures and boost growth.

In terms of the country's labour force, SMEs constitute a very important avenue for achieving poverty alleviation and reducing unemployment. According to a survey conducted by the "Centre de Recherche et d'Etude en Economie et Sondage" (CRETES, no date) 87.2 percent of SME in Cameroon employ less than 20 employees, and 1.7 percent employ more than 100 employees. According to the same institution, of the total of 2800 SMEs in the country, 2000 (or 71% of the total SMEs) are operating in the secondary and tertiary sector. It should be noted that trade (wholesale and retails), hotel, restaurant manufacturing (which are the sectors that this study is interested on) are included in the secondary and tertiary sector. Thus, trade (commerce) only accounts for 22 percent of the total employment of SMEs in the country (CRETRES, no date). The manufacturing sector, in contrast, is in general either publicly owned or dominated by foreign owners. There are few formal manufacturing enterprises that are owned by Cameroonians.

III. The Regulation Debate: The theory

III.1. Defining Regulation

Regulation refers to the diverse set of instruments by which governments set requirements on enterprises and citizens. There are a number of definitions of regulation. This report will cite a few as follows:

"Any government measure or intervention that seeks to change the behaviour of individuals or groups. It can both give people rights (e.g. equal opportunities), and restrict their behaviour (e.g. compulsory use of seat belts)." (BRTF 2003: 1)

Regulation is: "...A set of 'incentives' established either by the legislature, Government, or public administration that mandates or prohibits actions of citizens and enterprisesRegulations are supported by the explicit threat of punishment for non-compliance." (OECD, 1994).

These definitions allow us to encompass all measures or interventions undertaken by central and local Government bodies, which affect business activity. These include: taxation and financial reporting, employment and health and safety, trading standards and consumer rights, environmental protection, intellectual property, premises and planning rules, data protection and Transport (See Table 2). Government also supports a legal framework of contract and property rights, which both enables and constrains business activity.

Gwartney and Lawson (2002) classify regulation into three different categories. These are (1) credit market regulation, (2) labour market regulation and (3) business regulation. They see credit market regulation in the ownership of banks, the extension of credit, in avoidance of interest rate controls and regulations that lead to negative real interest rates and in interest rate controls. They see labour market regulation in terms of minimum wage regulation, regulations concerning the hiring and firing practices, in the share of labour force whose wages are set by centralised collective bargaining, in unemployment benefits and in the use of conscripts to obtain military personnel. Gwartney and Lawson (2002) classify business regulation as those in the form of price controls, in the overall administrative conditions for new businesses, in time spent when dealing with government bureaucracy, in the difficulty to start a new business and in irregular payments. The regulation of business activity is a key issue for national Governments and supranational policymakers alike (OECD 2003).

Table 2: Regulation affecting Small business

Regulations Affecting Small Business	Comment on type of regulation
Income tax/corporation tax	Tax compliance regulation
VAT and excise	
Local taxes (e.g. rates)	
Annual accounts	
Collection of taxes and levies	
Environmental legislation	Environmental regulation
Operating licences	Economic/trade regulation
Statistical information	
Legislation dealing with quality of goods and services	
Trade-related (e.g. tariff collection)	
Intellectual property	Legal/Justice
Employment contracts and employee participation	Employment/workplace regulation
Equality	
Working conditions (incl. health and safety)	

Source: ENSR (1995a)

III.2. Theory of regulation

The theory of economic regulation developed from the nineteenth century and the literature is now vast (for recent reviews, see Laffont and Tirole, 1993; Levy and Spiller, 1994; Newbery, 1999). The case for economic regulation is premised on the existence of significant market failure resulting from economies of scale and scope in production, from information imperfections in market transactions, from the existence of incomplete markets and externalities, and from resulting income and wealth distribution effects. It has been suggested that market failures may be more pronounced, and therefore the case for public regulation is stronger, in developing countries (Stiglitz 1998). More recent theoretical contributions to the regulation literature have provided a model of regulation for network industries that recognises the particular structural and institutional characteristics of developing countries and have highlighted

the role of effective regulation in achieving equitable and sustainable expansion of infrastructure services in the poorer countries of the world (Laffont, 1999).

However, regulation of markets may not result in a welfare improvement as compared to the economic outcome under imperfect market conditions. In particular, asymmetries information can contribute to imperfect regulation. The regulator and the regulated can be expected to have different levels of information about such matters as costs, revenues and demand. The regulated agent holds the information that the regulator needs to regulate optimally and the regulator must establish rules and incentive mechanisms to coax this information from the private sector. Given that it is highly unlikely that the regulator will receive all of the information required to regulate optimally to maximise social welfare, the results of regulation, in terms of outputs and prices remain “second best” to those of a competitive market, which centres attention on barriers to entry (Djankov et al., 2002).

Welfare-improving regulation assumes that the regulatory authority’s actions are motivated by the public interest. This has been criticised by public choice theorists who argue that individuals are essentially self-interested in or out of the public arena and it is necessary, therefore, to analyse the regulatory process as the product of relationships between different groups (Buchanan, 1972). This has been refined in the concept of “regulatory capture”, which involves the regulatory process becoming biased in favour of particular interests. In the extreme case, the regulatory capture literature concludes that regulation *always* leads to socially sub-optimal outcomes because of “inefficient bargaining between interest groups over potential utility rents” (Newbery, 1999: 134). In the Chicago tradition of regulatory capture (Stigler, 1971; Peltzman, 1976), regulators are presumed to favour producer interests because of the concentration of regulatory benefits and diffusion of regulatory costs, which enhances the power of lobbying groups as rent seekers (Reagan, 1987).

Regulation is also subject to “political capture”; indeed, political capture may be a much greater threat than capture by producer groups outside of the political system. Where political capture occurs, the regulatory goals are distorted to pursue political ends. Under political capture, regulation becomes a tool of self-interest within government or the ruling elite (Stiglitz, 1998). More generally, it is to be expected that both the process and outcomes of a regulatory regime

will be determined by the specific institutional context of an economy, as reflected in its formal and informal rules of economic transacting (North, 1990).

By setting the “rules of the game”, institutions impact on economic development (World Bank, 2002). Economic development is seen not simply as a matter of amassing economic resources in the form of physical and human capital, but as a matter of “institution building” so as to reduce information imperfections, maximise economic incentives and reduce transaction costs. Included in this institution building are the laws and political and social rules and conventions that are the basis for successful market production and exchange. In particular, relevant modes of conduct in the context of the regulatory state might include probity in public administration, independence of the courts, low corruption and cronyism, and traditions of civic responsibility. “Institution building” including building a “good” regulatory regime is one of the most difficult problems facing developing countries and the transition economies at the present time (Kirkpatrick and Parker, 2004).

III.3. Impact of regulation on SMEs

Opponents of regulation argue that it restricts business start-up, impedes successful performance and growth, and contributes to business failure. The ‘problem’ of regulation for business owners involves the diversion of scarce resources away from what are argued to be productive, profit-generating activities and towards the discovery, understanding of, and compliance with regulations. One might say that regulation distorts market signals, reduces the rewards of business ownership, disincentives market entry, investment, innovation and business growth, all of which leads to a sub-optimal level of economic activity from which businesses, workers and consumers suffer. Some argue that although individual regulations may not constitute much of a problem, their cumulative effect is highly problematic for small firm owners (e.g. Harris 2002). For example, Edwards et al. (2003) note how the combined impact of employment and other regulations is having a severe impact upon some care homes.

Evidence of the impact of regulation on small business performance and growth usually addresses one or more of the following issues:

- 1) Business owners’ perceptions of regulation as a “burden” (or other synonyms).
- 2) The administrative and other compliance costs incurred by business owners.

3) The constraints on business decision-making and impacts on business competitiveness.

a. Business Owners' Perceptions of Regulation as a 'Business Burden'

Several snapshot quantitative surveys have recorded business owners' perceptions of regulation as a 'burden', 'barrier' or 'constraint' on business activity. This evidence has produced mixed results. Respondents may be asked whether regulation alone is a 'burden', or it may be offered as one item on a list from which respondents are asked to choose or rank the different options. The 2001 Small Business Service Omnibus Survey of small and medium-sized business owners found that 49% viewed regulation as an obstacle to the success of their business (Michaelis et al. 2001). Other research suggests that small business owners are dissatisfied with the volume and complexity of legislation (FSB 2002, 2004b). Concerns about regulation extend to prospective business owners. Regulation may increase the minimum efficient scale at which businesses can operate, by requiring businesses to invest resources to comply with regulatory requirements at start-up, thereby acting as a barrier to entry for smaller firms.

b. Regulation and Compliance Costs

A European study found that 'administrative regulations' were reported by about 10% of all SMEs as the major business constraint over the previous two years (ENSR Enterprise Survey 2003, cited in Observatory of European SMEs, 2004); the 'purchasing power of customers' and 'lack of skilled labour' were more frequently reported as constraints. It is also argued that Small businesses encounter disproportionately greater problems of regulation than larger companies, usually understood in terms of higher compliance costs per employee (ENSR 1995; Chittenden et al. 2002, 2003).

c. Impact on Decision-Making and Competitiveness

Evidence on the impact of regulation on small and medium business owners' decision-making and business competitiveness is scarce. The limited number of qualitative studies provides greater detail of these processes and is more sensitive to the variable character of regulation, the variety of contexts within which particular regulations generate effects for particular businesses and the possible benefits of regulation for business owners.

III.4. Why regulation might affect SMEs more than big business?

There are identifiable reasons why regulation hits small businesses hard. They have higher compliance costs than large businesses; they are less resilient to regulatory shocks, miscalculations and uncertainties; they lack regulation specialists; their need to grow can be badly affected by regulation; they face large costs of administration (e.g. of taxes) as well as regulatory burdens; and they often need the assistance of government to comply with regulation. The burden of government regulation and paperwork in Canada has been estimated at \$33 billion annually. The tax compliance cost for all Canadian businesses has been estimated at \$12.6 billion a year. Regulation cost South African firms R79-billion in 2004 this reduces productivity and limits innovation, with SMEs bearing a high amount of the burden (CFIB/CRA, 2008). Regulatory requirements affect small enterprises disproportionately, mainly because:

- (1) Small firms with 1–2 employees spend nearly five times as many hours per person dealing with regulation than firms with 50 or more employees. They spend over 4% of annual turnover on compliance and businesses with under 20 employees incur 35% higher compliance costs than firms with over 50 staff.
- (2) Small firms are less resilient than large firms to regulatory changes – they have fewer resources to absorb the shocks imposed by new regulatory costs. Regulatory penalties may also affect small firms disproportionately – as where a fine prejudices a self-employed person’s ability to secure finance.
- (3) Smaller firms carry out their own administration and do not have the capacity to employ regulatory specialists and so compliance related work diverts the attention of key managers away from wealth creating activities.
- (4) The ability of small firms to take business risks is disproportionately affected by regulation, which increases costs and demands higher levels of operational gearing. This reduces flexibility and the ability of small firms to exploit new opportunities or invest in research and development.
- (5) Growth is vital to small businesses but they see compliance with regulatory requirements as their number one barrier to growth and around a half sees it as a “serious barrier.”

- (6) If regulation proves excessively onerous, governments may rectify the situation but this may be too late for small firms who are less able than large concerns to sustain and survive excess regulatory costs.

However, big businesses suffer also to strong regulation even if it is not in same degree as the medium and small businesses.

IV. Methodology and data collection

IV.1. Data collection

Prior to the full survey, we conducted a pilot survey¹¹, this in order to test the ease/or difficulties of SMEs owners' understanding of the questionnaire that would be administered in the full survey. This study relied on primary data collected during the full survey. The survey instrument was a questionnaire which consisted of the following sections:

- Profile of the business owner,
- Awareness of regulations
- Contact with regulators,
- Regulation's impact on business growth and performance.

The survey was conducted during the period 10th – 29th of December 2008 on 700 randomly selected SMEs which have identifiable business location. The main purpose was to address the lack of database of SME in Cameroon and to improve our coverage of SMEs that operate in the formal sector. Thus from the 700 SMEs interviewed, only 575 enterprises were retained for analysis after performing the coherence test. The survey was been conducted in two regions of the country viz: the central and the littoral regions. These two regions were chosen because they represent almost 70% of the SMEs in the country. The survey was conducted by well trained and experienced university students who worked as field workers for Non-Governmental Organizations who are partners with the study team. The survey questionnaire administered consists of about 50-60 questions.

¹¹ The pilot survey was conducted during the promo period starting from the 4th-14th of December 2008 in Yaounde.

IV.2. Data analysis

Data collected have been analyzed using the following econometric methods.

- Descriptive analysis
- Logit analysis
- The regression based methods

The descriptive approach aims to give an overview of the characteristic of enterprises interviewed and the type of regulation that they are subjected to.

The logit analysis models are used to test the probability of SME owners (managers) perceiving themselves to be affected by regulation (enforcement, compliance, awareness, business start-up, etc). To test our hypotheses, regulatory compliance, enforcement, awareness, business starting-up variables, representing a number of individual possible regulations from different government departments (DGI, Municipality, Labour, SMEs, Trade), are used as explanatory variables. We control for human capital (business owner's education and business owner's age) and business characteristics (business sector, business turnover, and business location). Special emphases are placed on the possible influence of the business start-up date and business owner's gender. These two control variables are included in all our model's results. The logit method is useful at this stage of the analyses because the dependent variables the study intends to test are binomial.

The regression based method enables us to examine the determinants and impact of regulation on the performance and growth of SMEs interviewed. We have used growth in annual business turnover as the indicator of SME growth, changes in trading volumes and in investment decisions as indicators of SME performance. The study estimated models to investigate whether differences in performance and growth are due to the degree of regulatory compliance by SMEs or to some other factors that affect business performance. In order to analyze the relationship between regulatory compliance and SME growth and development, the study used regression models to test the significance of SME owners perceiving themselves to be affected by regulation, formal, informal and skill barriers. To test our hypotheses, regulatory compliance variables representing a number of individual possible regulations from different government departments (DGI, Municipality, Labour, SMEs, Trade), are used as explanatory variables. We control for human capital (business owner's education and business owner's age) and business

characteristics (business sector, business turnover, and business location). Special emphases are placed on the possible influence of the business start-up date and business owner's gender. These two control variables are included in all our model's results.

Thus, following Evans (1987a,b), we adopt a 'growth version' of this model, specifying the dependent variable as firm size growth and not firm size at time t . The independent variable remains size at time $t-1$. We test this hypothesis for sales/turnover. Although most studies focus on employment as a proxy for size, there are an (increasing) number of investigations on the literature based on other measures of size and performances, from profitability to asset value. The specification we used to empirically test the relationship between regulation and firm performance /growth follows (Evans, 1988a, 1988b):

$$\Delta Y_i = (Y_{i,2008} - Y_{i,2005}) = \alpha_i + \beta_i(Y_{i,2005}) + \gamma_i \text{Age} + \lambda_i F_i + X_{g,i} \delta_g + v \quad (1)$$

where i =year, ΔY is the growth of sales of firm from 2005-2008, age denotes the age of firm, F_i are a set of firm specific variables (sector of operation, location, age of owner etc), X_i is a set of regulatory variables, and finally v is the error term with the usual statistical properties.

V. Empirical result

V.1. Socio economic profile of business surveyed

The full sample surveyed consists mainly of enterprises of the tertiary and secondary sectors. Although in the country the primary sector is the most common sector, however they are operated in the non-formal sector. In contrast the tertiary sector is the most developed sector in Cameroon. The enterprises in the tertiary sector interviewed were mostly retails and wholesales (supermarket, hardware shop, clothing shop, perfum shops and liquor store). Although, the secondary sector contributes 31% of GDP and employs 15% of the population¹² in Cameroon, few enterprises in this sector were interviewed because of their scarcity in the small and medium enterprise business categories. Most of the enterprises of the secondary sector in Cameroon are large enterprises.

¹² Source: <http://www.iss.co.za/af/profiles/Cameroon/Econ.html> accessed at 19 May 2009.

A total of 137 manufacturing (23.82%) and 438 wholesale (76.17%) enterprises were included in the survey, most of which are located in the Littoral region (Table 3, in annex). This is not surprising, because it is the economic capital of the country. Thus 36.52% of the enterprises interviewed are located in the Central region compared with 63.47% in the littoral region. Most of SMEs respondent was either the manager and or the owner. It would have been nice if we were able to analyse responses by type of ownership i.e. (either the manager or the owner) as was done by Odd-Helge et al (2006) for Tanzania. However, this was not possible because of the design of our questionnaire. However in our view, this does not constitute a major problem for our analysis because the manager of an enterprise sometimes can have more information about the regulation than the owner.

We classified the enterprises interviewed according to the definition of SMEs given by the *economic and social concern* in Cameroon. Therefore, some 69 medium and 402 small size enterprises have been interviewed in this study. In table 3, the category “others” of enterprises interviewed represents those that do not properly fall within the categorisation or definition of the SME in the *economic and social concern* because they are both medium in term of the total investment and small when classified by employment size or vice versa. In terms of employment size the vast majority of the sample firms employ less than 10 employees. Eighty seven percent (87.6%) SMEs interviewed employed between 1 and 10 employees. Very few firms employed more than 50 employees. Wholesale and retail trade is their preferred sector of operation.

Almost half of the enterprises interviewed are informal. It is important to note that what the study refers as informal are enterprises surveyed that only registered with the tax department (that means the only follow the first four steps of the registration procedures. See Table 16 annexe). The higher the employment size of the SMEs, the more compliant they are regarding business registration. More than 81% of SMEs employing between 11-20 persons are registration compliant. Similarly more than 88% of SMEs employing between 21-50 persons are registration compliant. Most of the SMEs in Cameroon are owned by men especially medium size enterprises. As for small enterprises, most often the shareholder is the owner, whereas the owner of a medium enterprise is not always the only shareholder of the company. The owners of medium enterprises are a little bit older than owners of small ones this is also the case with the category of other companies. Similarly, the average age of enterprise is lowest among small firms. The business turnover of small enterprises ranged from Fcfa 4.1 million in 2005 to Fcfa

4.93 million in 2008. Medium size enterprises capital turnover averaged Fcfa 196 million in 2005 to Fcfa 220 million in 2008.

In terms of education level, most of the owners/managers of enterprises interviewed (medium and small) have secondary school education though there are very few that have no education at all. About 63% of owners/managers of small enterprises have secondary school education. The corresponding figure with medium size and other enterprises is about 50 percent. There are more university graduates (42-46%). About 17 percent of owners of small enterprises and 14 percent of owners of other enterprises and 9 percent of owners of medium enterprises have either no education or primary education. The high level of education of owner/managers of medium enterprises also contributes to the fact that they are the most aware of their SME statuses and regulations compared to others.

V.2. Business owner/manager perception about regulation and regulator

V.2.1. Descriptive result

- **Awareness of regulator**

The most popular regulators of SME in Cameroon are the tax department (known as *direction general des impôts (DGI)*) and the municipality (Table 4). Ninety seven percent (97.5%) of SMEs interviewed are aware that they must register with DGI and 88.6% are accordingly registered with them. 82.08% of SMEs know that they must register with the municipality but only 28.86% are registered with them. The percentage of SME that are aware and registered with a particular regulator are low except in the case of the (DGI), where almost all the SME are registered with them.

Table 3: Are you aware of and registered with the following regulators

	Aware (%)	Register (%)
Tax department (DGI)	97.56	88.69
Ministry of environment	12.17	1.913
Ministry of health	30.43	7.130
Ministry of justice	7.304	2.782
Municipality	82.08	28.86
Ministry of SME	14.08	6.782
Ministry of labour	17.04	4.695
Ministry of trade	46.08	15.47
Chamber of commerce	11.47	4.17
CNPS	2.782	1.56
Ministry of culture	2.782	0.69
N	575	

- **Consistency of regulation**

Consistency of regulation will imply that regulation targets particular sector or some sectors regularly. Most of the SME interviewed believe that regulations are not consistent, difficult to comply with and not appropriately enforced. Almost 45 percent of respondents find it easy to comply with the tax regulation and about 41 percent opine that tax regulations achieve their objectives. Opinions regarding regulations by the Ministry of Environment, Labour and Trade are in general very low. About a quarter of SME owners and managers believe that tax and regulation and SME registration processes are always changing. In general terms, SME owners and managers opine that regulations are not appropriately enforced.

Table 4: Opinion about regulation and regulation process

	Tax department (%)	Business registration (%)	Ministry of trade (%)
Regulations.....	reporting high level of agreement		
Always change	26.7	24.7	6.7
Achieve their objectives	40.7	29.5	14.2
Are flexible	16.1	15.3	12.8
Are consistent	9.3	7.3	6.0
Are easy to comply	44.8	23.1	15.8
Are appropriately enforced	14.7	15.8	10.6
Registration process.....	reporting high level of agreement		
Always changes	46.0	15.0	14.0
Covers many departments	12.0	14.0	11.0
Is too long	16.0	26.0	5.0
Affects business star up	19.0	29.0	10.0
is fair	25.0	11.0	8.0
Favours big businesses	25.0	21.0	18.0
N	575		

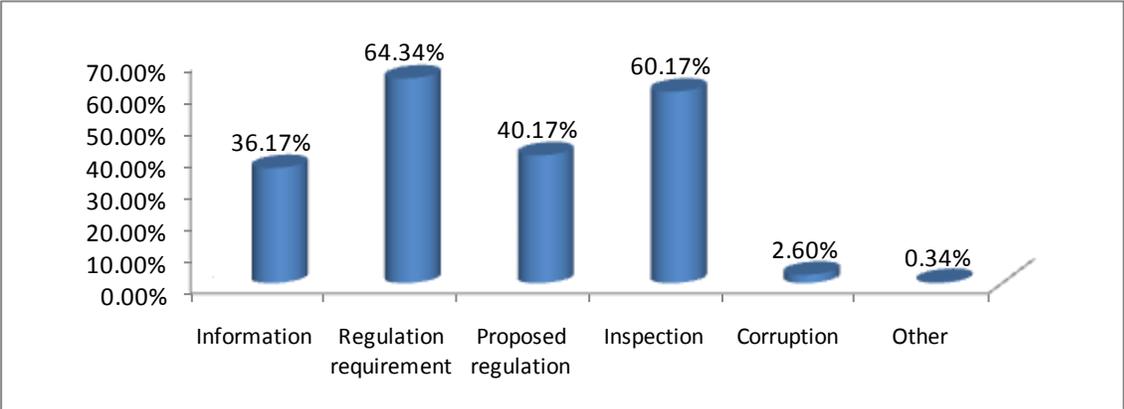
The overall view about business registration process according to the SME interviewed is not too bad (table 5). According to them, registration process does not always change and does not cover many departments. It's only in the case of tax registration that a large percentage of SMEs (46%) believe that the process is always changing. About a quarter believe that the overall registration process is long. About the same proportion believes that in general business registration process and in particular, tax registration process favours big businesses. Very few SMEs believe that business registration process is fair. This ambiguity in the response can be explained by the fact that most of the SMEs are not registered with the sectoral regulator.

- **The nature of business contacts with regulators**

As previously mentioned, the DGI and municipality are regulators with whom SMEs mostly deal with in Cameroon. According to the SME interviewed the nature of their relation with these

regulators is mostly about seeking regulation requirement and when the regulators will carry out inspections (Figure 1). These rank as the top two reasons for their contacts with regulators. Other contacts are made regarding proposed regulations and to seek information from the regulators.

Figure 1: The nature of the contact between SME and regulators in Cameroon

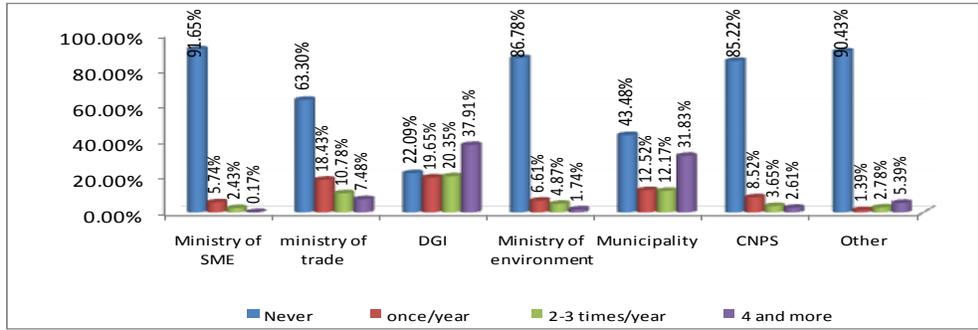


- **Compliance with regulation**

Frequency of compliance in this study has been measured in terms of how many times SMEs have to make returns or provide information about their businesses to each regulator. This ranges from 0 (never) to 4 (more than 4 times a year). The study found that regulatory compliance of SMEs in Cameroon is low. This is shown in figure 2 where between 86-92 percent of SMEs have never complied with regulations from the Ministries of SME, Environment and Labour. 63 percent have never complied with regulations from the Ministry of trade. The lowest non-compliance with regulation is with regards to tax regulation (22%) and with Municipal regulation (43%). In terms of high frequency regulatory compliance (>4 per year), tax regulatory compliance ranks first at (being complied with by 38% of SMEs), closely followed by Municipal regulations (32% of SMEs). High frequency regulatory compliance with other sectoral regulations is very low.

Perhaps the cost is high of complying with all the regulations.

Figure 2: Frequency of compliance with regulators



- **Enforcement of regulation**

Seventy three percent (73.05%) of SMEs interviewed believe that regulations are not appropriately enforced (figure 3). They believe that enforcement of regulations is inconsistent across enterprises in the same sector. Also, they believe there is not enough inspection by regulators and that regulatory enforcement is too rigid. Figure 3 presents reasons why SMEs believe regulation is not appropriately enforced in Cameroon, the reason being the rigidity and the inconsistency of regulation across business (Figure 4).

Figure 3: Opinion about appropriateness of the enforcement of regulation

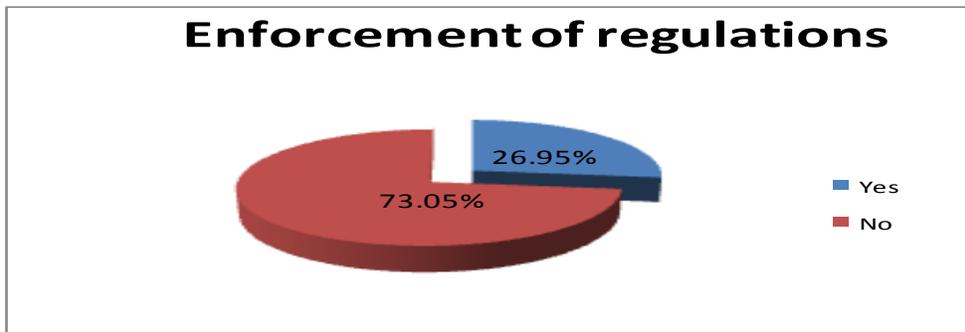
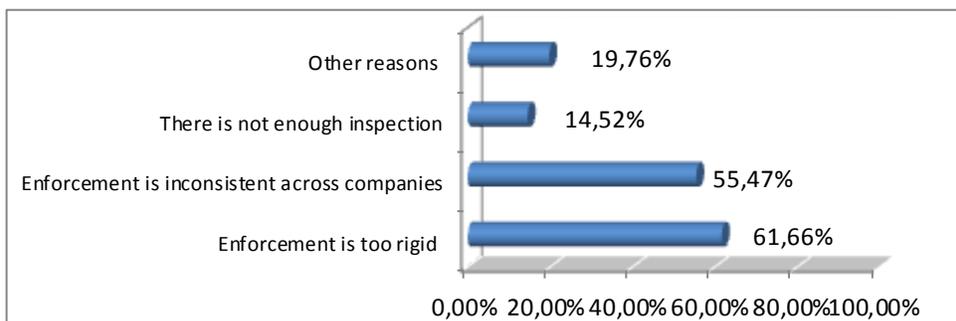


Figure 4: The reason why regulation is not appropriately enforced



V.2.2. Logit analysis results

Linear regression analysis has been used to model the relationship between one continuous dependent variable and another continuous independent variable.

- **Determinants of business awareness of their status as SMEs**

Table 5: SME awareness of their status as SME

Variables	Awareness
Constant	-1.678 (6.842)***
Age of the enterprise	0.054(7.505)***
Age of the owner	0.012 (1.687)
Gender of owner	-0.47 (0.43)
Size of business	0.121 (0.775)
Number of shareholders	0.270 (6.317)***
Education level of the owner	0.455 (11.767)***
Total employees	0.055 (7.900)***
Province (littoral =1, Central =0)	-1.270 (35.211)***
Sector (wholesale=1, manufacturing =0)	-0.703 (7.561)***
Registration for tax/Impôts	0.683 (4.275) **
Registration with municipality	0.259 (0.959)
Registration with the ministry of SME	2.981 (21.019)***
Registration with the ministry of labour	-0.593 (0.972)
Registration with the ministry of trade	-0.986(7.176) ***
Chambre of commerce	1.927 (8.319) ***
Registration with ministry of culture	0.833 (0.639)
Observation	575
Cox & Snell R Square	0.257
Absolute value of Wald statistic in parentheses	
*Significance at 10%, ** significance at 5%, *** significance at 1%	

Awareness of firm's status as SME is not affected by size of business, age of owner, gender of owner, registration for tax, with the Municipality, the Ministry of Culture or of Labour. The age of enterprise, increased number of shareholders, the education level of business owner and

registration with the Ministry of SMEs positively affects business awareness of SME status. That implies that older business owners, the more educated owners and those that are registered with the ministry of SME, the Chambre of commerce, Ministry of trade and with the tax authorities are more likely to be aware of their SME/legal status. Belonging to the wholesale sector and being located in the Littoral province negatively affect awareness of SME status and in effect their legal status.

- **Determinants of business opinion about the general level of regulatory compliance**

Table 6: Sources of the frequency of regulatory compliance by SMEs in Cameroon

Variables	High compliance	Moderate Compliance	Weak compliance
Constant	-2.531 (36.676)***	-0.275 (1.371)	-1.746 (26.712)***
Inspection by the following regulator			
DGI (1=yes, no=0)	0.109 (0.907)	-0.031 (0.209)	0.015 (0.022)
Ministry of SME	0.036 (0.021)	0.25292.813)*	0.117 (0.384)
Municipality	-0.238 (5.426)**	-0.112(3.107) *	0.019 ((0.043)
Ministry of trade	0.109 (0.116)	0.179 (5.995)***	-0.012 (0.013)
Compliance by supplying/ information to the following regulator			
DGI (1=yes, no=0)	0.163 (2.333)	0.085 (1.860)	-0.234 (6.095)***
Ministry of SME	-0.250 (0.281)	-0.164 (0.434)	-0.026 (0.005)
Municipality	-0.106 (0.846)	0.216 (10.400) ***	-0.002 (0.000)
Ministry of trade	0.044 (0.148)	0.024 (0.802)	0.016 (0.012)
Observation	575	575	575
Cox & Snell R Square	0.037	0.100	0.031
Absolute value of wald statistic in parentheses *Significance at 10%, ** significance at 5%, *** significance at 1%			
¹ varies from 1(no education) to 5 (post-graduate level)			

The primary source of high compliance¹³ with regulation is not identified by these determinants. However, businesses that are frequently inspected by municipalities are not likely to be in high compliance. Those that are frequently inspected by the Ministries of SME and trade, and those that supply information to municipalities are likely to be moderately compliant. Businesses that supply frequent information to the municipalities are likely to be weakly compliant.

High compliance¹⁴ with regulation is positively influenced by registration with the Ministry of trade, awareness of SME status and the educational of business owner. This implies that the more educated business owners, awareness of SME status and those that are registered with the ministry of trade are more likely to provide business information to the regulator more than 4 times a year. Businesses located in littoral and those that are registered with the municipality and tax authorities (DGI) are not likely to make high compliance with regulation. Businesses that are owned by more educated owners and those registered with the ministry of labour are not likely to make moderate compliance with regulation. Businesses registered with the ministry of SME, the municipality and tax authorities are more likely to be moderately compliant. Businesses registered with the municipality and those owned by women tend to be weakly compliant with regulation. Overall, businesses that are located in the Littoral province¹⁵ tend not to be compliant with regulation.

¹³ Providing business information to regulators more than for time a year

¹⁴ Providing business information to regulators more than for time a year

¹⁵ Being located in Littoral =1 and central =0

Table 7: SME opinion about the degree and general level of regulatory compliance

Variables	High compliance	Moderate Compliance	Weak compliance
Constant	- 2.581(7.458)***	.072 (0.17)	-0.946 (1.303)
Size of SME (small=1, medium=2, other=3)	0.180 (0.983)	-.042 (0.130)	-.040 (0.048)
Province (Littoral=1, Central=0)	-0.565 (3.211)*	-.478 (5.938)***	-1.086 (13.304) ***
Sector (1=wholesale, 2=Manufacturing)	-0.186 (0.219)	.035 (0.029)	-.133 (0.153)
Gender (1= male, 0= female)	0.082 (0.048)	.326 (2.666)	-.582 (3.904)**
Age of the enterprise	0.018 (1.129)	.002 (0.029)	-.025 (0.947)
Age of the owner	-0.006 (0.173)	.001(0.017)	.000 (0.001)
Number of shareholder	-0.128 (0.569)	-.077 (0.749)	.116 (0.884)
Education level of the owner ¹	0.610 (9.559) ***	-.214 (3.545)*	-.064 (0.134)
Awareness of SME status (1=aware, 0= not aware)	0.672 (3.848)**	.032 (0.027)	.217 (0.514)
Registration with DGI (1=yes, no=0)	-1.047 (4.964)**	.572 (4.030)**	-.110 (0.084)
Registration with municipality	-0.980 (4.802) **	.580 (6.267)***	.828 (6.731)***
Registration with the ministry of SME	-0.936 (1.929)	.878 (0.177)**	-.586 (0.774)
Registration with the ministry of trade	1.560 (9.265)***	-.126 (0.177)	-.238 (0.231)
Chamber of commerce	-0.341 (0.221)	-.224(0.245)	.325(0.231)
Observation	575	575	575
Cox & Snell R Square	0.084	0.052	0.059
Absolute value of wald statistic in parentheses *Significance at 10%, ** significance at 5%, *** significance at 1%			
¹ vary from 1(no education) to 5(post-graduate level)			

- **Determinants of regulatory influence in assisting business start up**

Regarding the issue of whether regulation has assisted business start up, older businesses and those registered with the Chamber of commerce significantly opine that regulation has assist them with starting their businesses. Business location in the Littoral province is negatively correlated with regulation assisting business start-up. This implies that business owners located in littoral are of the opinion that regulation has not assisted them to start their businesses.

Table 8: SMEs Opinion about regulatory influence in assisting business start-up

Variables	Regulation assists business start up
Constant	-2.296 (8.352)***
Size	.244 (2.546)
Province (Littoral=1, Central=0)	-.809 (9.321)***
Sector	-.046 (-0.022)
Gender	-.117 (0.156)
Age of the owner	.002 (0.27)
Number of shareholder	.060 (0.278)
Age enterprise	.028 (3.520) **
Education level of the owner	.018 (0.012)
Registration with DGI (1=yes, no=0)	.432 (0.972)
Registration with municipality	-0.383 (1.191)
Registration with the ministry of SME	-0.041 (0.005)
Registration with the ministry of trade	-0.209 (-0.202)
Registration with Chamber of commerce	1.425 (7.590)***
No of observations	575
Cox & Snell R Square	0.051
Absolute value of Wald statistic in parentheses	
*Significance at 10%, ** significance at 5%, *** significance at 1%	

- **SMEs' experience of regulation as burden**

This model seeks to explain the various factors that SMEs see as determining why tax regulation is a burden to them. The dependent variable takes a value of 1 if tax regulation is a burden or 0 otherwise. Women owned businesses do not see tax regulation as a burden as are those with low or no education. Not surprisingly, businesses that register for tax and those in the manufacturing sector see tax regulation as a burden.

Table 9: Firm's experience of tax regulation as burden

Variables	Burden of tax
Constant	2.550047 (2.236607)**
Capital turnover 2005	-1.66E-09 (-0.263381)
Capital turnover 2006	2.95E-09 (0.355082)
Capital turnover 2007	3.80E-09 (0.370175)
Capital turnover 2008	-5.07E-09 (-0.685408)
Age of the enterprise	0.014396 (0.461311)
Age of the owner	0.012204 (0.593390)
Manufacturing sector	0.801334 (1.842092)*
Gender of owner	-1.171106 (1.842092)**
Number of shareholder	-0.057467 (-0.340275)
Education level of the owner	-0.540035 (-2.339459)***
Permanent employees	0.009182 (0.338499)
Temporary employees	-0.040163 (-1.399199)
Region littoral	-0.489099 (-1.312747)
Registration for tax/Impôts	1.122716 (2.475762)***
Observation	575
Cox & Snell R Square	0.09

- **Opinion about the enforcement of regulation**

Having opinions that regulation is rigid, inconsistent and that there is corruption all contribute to having the opinion that regulation is not appropriately enforced. Similarly, regulatory compliance to any degree influences opinions about the appropriateness of enforcement. Higher levels of education of SME owner/manager is associated with having opinion the regulation is

appropriately enforced. Business location in the province of Littoral is consistent with having the opinion that regulation is inappropriately enforced.

Table 10: Regulation is not appropriately enforced

Variables	Regulation is inappropriately enforced
C	-1.105 (0.293)
Size of SME	.660 (1.339)
Province(Littoral=1, Central=0)	-1.407 (3.349)*
Sector	-.485 (0.503)
Gender	-.643 (0.644)
Age of the owner	-.002 (0.004)
Number of shareholders	-.210 (0.467)
Age of enterprise	-.058 (1.370)
Education level of owner/ manager	.917 (4.397)**
Awareness	-.087 (0.017)
Regulation is rigid	-8.976 (20.640) ***
Regulation is inconsistent	-6.352 (25.380)***
There is not enough inspection	-24.052 (0.000)
Corruption	-8.200 (28.552)***
High level of compliance	6.619 (11.904)***
Moderate level of compliance	4.124 (14.124) ***
Weak level of compliance	3.565 (6.237)***
Cox & Snell R Square	0.636
Absolute value of Wald statistic in parentheses *Significance at 10%, ** significance at 5%, *** significance at 1%	

- **Impact of regulation on businesses**

We asked SMEs whether their businesses were affected positively or negatively by any of the regulations. A positive response carries a value of 1 and negatively response 0. About eighty three percent (83.4 %) of businesses interviewed responded in the negative while 16.5% responded in the positive. About two third of firms that responded in the negative are from Littoral province. Due to the large number of firms responding in the negative regarding the effect of regulation on their businesses this study hence tried to explore the determinants of negative effect of regulation on businesses. The model seeks to explain the various factors that SMEs see as determining whether regulation is impacting negatively on their business or not. The dependent variable takes a value of 1 if regulation is impacting negatively on their business or 0 otherwise.

SMEs that have opinions there is corruption significantly have the opinion that regulation is negatively impacting on business. Age of the enterprise marginally explains the negative effect of regulation on business performance. Businesses that are located in Littoral province are significantly of the opinion that regulation negatively affects business performance. Businesses that are owned by men are more likely to have the opinion that regulation positively affects business performance. The size of business negatively influences opinion about the impact of regulation on business performance. Businesses that are register with the municipality are more likely to have the opinion that regulation improves business performance.

Table 11: Effect of regulation on business performance

Variables	Effect on business
Constant	2.972 (13.986)***
Size of SME	-0.331 (4.578)**
Province(Littoral=1, Central=0)	0.792 (8.230)***
Sector	0.186 (0.344)
Gender	-0.863 (6.222)***
Age of owner	0.002 (0.032)
Number of shareholder	-0.173 (2.547)
Age of enterprise	-0.023 (2.2.425)
Education level 1	-0.144 (0.865)
Awareness of SME/legal status	-0.504 (3.332)*
Inspection by the following regulator	
DGI (Tax Department)	0.034 (0.124)
Ministry of SME	0.408 (2.827)*
Municipality	0.076(0.617)
Ministry of trade	0.162 (2.235)
Regulatory compliance by supplying information to the following regulator	
DGI	0.061 (0.454)
Ministry of SME	-0.598 (3.546)*
Municipality	-0.291 (8.431)***
Ministry of trade	-0.144 (1.397)
Observation	575
Cox & Snell R Square	0.110
Absolute value of wald statistic in parentheses *Significance at 10%, ** significance at 5%, *** significance at 1%	
1 varies from 1(no education) to 5(post-graduate level)	

Even though, logit analyses give us an understanding of the effect of regulation on businesses, it does not capture fully the impact of regulation on growth of SMEs in Cameroon. Thus, this study hence has used an econometric regression model in order to identify those factors that combine with regulation to influence business performance and growth in the Littoral and Central provinces of Cameroon.

V.3. Regression model results

We here sum up the main results of our regression models. First, we find expected result in the first step that shows the relevant influence by size, industry and geographic location.

- **Impact of regulation and regulation process on SMEs**

Trade regulation and company law are the primary regulations that have negative impact on small and medium size businesses. The negative effect is more pronounced with medium size businesses. Tax regulation and environmental regulations contribute to business development. Other regulations such as the registration process for the enterprise, the number of days taken to register a business, cost of regulation have no significant negative impact on businesses, which is not surprising because 50 percent of enterprises interviewed are not legally registered?

Table 12: determinants of negative impact of regulation on business

Independent variable	B	Sig.	Exp(B)
Registration process	.033	.826	1.033
Tax registration process	.221	.152	1.247
Number of days to register	-.073	.582	.930
Total regulation costs	-.042	.748	.959
Deposit required	.016	.894	1.016
Impôts/tax	-.239	.079	.788
Customs regulations	-.127	.312	.880
Health safety	.055	.711	1.057
Trade regulation	.230	.094	1.258
Other employment legislation	-.132	.523	.877
Environmental legislation	-.438	.015	.645
Company law	.301	.038	1.351
Municipality	-.419	.134	.658
Small enterprises	20.218	1.000	6.031E8
Medium enterprises	.573	.040	1.773
Other enterprises	-.203	.607	.817
Constant	3.586	.010	36.101

Table 13: Association of regulatory compliance and firm's investment decisions

Variables	High compliance	Moderate compliance	Low compliance
Investment impact of income tax	3.61 (0.30)	12.86 (0.005)***	1.76(0.62)
Investment impact of value added tax	2.02 (0.57)	26.36 (0.000)***	23.84(0.000)***
Investment impact of customs regulation	1.65 (0.64)	25.22 (0.000)***	0.89 (0.83)
Investment impact of health regulation	7.13 (0.06)*	48.97(0.000)***	5.27 (0.15)
Investment impact of employment legislation	1.89 (0.60)	37.59(0.000)***	10.17(0.017)**
Investment impact of environment legislation	3.95 (0.27)	39.03(0.000)***	9.80(0.02)**
Investment impact of company law	5.94 (0.11)	46.36 (0.000)***	5.84 (0.11)
Investment impact of trade regulation	2.50(0.47)	62.97(0.000)***	1.89 (0.60)

In most cases moderate compliance with regulation is significantly associated with negative investment decisions. Low compliance with value added tax regulation, employment legislation, and environment legislation impacts negatively on investment decisions. High compliance with health regulation is weakly associated with negative investment decision.

- **Impact of regulation on trading volume of SMEs**

We evaluated nominal changes to business trading volumes between 2005 and 2008. The impact of regulation negatively affects the trading volume of younger enterprises more. Corruption in general, paying bribe to tax regulators, age of business owner and business location in the Littoral province impact negatively on trading volume. As regards the regulation process, the total registration cost impacts negatively on business trading volume and this impacts on business performance and growth.

Table 14: Impact of regulation on trading volume of SMEs

Variables	Impact on trading volume
C	1.224 (2.406)
Age of the enterprise	-0.043 (2.781)*
Province littoral	-0.588 (5.807)***
Education level of the owner	-0.155 (1.094)
Gender (male=1, female=0)	0.050 (0.035)
Sector	0.079 (0.0866)
SME size (small=1, Medium =2, other =3)	-0.28 (2.42)
Age of owner	-0.12 (1.258)
Awareness of status as SMEs	0.063 (0.06)
Bribe tax authorities	-0.685 (6.936)***
Bribe municipal authorities	0.045 (0.016)
Corruption	-1.319 (7.689)***
Impact number of days to register	0.084 (0.449)
Impact total registration cost	-0.300 (6.239)***
Impact deposit require	-0.109 (0.951)
Cox & Snell R Squared	0.087
Observation	575
Absolute value of wald statistic in parentheses *Significance at 10%, ** significance at 5%, *** significance at 1%	

- **Impact of regulation on SME growth and performance**

We evaluated nominal business turnover before tax and other deductions between 2005 and 2008.

We asked businesses to describe whether their turnovers fall between the following classifications.

Table 15: Categorization of business turnover growth

Category	Annual turnover range (Fcfa)
A	0 - 1,000,000
B	1,000,001 - 5,000,000
C	5,000,001 - 20,000,000
D	20,000,001 - 50,000,000
E	50,000,001 - 100,000,000
F	100,000,001 - 500,000,000
G	500,000,001 - 1 Billion
H	1 Billion - 1.5 Billion

Growth is interpreted as meaning graduation from one category to the next, using the mid-point of the ranges. Turnover growth is hence intended to imply business growth from small to medium size enterprise. Negative growth of course implies business fortune going the other way round. Though not significantly, the cost of business registration has a negative impact on firm performance. Registration for tax and the number of days it costs businesses to register both contribute to turn over growth. These results are highly significant. Location in the Littoral province negatively affects turnover growth. The burden imposed by Municipal regulation and compliance with it negatively affects turnover growth. Time taken to be in compliance with tax regulations overall also negatively affects turnover growth. The level of compliance with regulation does not appear to have significant influence on turnover growth, except for Municipal regulation. However, high compliance with customs regulations, trade regulations, health and safety and municipal regulations significantly affect business development.

Table 16: Determinants of SMEs turnover growth in CameroonDependent Variable: **SMEs Turnover growth**

Variables	Coefficient
C	313.9559 (1.2865)
Business age	-2.580684 (-0.6294)
Education level of owner/manager	-21.30708 (-0.4817)
Gender owner/manager (1=male, 0= female)	44.04513 (0.5957)
Age of Business/manager	-2.751197 (-0.7608)
Total number of employees	1.272588 (0.4499)
Business Turnover in 2005	-3.48E-07 (-1.5009)
Sector of activity (1=manufacturing, 0=wholesale/retails)	62.02445 (0.9032)
Location (Littoral=1, Central=0)	-160.4941 (-2.1497)**
High compliance	8.403858 (0.0673)
Moderate compliance	113.2934 (1.3676)
Weak compliance	98.88917 (0.8122)
Businesses see tax as a burden	-21.09916 (-0.2497)
Businesses see municipality as a burden	-267.2842 (-2.1992)**
Time required to registered the business	6.068720 (0.7052)
Time required to register with ministry of trade	-8.586196 (-1.12272)
Time required to register with tax department	-14.25054 (-2.2552)**
Time required to register with municipality	3.158158 (0.3094)
Cost/requirement to register the business	-56.72562 (-0.86448)
Cost to register with tax department	115.9544 (2.07703)**
Cost of number of days required to register the business	103.9890 (2.6803)***
R-squared	0128403
(*) significance at 1%, (**), 5 % and (***) at 10%	

VI. Concluding Remarks

There are several obstacles when creating a business in Cameroon, among others one can cite the right regulation procedure. The regulation process in the country is extremely confusing and there are many regulators. Compliance with regulations such as fiscal, employment and economic regulation could constitute a heavy burden to the development of SME, because it

takes time to be registered and it is costly. It is in this context that our study focused on the impact of regulation on small and medium size businesses in two regions of Cameroon. Not surprisingly, businesses that register for tax and those in the manufacturing sector see tax regulation as a burden. Having opinions that regulation is rigid, inconsistent and that there is corruption all contribute to having the opinion that regulation is negatively impacting on business.

High compliance with customs regulations and municipal regulations significantly negatively affect business development. On the other hand, high compliance with health and safety as well as trade regulations is good for SME business development. In most cases moderate compliance with regulation is significantly associated with negative investment decisions. Low compliance with value added tax regulation, employment legislation, and environment legislation impacts negatively on investment decisions. High compliance with health regulation is weakly associated with negative investment decision. Businesses that are registered with the Ministry of trade tend to be more regulation compliant while those registered with the Municipality are not. Corruption in general, paying bribe to tax regulators, age of business owner and business location in the Littoral province impact negatively on trading volume. In terms of the impact of regulation, trade regulation and company law are the primary regulations that have negative impact on small and medium size businesses. The negative effect is more pronounced with medium size businesses. Tax regulation and environmental regulations contribute to business development. Other regulations such as the registration process for the enterprise, the number of days taken to register a business, cost of regulation have no significant negative impact on businesses.

Time taken to be in compliance with tax regulations overall also negatively affects turnover growth. Though not significantly, the cost of business registration has negative impact on firm performance. Registration for tax and the number of days it costs business to register both contribute to turn over growth. Sixty eight firms in Central province and seventy two in Littoral experienced business growth. The likelihood of negative growth or zero growth decreases with the age of enterprise. Overall, moderate compliance with regulations is associated with SMEs turnover growth though it is not a significant determinant. The level of compliance with regulation does not appear to have significant influence on firm performance proxied by turnover growth.

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ANNEXES

Table 17: Profile of SMEs surveyed

Profile	%	N
Employment Size		
1-5	69.2	398
6-10	18.4	106
11-20	6.4	37
21- 50	4.5	26
50 +	1.3	8
Enterprise interviewed by region		
Littoral	63.4	365
Central	36.5	210
Size of enterprises interviewed		
Small	69.9	402
Medium	12	69
Other	18.0	104
Sector		
Production /Manufacturing	23.8	137
Wholesales/retails	76.1	438
Gender of owner/manager		
	Total male	Total female
Small	288	114
Medium	61	8
Other	81	24
Age of Business (years)		
	Average	n
Small	6	
Medium	10.8	
Other	8.3	
Age business owner (years)		
Small	38	
Medium	48	
Other	42	

Legal status (Awareness of SME status)		
Small	1	
Medium	1.65	
Other	1.5	
Sample size (N) = 575		
Base: all businesses		
Notes: sub-sample percentages do not always sum to 100 due to rounding.		

Table 18: Business regulation in Cameroon

Ease of...	2008	2006 rank	2005 rank	Change in rank since 2005
Doing Business	164	152	147	-17
Starting a Business	171	152	149	-22
Dealing with Licenses	154	151	147	-7
Employing Workers	124	135	136	+12
Registering Property	138	131	128	-10
Getting Credit	131	117	117	-14
Protecting Investors	113	60	58	-55
Paying Taxes	171	143	140	-31
Trading Across Borders	137	140	135	-2
Enforcing Contracts	172	170	170	-2
Closing a Business	95	96	90	-5

Extracted from World Bank (Several Years)