

LEGAL AND ADMINISTRATIVE CONSTRAINTS TO SMALL AND MEDIUM SIZED ENTERPRISES IN CAMEROON

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Abstract: 101 SME (Small and Medium-sized Enterprise) operators were interviewed in a sample survey in Douala, Cameroon, to elicit the legal and administrative constraints to the creation and functioning of SMEs in Cameroon. The fulfilment of business entry requirements entails transactions costs which are by far more than the legal costs. For example, while the direct cost for a one-man business is 1,6000 francs, the sole proprietors who were interviewed reported an average expenditure of 107,550 (672.19% of this amount) to fulfill the requirements. A bar operator spent on average 55,562 francs for a "licence" which should be obtained free from the Sub Prefect of the locality. A sole proprietor spent 20.88 days, general commerce 10.64 days while a bar operator spent 18.28 days to fulfil pre-entry requirements. A sole proprietor who succeeds to raise the minimal starting capital of 500,000 francs must raise an additional 371,781.4 francs (74.36% of the starting capital) for pre-entry requirements. If pre-entry taxes are included, the amount goes up to 1,091,196.5 francs (218.2%) for the sole proprietor and 3,003,790.4 francs (600.8%) for incorporated SMEs. Legal and administrative requirements thus form a major barrier to the creation of SMEs in this country.

BACKGROUND

Cameroon has been facing an unprecedented economic crisis which has culminated in the lowest levels of investments, failing businesses, lay offs (both in public and private sector) and general unemployment. This can be seen from the evolution of the growth rate of the GDP since 1975³. The average growth rate of the GDP between 1975 and 1979 was 8.2%; between 1980 and 1985 it was 8.0%; while between 1986 and 1994 it dropped to -4.2%.

Since independence in 1960, Government had been the greatest employer of school leavers but in 1987, as a result of the crisis, it suspended all recruitment into the Public Service.

Faced with this situation it becomes necessary for Government to re-examine its economic policies and reorient them towards rapid job creating activities. The promotion of Small and medium Sized Enterprises (SMEs) becomes central to this orientation for the following reasons:⁴ they are labor intensive, have low capital intensity as measured by a low capital/labor ratio. The management of a SME does not require very high managerial skills. SMEs provide good training ground for entrepreneurs and facilitate the dispersal of economic activities throughout the territory. They are easy to set up and thus provide a base for large scale

enterprises. Finally, they contribute to economic independence since large scale enterprises very often need increased dependence on expatriate firms. So far SMEs have played a very important role in Cameroon's economy. In 1985 they accounted for 30% of the GDP and 40% of the labor force⁵.

It must, however, be pointed out that SMEs should always aspire to grow into large enterprises so as to enjoy the economies of scale, have more access to both short and long term credit facilities, technology and ability to earn precious foreign exchange⁶.

It is in light of the discussion above that we set out to study conditions that have inhibited the rapid growth of SMEs in Cameroon so as to advice government on future policy orientation in this area. In the present study we are concerned with the regulatory environment.

Effects of Regulations in Other Countries

The British Department of Trade and Industry (DTI) in emphasizing growth of enterprise as a real driving force of the economy also points out that, to the extent that regulations go further than necessary, they lower profits or raise prices or both.⁷ Unnecessary regulations lower output and employment, stifle competition and deter new firms from entering the market or prevent others from expanding. Regulation can be a double edged weapon, harming the "regulated"

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³ World Bank (1994): *World Development Indicators*, 1994-5, Table 2.1.

⁴ Neck, P. A. (1977): *Small Enterprise Development*, ILO, Geneva

⁵ *Cameroon Business Review*, Volume 1, 1996.

⁶ Young, R.C., "Policy Biases, Small Enterprises and development." *Small Enterprises Vol. 4 #1*, 1993; London.

⁷ Department of Trade and Industry "Lifting the Burden." HMSO, 1986; London

and the "regulator" alike. This is because too many people are employed by the governments and these persons spend a lot of their time regulating the activities of others. The result is a waste of resources on the part of the governments as well. The impact of regulation takes its toll in diverting precious time and energy that would be utilized to generate new ideas, new products and services, sales and in the end jobs. The DTI argues that the burden is greater on small businesses where the owner/manager is wholly responsible for all aspects of the business and its employees. In another study the DTI argues that another insidious effect of regulations is that they tend to build up a cozy industry insulated from outside competition.⁸ Some firms may even take a relaxed attitude towards regulations because they may be benefiting from an entrenched position. However, new growth is stifled and the consumer suffers. The DTI then concludes that lack of concern with regulations within an uncompetitive industry is no sign that all is well.

De Soto (1989) subdivided the costs of regulations in to cost of access and cost of remaining in business.⁹ He found out that it would take an ordinary Peruvian a record 289 days to set up a garment factory. The cost of remaining 'formal' for a small industrial firm was equivalent to 347.7% of the after tax profits and 11.3% of its production cost. He then concludes that were it not for remaining formal, the firm's profits, and therefore, its savings and its potential investment capital would be more than quadrupled.

Mead(1993) draws the conclusion that regulations may both impede the establishment of new medium-scale firms as well as frustrate the natural evolution of successful and potentially dynamic small firms into more efficient medium-scaled enterprises. He described the situation thus created as a 'small enterprise growth trap', which he argues, results in a 'missing middle' between small and large-scale enterprises. The 'missing middle', according to him, is characterized by an absence of firms to tap proven entrepreneurial skills or reap technological, marketing, managerial and other economies of scale.

The concept of 'middle' should not, however be over-stretched. A country like Taiwan has, admittedly, through the development of its SME sector achieved enhanced competitiveness, employment, income distribution, resilience to economic shocks and broad-based economic growth.¹⁰ South Korea has demonstrated that rapid growth can also be achieved despite a 'missing middle'.¹¹

Effects of Macro-economic Policies

Keynesian economics has long taught that one of the key roles of government is to stabilize the economy by using budget deficits in times of recession to stimulate effective demand.¹² Whether budget deficits are financed by running down reserves and/or printing money, there is always a price to pay. The first option threatens exchange rate stability; while the second option incurs debt and the third produces inflation, which brings about exchange rate instability. Hongkong has maintained remarkable macro-economic stability for over thirty years by applying a monetary policy based on ensuring that sufficient liquidity is available as dictated by exchange rate requirements.

Upon attainment of independence in the early 1960s, many sub-Saharan African countries embraced the import-substitution method of industrialization (ISI). According to Tan,¹³ this policy worsens the balance of payments situation; reduces the overall volume of imports and does not necessarily encourage exports. Instead, foreign investment has played a decisive role in bringing about the South East Asian 'miracle'. In Hongkong, for instance, wholly foreign-owned firms with majority foreign interests account for 70% of gross output, 65% of value-added, 53% of employment and 82% of direct exports.¹⁴ More importantly, foreign domination has not led to political interference or economic displacement. Supporting industries which have

¹⁰ Chee, P.C. "Development of Small and Medium Scale Enterprises in Developing Asian Countries: Some Asian Experiences Relevant to the African Environment." Paper Presented at the Abidjan Conference, November 30- December 2, 1993.

¹¹ Tan, A.H.H. "Policies for macro-economic Stability." Paper Presented at an International Conference, Abidjan, Ivory Coast, April 20 - 24, 1993.

¹² *Ibid*

¹³ *Ibid*

¹⁴ *Ibid*

⁸ Department of Trade and Industry: Building Business not Barriers." HMSO, 1987, London.

⁹ De Soto F. The Other Path: The Invisible Revolution in the World. Harper and Row, New York, 1989.

emerged have upgraded their technologies and the economic growth and employment thereby generated has enhanced political and economic stability. These arguments suggest that there is little or no justification for the protectionist attitude, in favor of nationals, which was adopted by many African countries at the wake of independence.

The role of government as an entrepreneur is highly debated. In the NIEs of South East Asia, government has performed this function relatively well. In 1984 the Public Sector's share of Gross Domestic Fixed Capital Formation was 25% in Hongkong (where government has interest in over 500 companies), 17.6% in Korea and 42.7% in Taiwan. It is, however, to be noted that the companies in which government holds equity in these countries are operated on strictly commercial principles, that is only competent persons are appointed to run them and bankrupt companies are not salvaged.¹⁵

In Singapore in the late 1960s new labor legislation was introduced with profound beneficial effects on the system of industrial relations. The Employment Act and the Industrial Relations (Amendment) Act of 1968 reduced labor costs and gave more discretion to employers to develop and manage their labor force flexibly. They are given the right to decide on promotions, internal transfers, hiring and firing. This legislation had the salutary effect of virtually eliminating industrial strife.¹⁶

Employment in Douala

Given that one of the major reasons to promote SMEs in Cameroon would be to increase employment (as discussed above) it became necessary to evaluate the employment situation of, and the level of, unemployment in Douala at the time we conducted our study. An exercise which we thought would be easy turned out to be quite difficult because, as a consequence of the economic crisis in the country, the government was no longer funding routine statistical work of the Directorate of Statistics. A manpower survey programmed for 1987 ended at the planning stage. Even when the statistics exist, the politicians, for whom they are made, prefer not to use them. This is particularly the case of the population of Douala, which

official circles continued to quote as 2,000,000 while the population census of 1987 gave it as 712,251 (Table 1.1 of census tabulation)¹⁷ and the projection for 1992 put it at 1,043,300.¹⁸ The data we present in this subsection will therefore be based on documentation, direct calculation from raw data and enlightened guesses.

The 1987 census put the actively employed population of Douala, 6 years of age and above, at 183,568 (Table 4.5 of census tabulation cited above). This represented 25.77% of the 1987 population of Douala. If we apply this percentage to the projected population of Douala for 1992 we have 268,890. These persons would be employed in SMEs, large scale enterprises, the public sector and the informal sector.

In the enumeration exercise which preceded the survey which is subject of the present report, we counted 21,235 SMEs with fixed locations in Douala. The main reason for this head count was to obtain a sampling frame from which a sample was drawn for the present study. However, in the one page questionnaires used for this purpose, we, among other questions, asked for the number of employees by their sex. From the raw data we were able to calculate 52,938 employed in the SME sub-sector made up of 35,577 males and 16,705 males with 656 non responses which we calculated as single employment for each of the enterprises concerned.

To estimate employment in large scale enterprises (that is enterprises employing more than 20 persons) we used responses to questionnaire sent to them by the Division of National Accounts of the Direction of Statistics and we obtained 307 firms employing a total of 53,198 workers of both sexes.

Our investigation at the CENADI¹⁹ showed that the government paid wages to 175,000 workers all over the territory in June 1992. The responsible officers we interviewed were unwilling to divulge more information but indicated that at least 25% of the state employees could be located in Douala. This gives about 43,750 state employees in Douala. All of the above discussion is summarized in Table 1.1.

¹⁷ Direction Nationale de Recensement. Demo 87. Vol. II

¹⁸ Ministère du Plan de l'Aménagement du Territoire. Indicateurs Demographiques sur le Cameroun, 1993.

¹⁹ CENADI is Centre National de Développement de l'Informatique - a computer centre responsible for preparing pay vouchers for all state employees

¹⁵ *Ibid*
¹⁶ *Ibid*

The informal sector in the table will be understood to mean street vendors and other operators without fixed locations of operation. The number employed in this sector is obtained as a residue, that is by subtraction.

Table 1.1: *Distribution of Working Population in Douala by Sector of Activity (1992)*

Sector	No. of enterprises	No. employed
Small & medium size enterprises	21,235	52,938
large scale enterprises	307	53,198
public sector	-	43,750
informal sector	-	119,004
TOTAL	-	268,890

Defining Small and Medium-Size Enterprises (SMEs):

In Cameroon, there have been at least four different "definitions" of SMEs. The 1990 Investment Code defines a SME for the purpose of the benefits under the Code as an enterprise which meets three criteria.²⁰ First, it must be capable of creating permanent jobs for Cameroonians at the rate of one, for an investment of up to 5 million francs. Secondly, the enterprise's investments must not exceed 1,500 million francs and thirdly, 35% of its equity must be in Cameroonian hands.

The internal regulations of the defunct Centre d'Assistance Aux Petites et Moyennes Entreprises (CAPME)²¹ defined a SME as an enterprise whose size enabled its manager to personally contribute to the proper management of its different sections, and that Cameroonians held not less than 51% of its shares.

The third definition comes from an Order of the Minister of Finance,²² which accorded lower rates of interest on loans made to SMEs.

It defines a SME, for the purpose of the privileged rate of interest, as an enterprise in which a majority of the capital and management were Cameroonian, whose turnover did not exceed 500 million francs and whose investments and short-term loans did not exceed 100 million francs each.

The fourth definition is that of Fonds de Garantie Aux Petites et Moyennes Entreprises (FOGAPE). Like the other three definitions, it is for the purpose of the benefits it provides SMEs. It contains the same elements of the Ministry of Finance definition except two, namely, 1,000 million francs for turnover and 200 million francs for short-term loans.

These four examples, strictly speaking, are not definitions but indications of the criteria which SMEs must meet in order to claim the incentives provided by the institutions concerned. The conclusion to draw, therefore, is that there is no definition of SME in Cameroon. This is a highly undesirable situation considering that in 1981, the Cameroon government adopted SMEs as the basis of the country's economic take-off under the Fifth Five-Year Development Plan, "a policy which was given concrete expression in the 1984 Investment Code, and was one of the guiding principles of the Industrialization Master Plan drawn up in 1989 (see chaps. 3,4 and 17)" and which has been maintained in the 1990 Investment Code.²³ It should be noted, however, that Cameroon is not the only country which has not formally defined SMEs. Most countries of the European Economic Community (EEC) also define SME for policy delivery purposes to determine which firms are eligible for specific measures.²⁴

For the purpose of this study, we have considered as a SME, any enterprise employing from one to twenty workers.

OBJECTIVES OF STUDY

The main objective was to carry out an in-depth study of the problems involved in the setting

²⁰ Cameroun Investment Code, 1990, section 25.

²¹ FOGAPE was created in 1984 to provide loan guarantees for made to small businesses by commercial banks.

²² Ministerial Order No. 0074/MINFI/DCE/D of 16 September, 1988 for regulating banking institutions, Article 5 (d)

²³ Ministry of Plan and regional Development. Fifth Five-Year Economic and Social Development Plan (1981-85), Younde.

²⁴ Govt. of Cameroon, Plan Directeur d'Industrialisation du Cameroun. 1989, Younde.

²⁵ Law No. 90/007 of November 8, 1990 to institute the Investment Code of Cameroon.

²⁶ Commission of the European Communities: Evaluation of Policy Measures for the Creation and Development of SMEs. Office of the Official Publication of the European Community.

up, operating and funding of SMEs in the city of Douala in order to provide an empirical base for policy recommendations for the improvement of the sub-sector, not only in the city, but in the whole country. The specific objectives were:

- a) To find out about the legal and administrative framework governing the creation and functioning of SMEs;
- b) To measure the cost of all the legal and administrative steps that an entrepreneur must carry out in order to register his business and the costs which he has to bear while operating it in accordance with official requirements;
- c) to provide an empirical base for policy recommendations.

MATERIALS AND METHODS.

Sampling Plan

Douala was selected for this study for two reasons. First, it is the largest business city in Cameroon with a population of over 1 million inhabitants. Secondly, it is not only "Cameroon in miniature" in that businessmen from all regions of the country have migrated to the city, but has also attracted businessmen from African, European, North American and Asian countries.

The study was conducted in two phases. The first phase consisted in enumerating all the business enterprises in Douala which fell within our definition of SME, namely, a business enterprise employing a maximum of 20 workers.

The short questionnaire which was prepared for the study, was meant to elicit information from entrepreneurs including their names, number of employees, the turnover and working

capital for companies. In the second phase a stratified random sample of 100 businesses from the 21,235 enumerated in the census, was to be administered a more detailed questionnaire. Effectively 101 SME operators were interviewed as will be explained below.

Following a stratified sampling scheme with proportional allocation, it was planned to interview SME operators according to the distribution of column 2 of table 1.2 .

From Table 1.2 therefore, 42 operators of sole proprietorships ('entreprises individuelles'), 16 managers of limited liability companies (SARLs and S.A.s), 38 operators of general commerce and 4 operators of bars were to be interviewed.

For the sole proprietorships and the limited liability companies the enumerators were asked to locate those sampled and to leave the questionnaires with whoever the authorities would authorize to complete. They were then to pass back at appointed times to collect the completed forms. We actually thought these groups of operators were going to be very cooperative. It turned out to be the opposite. The enumerators and ourselves traveled several times to these enterprises but ended up collecting only 27 questionnaires for sole proprietorships (giving a response rate of .3%) and 7 for limited liability companies (giving a response rate of 43.75%).

On the contrary all those selected under general commerce and bars returned their forms without much persuasion. Very often the enumerators assisted them to fill the forms.

Back in the office it was observed that a good number of the SMEs selected under sole proprietorships and limited liability companies were owned by foreigners and given the adverse political climate at the time one could not expect

Table 1.2: *Distribution of SMEs in Douala: Census and Sample Data*

Category	No. of SMEs in Census	No. Sampled from Office	No. Interviewed after Substitutions
Sole Ownorships	8805	42	27
Limited Liability Companies	3414	16	7
General Commerce	8151	38	50
Bars	865	4	17
TOTAL	21235	100	101

better results from these persons. It was then decided to sample more operators for general commerce and bars. 101 completed questionnaires were finally completed distributed as in column 3 of table 1.2 above. A questionnaire was not designed to specifically evaluate the role of women because we wanted both male and female operators to answer the same questions on wages, sources of financing, output of staff, intention to upgrade small operations to limited liability companies, etc, so as to compare them.

Data Analysis

The analysis will be strictly geared towards calculating average costs for each category of SMEs or for a given characteristic using the statistical model described below.

Take for example that one wants to find the cost of business registration for sole proprietorship as reported in the survey. The response from each enterprise sampled will include cost of immatriculation, cost of obtaining a business license ('patente') and the cost of authorization from the local authority ('licence' see table 5.1 below). Since these responses will be different for the different operators, one will have to calculate a sample average for each variable, that is immatriculation, 'patente' or 'licence' for all the SMEs in the category. Then the averages for patente, immatriculation and licence to obtain a pooled sample average cost for the 'entreprise individuelle' will be statistically combined. Once a statistic is calculated it will be necessary to find its standard error, which is a measure of the degree to which the individual responses are close to the calculated statistic.

Calculation of Pooled Mean and Variance²⁷

Suppose n_h , \bar{X}_h and s_h^2 are sample size, sample mean and sample variance respectively in stratum h, $h = 1, 2, \dots, L$ (where L is a positive integer) then the pooled sample mean for variable X is:

$$\bar{X}_p = \frac{\sum_{h=1}^L n_h \bar{X}_h}{\sum_{h=1}^L n_h} \dots\dots\dots (3.1)$$

The pooled sample variance is given by:

$$s_p^2 = \frac{\sum_{h=1}^L (n_h - 1) s_h^2}{\sum_{h=1}^L (n_h - L)} \dots\dots (3.2)$$

As an illustration; suppose \bar{X}_1 is the average cost of immatriculation, \bar{X}_2 is the average cost of obtaining a 'patente' and \bar{X}_3 is the average cost of obtaining a 'licence' for the stratum 'entreprise individuelle', then the pooled cost of fulfilling registration requirement for 'entreprise individuelle' is given by:

$$\bar{X}_p = \frac{n_1 \bar{X}_1 + n_2 \bar{X}_2 + n_3 \bar{X}_3}{n_1 + n_2 + n_3}$$

and the pooled sample variance is as given by equation (3.2) where $L = 3$.

If we assume that variability is the same in all the strata, then an estimate of the variance of the pooled sample mean is given by:

$$var(\bar{X}_p) = s_p^2 \sum_{h=1}^L \frac{1}{n_h} \dots\dots\dots (3.3)$$

so that the estimate of the standard error of \bar{X}_p is

$$SE(\bar{X}_p) = \sqrt{var(\bar{X}_p)} \dots\dots\dots (3.4)$$

If variability is different in different strata then an estimate of the variance of \bar{X}_p is given by

$$v(\bar{X}_p) = \sum_{h=1}^L s_h^2 / n_h \dots\dots\dots (3.5)$$

and the estimate of the SE is given by equation (3.4) above.

Estimating Degrees of Freedom

Another concept needed for statistical inference is the notion of degrees of freedom for $SE(\bar{X}_p)$ or $var(\bar{X}_p)$.

In the situation of equation (3.3) where variability is the same in different strata the degrees of freedom (df) are given by

$$df = \sum_{h=1}^L n_h - L \dots\dots\dots (3.6)$$

²⁷ Cochran, W. G., *Sampling Techniques*, 2nd Edition, John Wiley & Sons, New York (Chpt5)

In the situation of equation (3.5) where variability is different in different strata, Satterthwaite gives an approximate df for the case where $L = 2$. In this case

$$df = \frac{(d_1 + d_2)^2}{\frac{d_1^2}{n_1 - 1} + \frac{d_2^2}{n_2 - 1}} \dots\dots\dots (3.7)$$

where,

$$d_h = s_h^2 / n_h, h = 1, 2.$$

Hypotheses Testing²⁰

An important step in our analysis will be to compare costs calculated for different categories of SMEs or for different variables. In other words, given a cost item like the patente, which of the groups of SMEs spent most on patente, which spent next highest and so on. To answer this question we consider the comparison of 3 population means μ_1, μ_2, μ_3 . We will test the following hypotheses:

- 1) $H : \mu = \mu$ against $H : \mu_1 > \mu_2$.
- 2) If we reject H_0 in the above test, then we test: $H : \mu = \mu$ versus $H : \mu_1 > \mu_2$.
- 3) If we reject H_1 in the above test then we can give the following ordering to the 3 population means: $\mu_1 > \mu_2 > \mu_3$.

This justifies why we would want to introduce tests of hypotheses here even though there are no hypotheses to be tested in our objectives.

To compare two populations we tested the hypothesis:

$$H_0 : \mu_1 = \mu_2 \text{ against } H_A : \mu_1 > \mu_2$$

To do this we used the test statistic

$$T = \frac{\bar{X}_1 + \bar{X}_2}{SE(\bar{X}_d)} \dots\dots\dots (3.8)$$

where,

$SE(\bar{X}_d)$ is calculated from equation (3.4). We reject H_0 if calculated value of $T > t(\alpha, df)$ or else we do not reject H_0 .

In this article we summarize the rules and costs of pre-entry and starting requirements that inhibit the creation of SMEs as found from our survey of SMEs in Douala.

RULES GOVERNING BUSINESS ENTRY IN CAMEROON

Business entry requirements are legal and administrative obligations which a promoter must satisfy in order to achieve official recognition of his business. The steps to be taken for this purpose depend on the type of business to be registered.

Types of Business Organizations

The business may be incorporated or unincorporated. The unincorporated businesses are one-person enterprises or partnerships. The sole proprietorships are known in French Law as "entreprises individuelles." Partnerships are known in French Law as *Sociétés en Nom Collectif* (SNC), *Sociétés en Commandites Simple* (SCS) and *Sociétés en Commandites par Action* (SCA).

Incorporated business organisations are those which can only come into existence through the process of incorporation. They are generally referred to in French Law as "Sociétés." The law requires that every business organization, be it an "entreprise" or "Société" and whatever its form or size, must register with the "Registre de Commerce" which is held at registries of all Courts of First Instance and High Courts in the country.

Registration at the Court of First Instance

Registration at the Court of First Instance is all that is required of a one-person business to gain official recognition. The process involves filing a one-page form in triplicate, inscribing the name of the business in the register and delivering to the proprietor one copy of the form bearing the signature of the President of the Court of First Instance and the registration number.

Registration in the High Court

The French word "Société" is used indiscriminately to businesses which are in essence

28 Satterthwaite, F. E. Biomedical Bulletin, 1946 Vol. 2: 110

29 Snedecor, G. W., Cochran, W. G: **Statistical Methods** 1980, 6th edition, Iowa State University, Iowa - (Chpt 5)

30 The Registre de Commerce was introduced by decree of the French Government of 17th February 1930 and is published in the official gazette of 1931 at page 160. Its provisions have governed Cameroon's registration of businesses till now.

partnerships: SNC, SCS and SCA as discussed before); and companies: Private Limited Companies - Société à Responsabilités Limitées (SARL); and Public Limited Companies - *Société Anonymes* (SA). Sociétés effect their registration in the High Court.

The partnership type businesses register in the High Court using procedure followed by one-person businesses in the Court of First Instance, while the companies must go through the process of incorporation. To do this, the future partners in a company must go to the chamber of a "notaire" who prepares the registration document called "statuts" (written in plural), by filling information provided by the promoters on printed forms. The "notaire" then goes ahead to register the "statuts" at the Stamp Duty Service and sends a completed file, which includes a draft certificate of incorporation to the High Court. Registration is effected at the High Court by inscription of the name of the business on the "*Registre de Commerce*" and the signing of the draft certificate of incorporation by the President of the High Court. The certificate of incorporation, which bears the registration number is returned to the "Notaire: from where it is collected by the promoters. The "Notaire" upon receiving the certificate of incorporation from the High Court proceeds to announce the registration of the "Société" in the Official Gazette or in any other official newspaper which publishes legal announcements.

COSTS OF RULES GOVERNING BUSINESS ENTRY IN CAMEROON

At this point we will try to estimate the cost of official recognition of each of the businesses discussed in the preceding section as per the information obtained in the survey in the city of Douala. The cost of business entry will include cost of registration and cost of post registration requirements.

Since incorporated and unincorporated SMEs have different registration requirements, we shall treat their registration costs separately.

Registration of Un-incorporated SMEs

In our survey we never encountered any of the forms of partnerships SNC, SCS, and SCA. We interviewed in the category of unincorporated SMEs, operators of sole proprietorships (*entreprises individuelles*), store operators and bar owners.

The "*entreprise individuelle*" goes through by completing a one-page form in triplicate, affixing a 500 francs fiscal stamp on two of the forms and paying directly to the register of the Court of First Instance 15,000 francs against a receipt. The total direct cost of fulfilling this requirement is 16,000 francs.

In addition to the direct cost of 16,000 francs the operator may incur several indirect costs. Usually the court clerks will charge a fee for the forms, which are supposed to be free. The entrepreneur or his representative may buy the fiscal stamps at higher prices than the official price or travel to the treasury several times before buying the stamps. He may also have to make several trips to the court or have to tip the court staff before this requirement is fulfilled. These facts will tend to justify the disparity between the direct cost and the amount operators reported in the survey to have spent to fulfill this requirement.

The law does not require the store and bar operators to register with the "*Registre de Commerce*." A store owner needs just a "*Patente*" (business license) and, in the case of a bar owner, a "licence," in addition. The direct cost of the "*patente*" is not unique. It is assessed by an official of the taxation department.

The "licence" is supposed to be issued free by the administrative authorities. A bar which sells only soft drinks does not need a licence to operate. We used the procedures outlined in section 3 above to statistically combine sample means and sample variances so as to obtain Table 5.1.

The figures in Table 5.1 were tested and differences between the different categories of sole proprietorship shown to be statistically significant. A glance at Table 5.1 shows how constraining the administrative requirements in Cameroon can be. The "Licence" which is supposed to be issued free, incurred an average expenditure of 60,000 francs for a sole proprietorship and 55,562 francs for bar owners. Since the payment of the "*patente*" is subject to an assessment by an official of the Taxation Department, one can also imagine how much indirect payment will be made for the assessment.

" 'Notare' is a legal practitioner who specializes in drafting and reproducing authenticated copies of documents

Table 5.1: Average costs and standard error (se) of fulfilling legal and administrative requirements for sole proprietorships, general commerce and bars.

Category	Registration	Patente	Licence	Total	Df	se
Entreprise Individuelle	107,550	146,061.5	60,000	311,611.5	37	34,532
General Commerce	0	43,462.5	0	43,462.5	29	9,624
BAR	0	90,375	55,562	145,937.5	14	37,957

On average, an operator of an “*entreprise individuelle*” paid 146,061.5 francs, a store operator paid 43,462.5 francs and a bar owner paid 90,375 for “*patente*.”

In all the “*entreprise individuelle*” spent on average 311,611.5 francs with a standard error of 34,532 francs; general commerce spent 43,462.5 francs with a standard error of 9,624 francs and a bar owner spent on average 145,937.5 francs with a standard error of 37,957 francs.

Businesses for which immatriculation, (that is, registration) is required, need a minimum starting capital of 500,000 francs. There is no minimum capital requirement for bars or stores. Since these businesses need a starting capital of 500,000 francs, the cost of registration represents 62.3% for the “*entreprise individuelle*,” 8.7% for stores, and 29.2% for bars. The cost of registration for the “*entreprise individuelle*” is highest in this category. The reason why an entrepreneur would want to go through the process of immatriculation instead of just buying a *patente* and running his business as a store, is because the enterprise would, on immatriculation obtain quasi-corporate status. For example, one can operate a bank account and also obtain a bank loan in the name of the business even though the operator remains liable for the debts of the business.

Registration of Incorporated SMEs

The registration of a SARL or SA is more expensive:

- i) The minimum capital required is 500,000 francs;
- ii) The “*notaire*” charges a fee for drafting and certifying the “*statuts*” and this may go up to 10% of the company’s registered capital;
- iii) The cost of registration of the “*statuts*” at the Stamp Duties Service varies from 0.25% to

2% of the registered capital.³² The rate of 2% applies to companies with capitals up to 750 million francs while 0.25% applies to capitals exceeding 5,000 million francs;

- iv) Four copies of the *statuts* each page of which must bear a fiscal stamp of 500 francs. This gives 20,000 francs for a “*statuts*” of 10 pages;
- v) At the High Court the entry of the company’s name with the “*registre de commerce*” requires 3 fiscal stamps costing 1,500 francs;
- vi) The next step is the procurement of a statistical number from the “*Service Central d’immatriculation au Fichier des Entreprises*” (SCIFE). The service is based in Douala for the whole country. The fee to be paid is 15,000 francs but the tips to the personnel and the transport costs could be quite high;
- vii) The last item of expenditure is payment for announcement of the registration of the new company in the Official Gazette. The amount depends on the length of the announcement. A standard announcement costs about 50,000 francs.

All these give a total direct cost of at least 137,500 francs for a small company with starting capital of 500,000 francs, representing 27.5% of the starting capital.

Seven companies were interviewed in this category. Ironically they were very uncooperative in responding to questions. Most of the sensitive questions were left unanswered. From the few responses we obtained we found that on average 458,406.67 francs (with a standard error of 260,916.9 francs) were spent on immatriculation, notaire fees, statistical number and “*patente*.” This, from our experience on the field we felt, was grossly an understatement. Most of these companies were owned by foreigners and for

32 General registration and stamp duties code, article 14

some reasons they were unwilling to divulge their true expenses on these items. However, the average cost of 458,406.67 francs represented 91.7% of the capital of a small company.

Duration of Registration

We felt that it was necessary to find out from the entrepreneurs how long it took them to register their operations. Again we were unlucky with the incorporated organizations. Only 2 companies out of 7 interviewed reported the number of days they spent to fulfil the requirement. Even then the 1 day reported by one and 630 days reported by the others looked unreasonable and hence were not subject to any analysis.

For the other categories of business operations we found that an operator of an "entreprise individuelle" spent on average 20.88 days (with a standard error of 10.09 days), a store operator spent 10.64 days (with a standard error of 1.85 days) and a bar owner spent 18.28 days (with the standard error of 3.6 days).

We decided to estimate the opportunity cost to the entrepreneur of spending so many days in preparing documentation and following the procedure up to the point where registration was achieved. From the Department of Statistics³³ we obtained information on the wages of workers in SMEs in Douala from 1989 to 1992. We calculated the average daily wage of a worker in this and obtained the figure 2,881.7 francs. We then used this to modify table 5.1 and obtained table 5.2.

An entrepreneur who succeeds in raising the minimum starting capital of 500,000 francs for a SME, must next spend on average 371,781.4 (74.36% of this capital) only for the purpose of fulfilling entry requirements. For incorporated

organization the expenditure is more than 458,406.67 francs which is 91.68% of an initial capital of 500,000 francs.

POST-REGISTRATION REQUIREMENTS

There is a long list of other requirements which must be satisfied after registration before the business can start to operate. We style them "post-registration requirements."

All registered businesses, be they one-man enterprises or incorporated organizations, start off by paying three taxes and making visits to at least six offices. The three taxes are: tax on business premises, on rents and on stocks in trade (payable on the assets of the enterprise excluding newly purchased merchandise).

The six offices to be visited are: labour doctor (every business enterprise is required by law to provide medical services to its employees through a labour doctor),³⁴ labour inspector (the promoter of the new business must visit the inspector at least 3 times), manpower service, court of first instance (the employer's register to be kept by the new enterprise must be visaed by the labour inspector and must bear the seal of the Court of First Instance), tax inspectorate, and the Social Insurance Fund (the entrepreneur of a new enterprise visits it for the first time to register the enterprise as an employer and a second time to register its personnel).³⁵

Though most of these visits do not entail direct payments to the offices concerned, other indirect costs are incurred such as photocopying or buying forms, tips to the workers, transport costs, costs in terms of time wasted etc. From the survey data we computed average expenditure on visits to each of these offices.

Table 5.2: *Real Average Costs of Business Entry Requirements for Enterprise Individuelles. General Commerce & Bars.*

Category	Average Cost	Opportunity cost of days spent	Average total Cost	Se
Entreprises Individuelles	311,611.5	60,169.9	371,781.4	65,601.61
General Commerce	43,462.5	30,661.3	74,123.8	14,426.06
Bars	145,937.5	52,677.5	198,615.0	39,015.17

³⁴ Monkam N. & Woladji, R. Guide du Createur d'Entreprise au Cameroon, Yaounde, 1990.

³⁵ See Labour code of 1992, section 98.

³⁶ CNPS, Guide to Social Insurance, Yaounde, p.15.

³³ "Direction de la statistique, Resultats de l'enquete Annuelle dans l'Industrie 1989-1992."

combining them for sole-proprietorships and companies. To these we added the amounts for the three pre-entry taxes and registration to obtain table 6.1. Standard errors of estimates are enclosed in parentheses.

Table 6.1: Costs of Entering and Beginning an SME in Douala.

Item	Entreprise Individuelle	Company
Registration	371,781.4	458,406.7
3 Pre-entry Taxes	230,737.0,	1,374,767.0
Post-registra-	488,678.1,	1,170,616.7
Total,	1,091,196.5 (18,982),	3,003,790.4 (176,643)

We see from table 6.1 that it costs a sole proprietor 1,091,196.5 (with standard error of 18,982) francs to register and start operating his business; while for the company the cost is 3,003,790.4 (with a standard deviation of 176,643) francs. Given that the minimum starting capital is 500,000 francs, the cost of entry represents 218.2% of starting capital for a sole proprietor and 600.8%, for a company.

While costs of registration are reasonably low for the two categories of businesses, the post-registration costs are prohibitive. The high cost of post-registration requirements explains the low compliance rates for these requirements. In the survey, only 14.8% of sole proprietorships and 57.1% of companies reported they had labour doctors, for example.

DISCUSSION OF RESULTS

One may want to know how much faith we place on the calculations we have made in this study. The sample selection was done in office strictly following statistical procedures. Thus, in the categories of general commerce and bars where all those sampled responded we can, with confidence, say that the figures calculated represent the average situation on the field. The situation could reasonably be true of sole proprietorship with a response rate of 64.3% (Table 1. 2). The operators in this category of SMEs responded to our questionnaires with a lot of enthusiasm giving the impression that they were happy to see somebody to listen and expose their problems in this subsector of the economy.

The high degrees of freedom (df) for the estimates close or above the number of operators sampled for each group attests to this fact. They were 14 for 17 bar operators and 37 df for 27 sole proprietors survey (Table 5.1).

The situation of the limited liability companies is a bit embarrassing. They had the lowest participation rate of 43.75%. Their answers to questions were erratic and sometimes very unreasonable. There are a high number of expatriates in this category, usually of French origin. We know that around this time a political party called for a boycott of French goods. Also, in the privatization of state corporations, nationals seem to be accusing these expatriates for arranging with government officials to buy off state enterprises at give away prices. These may explain why they should be suspicious of Cameroonians looking for information about their operations.

With the above reservations in mind, we have found that to go into business in Cameroon requires far more than just the start-up capital. A promoter who succeeds in raising the required capital still has to secure a large sum, namely, an average of 1,091,196.5 (218.2% of his capital) only for the purpose of fulfilling entry requirements, in the case of "entreprise individuelles." For an incorporated companies, the expenditure is more than 3,003,790.4 francs which is 600.8% of the initial capital.

The cost in time and money thus constitutes a serious constraint to the expansion and graduation of SMEs and also accounts for the large number of businesses that have been forced to remain small or operate in the informal sector.

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