# The Paradox of Policy and Performance:
# The Case of Small and Medium-size Enterprises and Promotional Agencies in Douala, Cameroon

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**Dedication**

To my late father M. Njemo Natoah, my beloved family, and above all, to Almighty God, Whose hands hold all matters of life and give me the grace of success in the work that I do. He is my model and support, especially at the hour of my greatest trials and tribulations. He was, is, and will forever be my hope and refuge.

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**Abbreviations**

BUILD…………………Board of Investment Unit for Industrial Linkages and Development

CCIMA…………….Cameroon Chamber of Commerce

CEMAC…………….Economic Community of Central African States

ERIA ………………Economic Research Institute for ASEAN and East Asia

GEC………………………General Enterprise Census

GG......................Good Governance

GG……………………Good Governance

GIPA……………………Ghana Investment Promotion Agency

GoC ………………...Government of Cameroon

HDI……………………..Human Development Index

IPA …………………Investment Promotion Agency

MEPA ……….......... The SME Promotion Agency

MINPEMEESA……….Ministry of Small and Medium-sized Enterprises, Social Economy and Handicraft

MINRESI…………….Ministry of Scientific Research and Innovation

NIS…………………………The National Institute of Statistics

NPM……………….. New Public Management

PA …………………....Promotional Agency

PM....................... Performance Management

PRSD……………………Poverty Reduction and Strategic Paper

PSD.......................Private Sector Development

SME…………………..Small and Medium-size Enterprises

TI.......................... Transparency International

UNDP…………………United Nations Development Program

WAIPA…………………World Association for Investment Promotion Agency

WB……………………..World Bank

**Abstract**

SME (Small and Medium-size Enterprises) promotion has recently become "the order of the day" not only within the private sector, but also among government bodies and development institutions alike, as there are claims that SMEs contribute significantly to economic growth and development through job creation among others International LabourOrganization (ILO) (2013:8).This suggests that promoting SMEs against failure could serve as a tool to achieve sustainable and inclusive growth. For pro-SME advocates, SME failure is mainly due to lack of access to short and long term loans.

This paper critically examines and analyzes findings on the relationship between the performance of SME Promotional Agencies (PAs) guided by policy norms against what SMEs say they need in the case of SMEs and PAs in Douala, Cameroon (CMR). In doing so, the paper uses mixed methods of data collection, the concept of Good Governance (GG) and the principal-agent theory to further explore this relationship. Analysis of the findings reveal that SME failure could be as a result of high-level informality, corruption and poor governance (lack of participation of SMEs in decisions that affect them) which could adversely affect the overall performance of SME PAs, hence, having mismatches of what PAs provide against what SME say they need which could be termed "The SME - Agency Paradox." Hence the paper proposes the need for sustainable strategies to policy makers on how to bring informal enterprises to formal economy since the latter constitute a significant share in Douala, CMR.

**Relevance to Development Studies:**

Recent studies of SMEs argue that SMEs contribute a large share of the labour force and GDP in both developing, transition and developed countries.

Underlying the recurrent assumption of this economic importance of SMEs implies that promoting SMEs will encourage them to become formal, especially in CMR where the majority of SMEs operate under informal blankets. The second implication is that if SMEs become formal, the change will increase revenue to the Government of CMR (GoC), which in turn will allow it to create more investment corridors for SMEs to strive and grow.

The third assumption is that if SMEs become formal, the shift will result in four outcomes: it will raise the income level of poor households engaged in micro and very small businesses, it will create descent jobs, improve the overall standard of living of poor households and it will increase economic prosperity.

# Chapter 1: Introduction
## 1.1: **Background**

It is not uncommon to find that most SMEs are located in the informal sectors of countries, regardless of the level of development. According to ILO (2004:3-6), informality is most common in the developing countries and its share of the non-agricultural workforce has reached about 55% in Latin America, 45-85% in Asia, and nearly 80% in Africa. For the purposes of this paper, SMEs (informal) mainly refer to businesses that are not registered , untaxed, illegal and unregulated, though derive their revenue from the production of legal goods and services.

Just like in most Developing countries that rely mainly on the agricultural sector and the export of raw materials which usually fetch low prices on the global market, CMR is no exception, hence it has been trying to shift its focus from  Agro led growth to a diversify economy through the promotion of SMEs .Amongst the questions that can be asked, is why the shift to SME as a means to achieve inclusive economic growth?

For this reason, CMR has been trying to boost its SME sector in an attempt to earn more revenue by trying to use its machinery to create an enabling environment for SMEs to operate from. For this purpose, the GoC established PAs, whose core role is to explore the SME sector in order to identify their different needs and thereafter try to meet and bring them to the formal economy.

## 1.2:   **Problem Statement**

The global financial crisis in 2008 was a turning point for most countries in sub Saharan Africa (SSA)--CMR inclusive since they heavily depend on international commodity prices as main revenue for their export in the international market. The need for economic diversification was a major concern when the global prices of agro produce and oil were adversely affected. For the GoC, this was a big challenge and the need to reduce the country's economic dependency on commodity market through the promotion of SMEs  and to become a newly industrialized and middle income country was inevitable-- a key element in the country's 2010 Poverty Reduction and Strategy Paper (PRSP) (International Monetary Fund 2010:53).

CMR's poor business environment according to the World Bank's Doing Business Report 2014, suggests that SMEs' growth is more than just survival of the fittest and SME failure stems from different factors among which enforcing property rights, strengthening of the legal system, flexible tax system, addressing informality resulting from high start-up costs, improving the governance ecosystem and fostering a more inclusive financial system, lack of tacit knowledge, lack of participation in decisions that affect SMEs, lack of access to credit as they often have no collateral (Schiffer and Weder 2001), ,inability to carry out R&D (Research and Development), hence these SMEs are rarely taxed, regulated, have low paid workers, lack skilled labour and have poor customer relations. Nichter and Goldmark (2009, 1456) narrate that informality does not only reduce the possibilities for growth but it's well known for other factors that tend to make growth almost impossible. Snodgrass and Biggs (1996) further explain that it is this same informality that helps the SMEs find it easier to evade tax and regulation, and this make them avoid growing to an extent of being recognized (avoiding formality).

## 1.3:   **Objectives and Research Question**

Contrary to conventional claims that access to credit is main SME constraint, de la Torre et al. (2010:2283-2284)argue that SMEs are banks number one client and through relationship lending most banks are more than willing to lend to SMEs due to their potentials to drive growth and are highly productive.

This paper presents a case study approach by evaluating the performance and programs of SMEs' PAs in relation to what the agencies provide against what SMEs say they need in Douala, CMR and to hint decision makers on the challenges that lie ahead if shared economic growth and prosperity is to be achieved through SMEs promotion as stated in CMR's PRSP 2010.

In order to achieve the objectives of this paper, attempts will be made to answer the following questions;

### 1.3.1: **Main question**

Does the policy intervention used to promote SMEs through SME Promotional Agencies in Douala, CMR correspond to the prevailing views of what SMEs say they need?

### 1.3.2: **Sub-questions**

i)      Why Promoting SMEs?

ii)     How do SMEs see in PAs reference to their performance?

iii)    What are the benefits and challenges of intervention approach in promoting SMEs through PAs?

iv)     What intervention measures could be taken by decision makers on the challenges arising from SMEs and PAs Cameroon?

## 1.4: **Data Collection and Methodology**

In order to answer the above research question and sub questions, it was necessary for the researcher to use a mixed method of analytical approaches which include qualitative primary and secondary methods of data collection. According to O'Leary (2014:121), these methods form the background of knowledge production, which limits the researcher's influence over results and compels the researcher to acquire and ascertain results to literature on the research theme by also considering triangulation so as to further validate the closeness of findings and its flexibility (Patton 1990: 181). Nonetheless, mixed methods has come challenges since it's not only time constraint but involve the analysis of patterns or sets, scrutinize data and application of deductive and inductive thinking(Creswell 2008: 208; O'Leary 2010: 127-165).

Furthermore, the researcher chooses case study since it involves the analysis of a group, in this case, SMEs and PAs (Yin 2009:4). Hence, the case study is not only a target base, but also results-oriented and purposeful which is fundamental in social development research which forms the underlying background of this paper

### 1.4.1 **Respondents and Selection Criteria:**

Selection of the research site - Douala owes to its potentials, first, as the economic capital of the country. Secondly, it is the capital of the Littoral region and home to most of the countries' enterprises and large companies. With these attributes, it provides a diverse platform of SMEs in the agro, industrial and service sectors.

The selection of the respondents was guided by Cameroon's SME Promotion Law No 2010/001 of 13th April 2010 Chapter I, Section 2, sub-section (1), whose definition of SME entails Very Small Enterprises (VSEs), Small-size Enterprises (SEs) and small and Medium-sized Enterprises (MEs).

The researcher consulted the online enterprise database of the CMR Chamber of Commerce (CCIMA), The National Institute of Statistics (NIS), Ministry of Small and Medium-sized Enterprises, Social Economy and Handicraft (MINPEMEESA) and Groupement Interpatronal du Cameroun (GICAM),Cameroon Investment Promotion Agency (CIPA) and Ministry of Finance (MINFI). Among these agencies whose activities directly or indirectly promote SMEs, only the CCIMA, the NIS, and the MINPEMEESA provide a comprehensive list of enterprises in CMR and Douala in particular. Two hundred enterprises were selected. The list was further scrutinized to eliminate large enterprises and a total of 60 SMEs were purposely selected to cover the different sectors (agro, industrial and services). Despite having done this, the researcher acknowledges that this list may not have all SMEs as others may not have been captured by NIS.

The 60 enterprises were contacted through emails and phone. However, the emails and phone numbers were not reliable as the researcher received feedback from just one enterprise. This pushed the researcher to design semi-structured questionnaires and deploy three research assistants to the field and distribute these questionnaires. Strict instructions were given to the research assistants on the research objectives and quality of the findings in relation to employee headcount and sectors stated above.

Therefore, the researcher opted to use stratified purposeful sampling as it allowed him to group SMEs (by sectors) and so three strata were formed. O'Leary (2014:167) explains this method of sampling as that which involves the division of a population into subgroups and later taking a purposeful sampling within each. She further narrates that it gives the research some certainty as the sample represents the core subgroups of the population involved.

1.4.2: **Primary data collection**

Sixty questionnaires were sent out, of which 39 were returned by respondents. In order to achieve maximum convergence vis-à-vis the objective of the paper in general, the questions were short, simple, structured, and closed-ended (see Annex I). Before the answering process, the respondents were briefed to understand that responding to these questions was voluntary and that their cooperation was essential to the accuracy of the research findings. The respondents were further briefed on the fact that the research was meant for statistical purposes and would be published in aggregate form. Furthermore, the respondents were assured that their information would be kept confidential, not disclosed in any form. In general, the questions (see annex 1) covered the following:

- The profile of SMEs; this was necessary to confirm that they meet the country's definition of SMEs and that the respondent have a knowledge of the enterprise in question through their position.
- SMEs were asked of the existence of PAs; to benchmark PAs awareness creation as part of evaluating PAs' programs.
- SMEs were further asked which structures do they think supports SMEs; this was essential to see if the programs of PAs correlates with the needs of SMEs.
- Also, what SMEs consider as top growth constraints and obstacles; this was necessary to verify if the programs of PAs are customized to suits the needs of SMEs.

It is also important to note that in as much as these questionnaires were written in English, the research assistants were given clear instructions to read the questions out in a language (French) the respondent was most comfortable in, especially when it came to those that were not able to neither read nor write.

In order to juxtapose the performance of the PAs against what SMEs claim they need, another questionnaire was designed for the PAs. Though there is only one public agency "The SME PA (MEPA)" responsible for promoting the activities of SMEs in Douala (CMR), the researcher did not limit his work on MEPA but also interviewed other PAs whose activities indirectly to SME promotion. Hence, two other PAs were added: The Cameroon Chamber of Commerce (CCIMA) and The Cameroon Investment Promotion Agency (CIPA). For this purpose, the questionnaire questions covered the following;

- How PAs help SMEs grow; this was necessary to evaluate the activities of the Pas.
- How PAs identify and communicate with SME and how effective their communications are; this has to do with transparency and to explore participatory approach.
- How staff members are recognized for good performance and also how poor performance is handled; to recognize human capital as a key driver in organizational performance.
- What PA felt impedes their activities and what factors discourage foreign investors from partnering with SMEs in Douala; to advice decision makers on the external and internal challenges faced by PAs and what programs could best define their role (See Annex II for complete questions).

1.4.3: **Secondary data collection**

In order to verify facts and claims, the researcher consulted electronic documents and publications from online libraries and books, class materials and lecture notes, government databases, international and development organizations and institutions, other researcher's materials on similar topics, and books. These resources served as a guide to orientate the research findings according to what SMEs claim they need and what PAs provide.

The responses were collected, questionnaires proof-read (to improve quality) and coded in preparation for data entry. In terms of data analysis, the data was entered in an excel sheet to form a databases, with each respondent having their own row, indicating their responses per question. Excel was used due to its user friendliness and ease with which it can be accessed on personal computers (O'Leary (2014:234).

### 1.4.4: **Limitations and Challenges**

The digital infrastructure in CMR is not well developed which prevented the researcher from accessing data on enterprises and agencies online. Moreover, most of the emails and phone contacts of enterprises listed on the web-page of the PAs are not in service or valid.

Furthermore, another set of difficulties encountered by the research assistants was that some entrepreneurs complained of lack of time, causing a delay in the handover time of the questionnaires.

The months of June, July, and September cover the rainy season in CMR which prevented some of the research assistants from distributing more questionnaires than they did. Some of the research assistants were unable to keep appointments agreed upon with some entrepreneurs. However, the research assistants were bilingual and able to explain the content of the questionnaire, with help from co-workers when needed. All in all, the entrepreneurs were very pleased with the structure of the questionnaire as it touched on their concerns.

With the PAs, the major difficulty encountered was bureaucracy involved in reaching those responsible for filling out questionnaires and provide information on the topic discussed.

## 1.5: **Structure of the paper**

The research paper is divided into five (5) main chapters:

Chapter 1 introduces the overall background not limited to data collection methods and research questions. Chapter 2 presents the literature of the paper, including the different definitions of SMEs, relevance and constraints, as well analytical framework of GG and critiques. In chapter 3, the country's growth history was explored, major policy instruments, and the actors involved in SMEs promotion. Chapter 4 analyzes the paradox in relation to the need of

SMEs and the programs of PAs, risk factors in promoting SMEs and performance indicators for PAs. Chapter 5 summarizes and concludes the research paper and proposes the way forward to policy makers.

# Chapter 2: Literature Review

## 2.1: Overview

CMR is amongst the most prominent economies in the CEMAC (Economic Community of Central African States) region and SSA, but still faces economic setbacks in achieving shared economic growth. In addition, it still depends heavily on the agro sector, which constitutes the largest share of the country's economy, based on employment and output (ILO 2013:8). According to Fjose et al. (2010:3), SMEs constitute about 95% of firms in SSA from different sectors, ranging from agriculture, to services and industries.

*Figure 1*: Share of enterprises in the economies of SSA

| Category | Share in the economy (%) | Share of employment (%) |
|----------|--------------------------|--------------------------|
| Micro | *90* | 30 |
| Small | *18* | 20 |
| Medium | *1.5* | 10 |
| Large | *0.5* | 40% |

*Source:* Fjose et al. (2010:5)

The unpredictable fluctuations of world market prices for agro commodities has made SMEs the new development paradigm. CMR like many other countries in SSA who depend on these commodities, was badly hit by the price fluctuation. If it is accepted that SMEs play a major role in economic development and prosperity, then given the constraints seen by SMEs, mitigating strategies are necessary. This has led the GoC to adopt policies and create PAs, which are responsible for promoting the activities of SMEs through different strategies, while adhering to policy guidelines in order to achieve desired outcomes.

The dynamism of these agencies to what SMEs say they need against what the PAs think SMEs need can be a reference point in relation to how accountable, transparent, participatory, effective, and efficient the PAs' programs are. Among several advocative claims, there is a fundamental reorientation in defining SMEs, which is important for government and donor programs alike in supporting SMEs and designing useful strategies to contain what they see as their main constraints, as well as for the tax department to raise revenue for the state to fund other social projects such as schools, health centers and infrastructure.

## 2.2: **Defining SMEs**

While it is important to recognize that different countries and institutions (see table 2 below) have different definitions of SMEs, the bottom line lies in their shared vision and struggle to grow. In this context, debates should focus on SMEs as a whole and not on cross country differences in defining SMEs.

Conversely, cross country definition of what SMEs are is important. First, the tax levied on enterprises depends on the characteristics under which they are classified. Secondly, it is important to define SMEs since their projects and activities differ from that of larger enterprises. Therefore, a consistent definition inform decisions in relation to assistance, loan access credibility and guide for financial institutions, regulatory agencies and international institutions on loan scheme. Thirdly, a universal definition will guide entrepreneurs and owners of SMEs on DOs and DONTS in the course of their activities since different enterprises have different privileges offered by different governments. Fourthly, it will allow people to compare the different sectors that operate under the same guidelines as SMEs in relation to their performance which can be used to make meaningful analytical judgments for research purposes and to benchmark performance across different sectors.

Generally, the SME cross country definition is based on staff headcount, balance sheet turnover, revenues, and assets.

*Figure2*: SME definitions used by multilateral institutions

| Institution | Maximum # of Employees | Max. Revenues or Turnover ($) | Maximum Assets ($) |
|---|---|---|---|
| World Bank | 300 | 15,000,000 | 15,000,000 |
| MIF – IADB | 100 | 3,000,000 | (none) |
| African Development Bank | 50 | (none) | (none) |
| Asian Development Bank | No official definition. Uses only definitions of Individual national governments. | | |
| UNDP | 200 | (none) | (none) |

**Source:** Gibson and van de Vaart, 2008


*Figure3*: SME definitions by the European Union

| Company category | Employees | Turnover | or | Balance sheet total |
|---|---|---|---|---|
| Medium-sized | < 250 | ≤ €50 m | | ≤ €43 m |
| Small | < 50 | ≤ €10 m | | ≤ €10 m |
| Micro | < 10 | ≤ €2 m | | ≤ €2 m |

**Source:** European Commission for Enterprise and Industry (2013)


In Nigeria, SMEs are businesses with turnover of fewer than N100 MM per annum and/or fewer than 300 employees' (Oyelaran-Oyeyinka 2007:2).

According to the U.S. International Trade Commission (2010:3), 'an SME is a business entity with almost 500 employees with a revenue ≤ $7 million and > $250,000'.

In CMR, a SME is "a business entity that fulfills the conditions and legal existence in compliance with the laws and regulations in force and classified as either VSE, with no more than 5 employees and pre-tax turnover not more than 15milion FCFA ; a SE, is one with  6 – 20 employees and pre-tax turnover of more than 15million FCFA  and less than 100million FCFA

and a ME is an enterprise with employee between 21 to 100 and an annual pre-tax turnover of 100million FCFA , but less than 1 billion"(Cameroon National Assembly 2005:2).

*Figure4*: Enterprise definition by employee size and turnover

| No. | Enterprise Type | Employee Size | Annual Pre-tax Turnover/FCFA |
|-----|-----------------|---------------|------------------------------|
| 1 | Very Small Enterprise - VSE | $\leq 5$ | $\leq 15$million |
| 2 | Small-seized Enterprise - SE | $\geq 6 \leq 20$ | $>15$million$<100$million |
| 3 | Medium-sized Enterprise-ME | $\geq 21 \leq 100$ | $\geq 100$million$<1$billion |

The disparity in defining what SMEs are provides an insight into the different views, assumptions, and critiques that surrounds the ongoing debates on SMEs in relation to what they say they need, various claims of their importance, and their constraints. According to European Commission for Enterprise and Industry (2003:26), clear definition of what SMEs are and related activities is a prerequisite as to what type of intervention worth fostering SME growth, limiting distortions, and creating a clear vision of intervention measures to be taken in promoting SMEs giving the growing claims of their importance.

## 2.2: **Importance of SMEs**

Irrespective to what criteria are used to define SMEs, one thing common to SMEs is the array of claims that hypothesize that SMEs will go a long way to achieve shared economic growth and prosperity. Beck et al. (2005:224) noted that SMEs are potential drivers of economic growth and prosperity since they make up a significant share of employment and GDP in most countries. Forinstance, SMEs' share of total employment in Singapore is 68% and contributes 45% to GDP. In Indonesia, SMEs make up 97.2% of employment and 58% share of GDP (ERIA 2014:1). In SSA like CMR (Table 1 above), SMEs in Pakistan make up 90% of all private enterprises and constitute 30% of GDP by share (Nenova et al. 2009:59). Equally, OECD (2004:11) reveals that SMEs in high income countries make up 55% of GDP and 65% of employment. The study goes on that in low income countries, SMEs constitute 60% of GDP and contribute 70% of total employment. In addition, their share of GDP and total employment is 70% and 95% respectively in middle income countries. According to a World Bank Report

(2012a, 2012b),90% of the work force in CMR survives through the informal sector made up of SMEs. The report further points out that the agro sector employs 53% of the informal work force against service sector with   37%, while the formal private 4% and public sector 6% .

Giving the high level of informality under which SMEs operate, do they really contribute to economic growth? First their level of operation (informal) suggests that they are impediment to government's planning which makes policy inefficient and reduces government's spending on priority areas like education and health which is important for impoverished communities. Secondly, their low paid jobs and unskilled workers do not increase aggregate income and hence make the labour market unfriendly especially to the youth and low income households. Thirdly, their small size means that they lack the capacity to carryout research and development (R&D). On the basis of this background, one could possible say that the claims under which SMEs are brand of their economic potentials calls for further research.

The work of Ayyagari et al. (2007:419) found that there is a positive correlation between SME sector and GDP. Nichter and Goldmark (2005:1454) like deHeide (2006:13) and Wattanapruttipaisan (2001:57) added that the economic potentials of startups in economic growth owes to their innovative nature.The views presented here suggests that SMEs plays a positive role in economic prosperity by creating market pressure through competition. According to CIA World Factbook 2014 on CMR, the GDP contribution (fig. 1) by sectors and labour force by occupation (fig. 2).

Figure 1: Share of GDP by sector
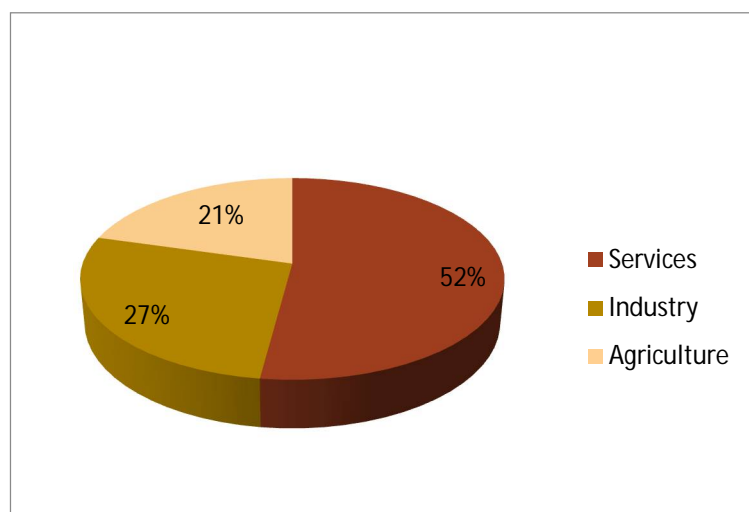


Source: CIA World Factbook (2014)

Figure 2: Share of labour force by occupation

Many other theorists support these findings of the importance of SMEs. For instance, the pioneer work of Schumpeter (1934:66)growth theory reveals that SMEs by virtue of their innovativeness are able to create market pressures, serve as outlets for large firms and spur competition by getting rid of old technology--creative destruction.

Similarly, Acs 1992 (cited in Wennekers and Thurik , 1999:29 ), found that SMEs through their entrepreneurial activities are able to influence the market share and direction of the economy by identifying opportunities to increase their income and overall competition especially in lobbying and act as an outlets to large enterprises.

For Morrison et al. (2003:417-425), the very small size of SMEs gives them an edge over larger enterprises since they are able to adapt quickly to market changes, make proactive moves and get closer to consumers to learn their preferences and design their services to meet those preferences, thereby controlling and comprising a greater share of the market--a phenomenon known as 'the scale paradox'. Most SMEs are managed by entrepreneurs which means decision making is flexible, faster and time (OEDC 2006:3).However, swift decision making can

adversely affects overall outcome as there is no guarantee of positive impact since decisions are often taken by entrepreneurs themselves based on formal authority against lateral considerations.

It is equally important to note that although SMEs share the same vision of economic growth, their activities and impacts vary across regions since they operate under different conditions, market environments, client orientations, and technological advancements. Forinstance, Fan (2003:4), points out that SMEs act as engines for growth by providing the largest share of employment in most economies, creating market pressure, and increasing competitiveness, which facilitates higher quality goods and services. The views presented here is that SMEs could serve as a source of income for many poor families engaged in household businesses, especially in villages and rural areas. For this reason alone, SMEs could thus be look upon as economic bedrock and could be seen as a useful tool for poverty reduction. More evidence in this direction comes from Tuck et al. (2014) who hypothesize that promoting SMEs creates more jobs and gives people of different social classes the chance to increase their income level. But a key question is, the nature of jobs created? the pay package and are labour rights respected?

Despite the overarching claims of the importance of SMEs, two reasons seem worth noting why SMEs do not worth the praises accorded to them: First they are massively involved in informal activities. Secondly, the jobs they create are grey, low paid jobs which often undermine labour rights. This has urged the need for the latter to be promoted against its failure and to be economically responsible.

## 2.3    **SME Failure:**

In attempting to analyze SMEs' failure, it is important to note that failure is not a process beyond human control. According to Dun and Bradsheet 1969 (cited in Theng and Boon 1996:48, Ihua 2009:200), SME failure is the end or termination of the activities of SMEs caused by internal and external factors with losses to the owners of the business. Among the myths concerning SMEs' failure is access to financing, which is built on the notion that every business needs sufficient capital to strive and grow. In the case of SSA and CMR in particular, more than 80% of the economy is made up of the informal sector (de Vreyer and Roubaud2013:17 ;Mbaye 2014:3; Yélognissè et al. 1998:2). Imagining the social and economic impact these firms will

make if brought to the formal economy, no stone would be left on ten in fostering and see that SMEs go formal.

Roubeaud and Torelli 2013 (cited in Mbaye 2014:4) shows that wages in the formal sector in CMR are twice higher than that of informal sector. This has two implications to the informal sector: First, salary based motivation to employees is undermined and secondly, unskilled labour adversely affects total factor productivity. Furthermore, there are those who argue that the form under which SMEs operate can translate to whether or not their overall mission is to grow or remain small (Berner et al. 2012:386). This view holds that there are entrepreneurs that operate to satisfy household needs--*survivalists*--and those who really want to grow while at the same time satisfy household income--*the growth oriented* ones. If this is true, then the latter will see no need to be formal since formality attracts other costs unlike the former. A potential question to ask here is: can the government be held accountable for firm's informality? Whether or not this is true can be viewed as two sides of the same coin. The first view holds that informality is required because SMEs feel a lack of transparency in government programs and the use of taxable income to provide SMEs growth related initiative programs. Secondly, the large proportion of informal sector means that tax burden rest on the shoulders of formal SMEs which again is a major burden as it adversely affects profit margin (Mbaye 2014: 4).In this case, SMEs could decide to exit and stay informal in order to make profit and minimize cost--a take it or leave it principle--known as "the Hobson's choice".

A potential view to explore is the quality of government's incentives to move SMEs from informal to the formal economy. Hence, there is the need for an integrated inquiry of what SMEs say they need, what the state provides, and lastly what those assigned to promote SMEs do.

Based on the work of de Heide (2006:13-15), OECD (2006:4) andMambula (2002:59),access to financial accounts for most SMEs fails. For some, state priorities towards creating a favorable and efficient market environment are not well targeted.An inclusive financial system that recognized collaterals in the least form is not feasible and lastly, SMEs lack the necessary management skills to cope with growing competition from globalization (Wattanapruttipaisan 2001:59-62). More still, (de Heide ibid.32), argue that the small size of SMEs creates bias in banks' loan approvals as well as a lack of economies of scale to conduct research and development (R&D) .Against this claim, de la Torre et al (2010:2284) argue that

the small size of SMEs have won bank's favor with towards SMEs since they are very well placed to sub-contract with large firms for their products and hence giving them an edge to deal directly with end buyers which is among the most important stages in the supply chain model.

Regardless of the motives and forms SMEs operate, they are all constrained more or less by factors from their external or internal environment.

## 2.4: **Internal Constraints**

In discussing the potential impact of SMEs' internal constraints, it is important to note that life itself is not bed of roses as humans and organizations alike faces difficulties at some point in time .Internal constraints here refers to all problems that come from SMEs themselves. Larson and Clute, 1979 (cited in Theng and Boon 1996:49), argue that organizational management and leadership skills serve as a key prerequisite to SME success. Similarly, OECD (2010:17) points out that in a country like Italy, 11% of SMEs see lack of skills as the main barrier versus 6% in large firms.

The same paper argue that SMEs face entry and new to market barriers like high startup costs and most prefer to stay informal, especially in developing nations where there is weak rule of law and enforcement of contracts. In the same report by OECD (2010 ibid.17), the share of turnover as a result of new entry and product innovation is 8% for SMEs, as oppose to 14% in large firms.  For Khan and Rocha 1982 , Steiner and Solem, 1988 (cited in Theng and Boon ibid), likewise found that SME failure is often associated with lack of marketing strategies, personnel management, knowledge of accounting, and product and market  analysis. Similarly, Abor and Quarter (2010:224) note that SMEs simply do not have the capital to finance their internal constraints among R&D and staff training. First, they rely on cheap labour instead of hiring skilled staff. Secondly, lack of incentives for staff reduces staff performance and affects overall productivity. Forinstance, Nichter and Goldmark (2005:1454)points out that there is a positive relationship between educated entrepreneurs and business growth  since the latter are able prioritize their skills to positively transform firms' objectives. According to a World Bank Report 2009, primary school enrollment and completion rate in SSA and CMR in particular is 60%. This explains why most entrepreneurs lacks the knowledge to impact their businesses which Fan (2003:12-16) and Ortega-Argile´set al. (2009:7-8) concluded that, a lack of clear

understanding of consumer preferences and market segmentation could be vital for gazelles--fast growing SMEs.

According to OECD 1993 (cited in Bougrain and Haudeville 2001:738), the manager and entrepreneur play a vital role in the overall success of SMEs since they are responsible for the approval of most decisions and transactions within SMEs. If SMEs have innovative and competent managers, they have an edge when it comes to the growth of their enterprise. From experience, most SMEs are operated and managed by entrepreneurs themselves or very small groups of individuals, which means that decision making often rests in the hands of the investor or a designated family member which kills dynamism and production.

For those who see innovation as a major setback to SMEs growth like Aryeetey et al. 1994 (cited in Abor and Quarter 2010 ibid.244), the lack of technological infrastructure to increase productivity and enhance competition with foreign products, pushes SMEs in most developing countries out of the market since they are not able to compete with high quality and subsidized foreign products. Similarly, Hess et al. 2002 (cited in Perrini et al. 2007:296) points out that most SMEs neglect the benefits of community engagement, the formation of a strong relationship with the civil society through contributions to and support of community based programs. This suggests that although most SMEs operate informally and tend to neglect informal and interpersonal contacts as a tool of networking and source of information. Hence, Bougrain and Haudeville (2001:738) concluded that SMEs lack the ability to gain tacit knowledge.

The inability for SMEs to communicate vision and goals to their staff might arise out of negligence and bossy nature of most entrepreneurs. This implication of this type of leadership is that it's undermines staff performance, skills and recognition which could be a significant incentives for low-line (Philipp, 2004:42).

## 2.5: **External Constraints:**

While access to finance have been arguable seen as SMEs' main external constraint (Mambula 2002:59), there are those who argue that external barriers to SMEs development are related to tax ceiling, excessive regulations, red tape, information asymmetry, coordination and participation gap between SMEs and agencies, free riders, weak enforcement of contracts, and

lack of proper technology and infrastructural framework(ERIA 2014:5-7). de la Torre et al (2009:19) and Mambula (2002:60)'s views on external finance are based on the argument that access to finance requires financial institutions to grant short and long term loans to SMEs. However, a common problem with access to finance is that SMEs often present poor business plans, poor financial records, and lack of collateral security, which all impede loan approval. de la Torre et al. (ibid.20) further noted that the environment under which SMEs operate is a major obstacle to SMEs growth due to the lack of strong regulatory institutional framework which include,

"*Judiciary inefficiency, the weakness of contract and collateral enforcement, slow and costly bankruptcy procedures, and the weak protection of investors and property rights* ".

In contrast, Dandridge and Sewall 1978; Peterson et al. 1983 (cited in Theng and Boon 1996:50) see SMEs as being helpless and unable to handle their problems since most of the problems are beyond control and surface from the external environment such as high startup costs , technological diffusion, and competition arising from globalization. Against this backdrop, Fan (2003:4), Bougrain and Haudeville (2001:738) concluded that SMEs tend to be less innovative than larger enterprises because they invest less in external performance in acquiring external technologies to enhance their production capacity which adversely affects their overall growth cycle. This assumes that the small size and labor intensiveness under which most SMEs operate limits them to invest on equipping their staff with necessary training that demands technological advancement. Hence, they are unable to absorb the needs of the external environment.

Table 5: Internal vs external contraints

| Internal constraint | External Constraint |
|---|---|
| Lack of capital<br>{ source of capital is heavily depended on bank loans and family} | Access to finance {lack of credit worthiness and informality} |
| Lack of management and personnel skills<br>{ lack of capital mean inability to employ highly skilled staff hence poor management and operational skills } | Competition {unable to conduct market research, hence lack of market preference } |
| Diseconomies of scale<br>{small size, hence donot enjoy the benefits of economies of scale like large firms } | Market imperfections {economic unpredictability, hence susceptible to external shocks } |
| Innovation {lack of financial capacity to invest in technological infrastructures, resulting to in-house innovation gap ,resulting to low absorptive capacity } | |
| Inability to carryout research and development<br>{no market segmentation and understanding} | Weak institutional and property rights {judicial inefficiency , corruption which raises overhead costs} |
| Lack of incentives { low salaries and poor working conditions demotivate and reduces overall staff performance } | New-to-market barriers {high startup costs , clean definition of goals and objectives} |

In general, arguments on the economic importance of SMEs as having the momentum to drive shared economic growth are still widespread (Harvey and Lee 2002:6; Hallberg 2000:2-5). Promoting SMEs will mean creating a nurturing environment for SMEs to strive and succeed, as they constitute 20.27% of the formal workforce in CMR (Beck et al. 2005:207). Hence, it leaves doubts whether the achievement of CMR's PRSP will be feasible.

Further to this,Charlier and N'Cho-Oguie (2009:28) suggests that in order for CMR to achieve sustainable economic growth, then regulation and policies have to be designed for inclusive growth--not only for the private sector, but all stakeholders who are affected or can trigger economic growth .Charlier and N'Cho-Oguie (ibid.29) further revealed that the share of

transport cost accounts for 20-40% of producer's price due to poor transport network linking farm to market or warehouse to ports and so competition with foreign products is badly affected which reduces the overall profit margin of home based SMEs.

Tremendous efforts have been made by the GoC towards promoting SMEs, including the creation of SMEs' promotion bank, MEPA and one-stop-shop which has reduced the number of days it takes for enterprises to formalize. On the other hand, one cannot be completely confident in using these measures to ascertain the degree under which the one-stop shop is effective and transparent since CMR is still classified among the worst countries to do business in the region by the World Bank's Doing Business Report Ranking (2014). Hence, this raises concerns: if these structures and policies are only on paper and lack performance, do they suffice in driving shared economic growth and prosperity? The answer is of course NO. Data from the field work suggests that despite the creation of the one-stop-shop, there are still cases of corruption and red tape.

In developing countries like CMR with high level elite capture, how autonomous are PAs from the central government? Do PAs operate according to the needs of the public or the needs of the hierarchy? How do SMEs and others see MEPA in relation to their performance? What influence does MEPA have and what can we draw from the responses of SMEs on what they say they need against the programs of MEPA. It is worth noting that weak SMEs will blame PAs for their failure. Nonetheless, a common denominator could be drawn to measure the performance of these agencies in relation to first, their programs and interactions with SMEs reference to policy and practice. Secondly, on the basis of performance and outcomes in relation to GG practices. Thirdly, international benchmarks with the programs of other agencies.

## 2.5: **Analytical Framework:**

Policy makers

(Policy formation/design)

**Interactions with clients;**

-access to information on investment opportunities

-capacity building and training

-linkages with foreign investors

-data available to public

-accountability to public

-transparency

-voice of the public

❖ **The SME Promotion Agency (MEPA)**

(objectives, vision, programmes )

SMEs, civil society and other interest groups

**Internal resource** mobilization;

-agency structure

-performance management

-incentives and punishment

Outcome

-SMEs become competent and competitive

-competition lead to quality products and services

-access to international markets

-access to foreign investors

-employment

-development of new products and services

The Governance framework was self-developed based on the literature on GG and organizational structure of MEPA. From the framework, policymakers are responsible for policy design and formation process to promote SMEs and the establishment of MEPA.

Furthermore, the framework assumes that interaction between MEPA and SMEs guided by policies to promote SMEs will enhance and boost SMEs' growth. Whether or not this is the case, will depend on the transparency, accountability, integrity and the degree of SME participation in decisions that affect them, which would also improve interaction between SMEs and MEPA.

Of relevant importance, active involvement and participation between SMEs and PA is likely to build trust, and more importantly will help the PAs better strategize as far as assessing the needs and building the capacity of SMEs is concerned. It is for this reason that the researcher believes the relationship between the PAs and SMEs is more of a principal-agent one with SMEs being the principal and PA the agent .But if the agent fails to understand the needs of the principal, this becomes a problem as the two parties may have asymmetric information, leading to the agent (PA) implementing policies that do not directly address the needs of the principal (SME).

According to Ross (1973:138) important information is often held by the participants, who in this case can be the SME (principal). This emphasizes the need for active involvement and participation of SMEs in order for PA strategies and policies to be more meaningful. Arrow (1984) also narrates that the problem arises when information between the two parties is not equal (leading to a principal-agent problem). Without active participation of SMEs, the PAs will not only have wrong priorities but will be easily held accountable for their actions. By using the principal-agent theory, we will argue that the issue of the two parties having divergent views is worse when the principal is in the informal sector which further tends to block them from holding the agent accountable thereby eroding their governance structure.

## 2.5.1: **Conceptual Analysis**

When investigating the concept of GG, one thing to note is GG and policies are not an end in and of themselves or a guarantee of achieving intended outcome since there are different views on the reliance of GG as a means to drive the efficiency of PAs and the need to design an outcome mapping indicator might be a great way to measure and test if GG is a good tool to enhance the performance of PAs. Pro-GG advocates claim that GG is directly proportional to higher economic development outcomes and prosperity in both the public and private sectors (Kaufmann et al. 1999; Shafik 2003). Similarly, Hartley (2005:30) found that GG practice could be a useful benchmark to build public trust in public programs. While government regulatory interventions are meant to tackle and improve citizens' socio-economic problems and to make resources more affordable and easy to access, scholars such as Dunleavy et al. (2005:477) and Gomez-Ibanez (2003:19), claim that without good institutions, regulatory strategies are as good as political machines. Similarly, Matland (1995:149) found that for any policy reform to be successfully implemented, a key criterion involves a clear understanding by the micro level population of the policy implication and practices. This therefore suggest that a multistakeholder approach in designing PAs' programs could be a meaningful step to see into it that the needs of SMEs are taking into consideration in broad decision making through active participation.

This therefore emphasizes the need for SMEs to participate in decisions that concern them. Critiques like Mahbubani (2010:207) and Gomez-Ibanez (2003:19) claim that public managers could be subject not only to hierarchy, but to clientele capture through rent-seeking behaviors interest owing to their position and power to influence outcome. To add, Brinkerhoff and Goldsmith (2002:9)concluded that patronage relationship undermines GG by creating an avenue for corrupt practices and loss of public trust and confidence especially in post-colonial African state. But what really is Governance and GG?

In common terms, Governance entails all the processes and activities in the geo-political and socio-economic ecosystems  in which rules and norms are designed by the central government or authority in an organization to define actions and priorities aimed at achieving sustainable  and inclusive set of goals and objectives that will satisfy (by means of transparency, accountability, integrity, efficiency and participatory, social justice--Good Governance) the interest of all stakeholders and to evaluate performance based on outputs and outcomes (World Bank 1992; Asian Development Bank 1995; Canadian Institute of Governance 2002; UNDP 1997; Kaufmann and  Kraay2002). However, the efficacy of these concepts still leaves many unanswered questions among which: is GG applicable to every regions and organization? Similar questions have dragged the concepts into the hands of different critiques who question the relevance of the concepts in the global south (Fukuyama 2013: 350).

2.5.2:  **Critiques**

Despite the overarching claims of the relevance of GG as a tool to drive effective and efficient public service delivery, there are growing debates that GG stems from the predominant narratives and hegemonic doctrine of the neoliberal order of the global North skyrocketed by international development institutions (World Bank, IMF, United Nations OECD) whose context and applications may not possibly find a place in the global south.

Whether or not these claims are correct rests on the notion that the state by virtue of its autonomy is responsible to drive economic prosperity, pursuit strategies that will sustainably provide an enabling environment and promote all sectors and to meet the welfare needs of its subjects through sound policies and reliable institutions using different approaches but not limited to GG.

Critiques of GG argues that the post-colonial African states are eroded with elite capture where top positions in public offices are held by officials of the ruling party marked with favoritism, nepotism and tribalism which in most cases are uncreative to drive and meet institutional goals (Brinkerhoff and Goldsmith 2002:10-11). According to Grindle (2008:10-13) and Leftwich (2008:226), GG could be viewed as a politically driven concept,rather than a tool to enhance efficient public service delivery since those in power pursue their own interest or those of their "god fathers", thereby undermining the cry of the public. To unravel this further: China a country with a low GG performance index according to World Bank and Transparency International (TI) 2013 indices, is the second most productive economy in the world against the Nordics who top the list (Grindle ibid.10).In addition, Botswana, Rwanda and Mauritius have a very low corruption perception index against Nigeria according to TI 2013. And yet, Nigeria is amongthe most prosperous economies in the continent. How GG does explain such disparities is not clear-cut. However, we can only suggests that a resource rich country be invest rents from natural resources to have an integrated economy irrespective to its GG ratings.

Of particular importance, the mainstream idea of GG perhaps could be misleading since its relevance in one political atmosphere doesn't automatically translate to the fruitfulness in another with different socioeconomic and geopolitical configuration.

In the new public service order in what Hood (1991) coined the "New Public Management (NPM)" which is the process of rendering a more efficient and effective public sector service delivery, there exist other key bottlenecks addressed by NPM according to Dunleavy et al. (2005:470) include: disaggregation, which involves reducing internal layers of bureaucracies and having a more flexible public sector. Secondly, to make the provision of a more marketable public sector in the allocation of resources which is believed to increase competition. Third, the incentive which involves merit based pay by rewarding performance of quality services.

However, Dunleavy et al. (ibid.273) further stressed that it is unlikely for merit based pay to enhance performance in public services since different staff could be motivated by several factors (work leave, recognition, networking, among others). The scholarly work of Vigoda (2002:529-536) argue that , while NPM strives to promote agency responsiveness to citizen's quest for information in relation to time and accuracy, the free-riders and watchdog types of citizens could be sideline in criticizing the state. However, the activist type of citizens in most developing nations suffer dead threats and are even attack since there is no rule of law and rampant abuse of human rights. This scenario poses a great threat to agency responsiveness and participation of the public for fear of loss of lives. On this note, NPM will simply not be applicable in fragile states where weak institutions often driven by elites who will use their power and see into it that their priorities and interest are met irrespective of if it is against the will of the public (clients) whom they are there to serve.

While one could possible justify the effectiveness of GG, the context and environment under which GG is implemented varies in different regions and so do outcomes (Botchway, 2000: 787). Forinstance, despite the ameliorative benefits of e-governance among which it reduces transaction cost, enhance transparency and openness, its application could witness tremendous setbacks in developing countries. First, lack of human capital in digital technology will render e-governance ineffective. Secondly, the poor nature of the economy and citizens will mean that citizens as well as the state will prioritize spending and investment on basic needs such as education, health and household food security.

In the same line of argument, Fullan (1994:7), points out that most organizational innovation come from the blend of top-down and bottom-up staff engagements in decision making process as opposed to hierarchical and bureaucratic form of leadership -- the illusion of control which undermines staff performance through skill disempowerment. This suggest that marriage between the public staff engagement with their clients could even go further to boost agency performance in decision making and implementation of their programs (Grindle 2004:525-526). The language of this approach could give PAs a strong sense of translating public needs into broad agency vision.

If GG is a useful tool for agency performance as it is argued (IMF 2014:17), then a critical look at how and for whom GG work best could shed more light on our understanding of the concept. On this note, Grindle (2005) proposes two frameworks on how successful implementation of GG can be look upon and achieve positive impact. First, she argues that GG approach should be able to identify institutional weaknesses and strengths. That is to say, knowing the limits through which agencies can reach in implementing GG practices which to her are a chance to further streamline implementation boundaries. For instance, including women's voice in a community program that forbids women in public affairs might be a backdrop to the overall progress of such program. The emphasis of this framework seems applicable since not all public agencies have the capacity to translate all governance mechanisms into objective values, as some GG tools are technologically oriented while others still use the traditional methods of GG.

The outcomes of the technologically oriented tools and traditional tools might have great disparity. Secondly, implementation of GG can perhaps identify possible sources of change in both the internal management of agencies, the staff, change in hierarchy, political groups, and of course the external environment which involves how the policies and programs will meet PAs theory of change and SMEs' perceived needs. Similarly, Kettl and Milward (1996:15 15) argue that the major pitfall in pursuing the reality of GG by public managers is the tendency of bureaucracy,allegiance to power and political regimes which undermines public participation in decision making. In such a scenario, how can transparency and accountability be achieved let alone integrity? From this viewpoint, we can suggest that GG entails more than what it portrays and its application is dynamic.

This eye opening debates are extremely important to scale the extent through which the concept of GG could be applicable in developing countries and Cameroon in particular or just a mainstream concept. The normative views of government's role in shaping the economy through different policies could be challenged, especially if these views donot translate themselves into observable outcomes.

# Chapter 3: **Socio-economic Policy Transition and Implications**

This chapter examines CMR's economy in relation to the government's role in fostering economic growth, the policy transition, actors involved in SME promotion and the case of Douala.

## 3.1:    **Economic Transition**

The regularization of the economy by the GoC in alliance with IMF and AfDB through major economic, structural and social reforms and adjustment programs owes to the economic turmoil as a result of devaluation and fall in oil and agro prices in the world market between 1987 and 1993.But first, the economy experienced a rosy annual growth rate in the 1978 of 5% which further went up to 7% until 1986 after the discovery of oil, which all contributed to 20% of GDP, 44% of government revenue and 54% exports (AfDB 2002:1). In addition, GDP growth rate further went down to 3% per annum between 1992 to 1994 and steppedupto 3.3% in 1994-1995, and then to 5% in 1996. Fall in timber exports resulted in a fall in GDP to 4.4% in 1998 to 1999 and further to 4.2% in 1999 to 2000. The period between 2000 to 2001however witnessed a rise to 5.5%.

According to the IMF (2006:4), Cameroon experienced a 3.7% - 2.6% (1.1%) growth rate in 2004 and 2005 respectively, in whose decrease was mainly affected by a 1.3% decrease of the secondary sector (AfDB 2002 ibid.8).

The economy is largely fueled by oil and the agro sectors which according to AfDA (2009:2), make up 50% and 25% of total GDP respectively. Overall, consumption and investment constitute 80% and 17% of GDP respectively on the demand side while at the same time, the share of the primary sector to GDP stands at 21%, employing 60% of the population. Similarly, the secondary and tertiary sector represents 33% and 43% respectively. With about 93,000 SMEs in Cameroon which make up 85% of the private sector, creating about 300,000 jobs with an employment ratio of 1 SME to 15 employee (NIS/GEC 2009:1-3; Rabarijohn

2012)and given the current world oil and gas crisis that have ripped major economies like Russia, Saudi Arabia, and Nigeria, the faith of the CMR economy is yet to be decided.


## 3.2:    **State Duty to Drive Economic Growth**

Cameroon enjoys a stable political atmosphere among its neighboring countries which itself is an incentive to drive economic growth (AfDB 2009:1). Nonetheless, the government's role in driving the economy relies on different factors as Clark (1995:598) stated:

*"Governments are able to use social , political and economic policies to encourage a healthy civil society and public accountability of state institutions in ways which promote participatory development and foster a strong private sector. Such policies would help the government become better attuned to popular concerns, and to improve its efficiency".*

In an urge to restore and sustain growth, the GoC enacted major reforms geared towards fixing macroeconomic and budgetary imbalances, implementing civil service reform and a focus on improvement of the transport sector (World Bank 2000).

The common strategy of promoting the private sector as a way to foster economic growth urged the GoC to create The National Center for Assistance to Small and Medium-scale Enterprises (CAPME) in 1970 by Presidential Decree No. 70/LF/7 of May 20, 1970. Among the agency's main goals was to promote the development of SMEs by and for Cameroonians through information and capacity building. Secondly, Presidential Decree No. 75/238 of April 3, 1975 led to the creation of the Aid and Loan Guarantee Fund for SMEs (FOGAPE) whose main mission was to provide financial assistance to SMEs related projects to boost SMEs' growth capacity. Although these agencies managed to fulfill their objectives, they suffered from administrative inefficiency and mismanagement which eventually resulted to their bankruptcy (Levitsky and Prasad 1987; Ndongko 1986:135-139; de Santis and Lang 1989; UNECA 1984:14).

Despite this, the GoC has developed a strategic framework for 2035 whose vision is to improve economic activities besides the 2010 PRSP. Among the vision 2035 objectives are;

*Table 6: GoC vision 2035 growth strategy*

| Major objectives | Target |
|---|---|
| Become a middle-income country | -Increase the productivity of the economy<br>- Intensify sylviculture, agro-pastoral activities, fish farming, mining activities<br>- Preserve macro-economic stability<br>- Promote the transformation and professionalization of services<br>- Promote, disseminate and enhance research findings |
| Become a newly industrialized country | -Intensify investments in infrastructure and the productive sectors<br>- Develop a sound, competitive and diversified manufacturing sector<br>- Collect savings, finance growth and development<br>- Change the structure of external trade and expand the markets<br>- Integrate into the international financial sphere and improve banking intermediation |
| Enhance national unity and consolidate democracy by promoting the ideals of peace, freedom, justice, social progress and national solidarity | - Strengthen national unity and consolidate the State as guarantor of the public interest<br>- Promote the rule of law and the credibility of the judicial system<br>- Ensure greater participation of the population and consolidate social liberties<br>- Strengthen the security of persons and property<br>- Strengthen decentralization and local development. |
| Reduce poverty to a socially acceptable leve | - Make the population an effective factor of development<br>- Intensify investment in infrastructure and productive sectors<br>- Narrow the gaps by improving the redistribution systems<br>- Improve supply and guarantee access by the majority to quality healthcare services<br>- Improve social protection and security<br>- Improve the supply, quality and adequacy of training<br>- Promote the creation of decent jobs |

Source: AfDB(2009)

Driving economic growth also means creating a favorable climate for enterprises to strive and grow through the implementation of sound policies. CMR ranks 168 out of 189 in theWorld Bank's Doing Business Report (see Figure 3 below). This report focuses on the aspects of starting a business, obtaining construction permits, getting electricity, registering property, accessing finance, protecting investors, enforcing contracts, resolving insolvency, tax schemes,

and border trade. This implies, doing business in Cameroon is a cumbersome venture, let alone to succeed.

*Figure 3:Cameroon ease to do business rankings*
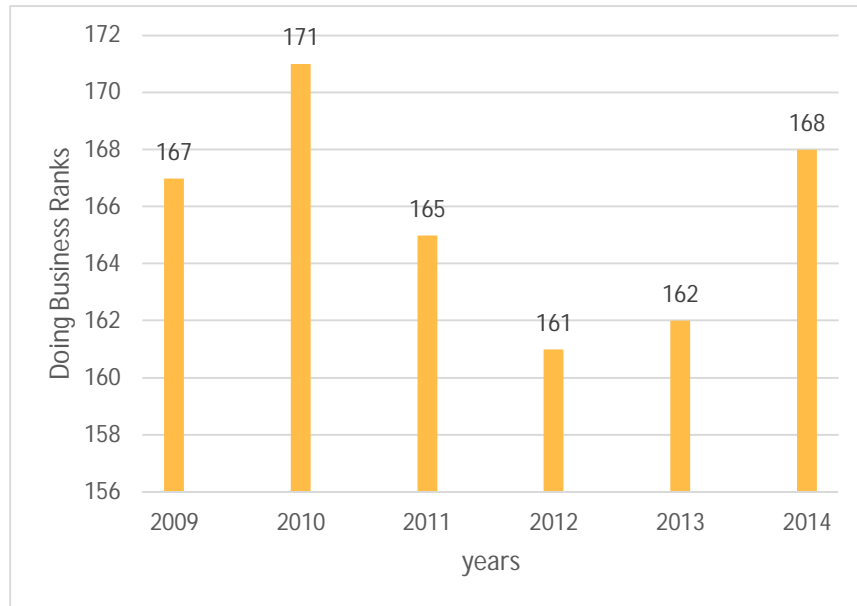


From the chart, we can see that the bell shape between 2010 and 2014 indicates weak performance in relation to doing business in the country.Tremendous improvement was made between 2011 and 2013 with a 4-point downward swing (2011 - 2012) and a 2-point upward swing (2012 - 2013).Interestingly, various policy instruments and agencies including the creation of one stop shop started between 2011 to 2013 but as we can see the easy to business performance from 2012 to 2014 is

Source: World Bank Doing Business Report 2009 - 2014.

Similarly, looking into the country's Doing Business Good Practices and Transparency according to World Bank's 2014 and 2012 Reports respectively (see table 7 below), shows that the country is still far behind among its peers in starting up a business and business information gap for entrepreneur vis-à-vis the law or decrees on what incentives are available to entrepreneurs and SMEs.

Table 7: Transparency in business regulation and good business practices in 6 economies

| Countries | Availability of fee schedules for starting a business | Available only upon request from agency's employee? | Published in laws/ decree/ regulation / gazette? | Brochures, boards or other public notices at the agency's office? | Easily available online? | Can registration procedures be completed online | Presence of one stop shop | Is there no paid-in minimum capital requirement? |
|---|---|---|---|---|---|---|---|---|
| Cameroon | no | no | yes | no | no | no | yes | no |
| Congo (Dem.) | yes | no | yes | yes | no | no | yes | no |

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| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Congo (Rep) | no | no | yes | no | no | no | yes | no |
| Central African Rep. | no | no | yes | no | no | no | yes | no |
| Equatorial Guinea | no | yes | no | no | no | no | yes | no |
| Gabon | no | yes | no | no | no | yes | no | yes |

Sources: ▦ World Bank Transparency in Business Regulation 2012

◼ World Bank Doing Business Good Practices 2014

Rent-seeking practices have been a major blow not only to the economy but also the entire country and affects both the private and public sectors whose attributes could undermine policy and overall reform strategies to drive economic growth and SME promotion. However, studies indicate that corruption could be a greasy wheel to overcome bureaucratic rigidities in the acquisition of licenses, customs clearance, tax avoidance, and startup procedures (Gould and Amaro-Reyes 1983:24 ;Bayley 1966:728). Conversely, Chêne (2014:2) and Mauro (1996:87-88) argue that corruption undermines efficiency and effectiveness not only in the public and private sectors, but also constitutional gerrymandering. In addition, they argue that corruption increases government's expenses and reduces rents through revenue from taxes especially tax officials who could be bribed by entrepreneurs to reduce their stocks, discourage investment and hinder developmental projects.

In the same line of argument, Pellegrini (2011:24; Lindauer 1999) points out that there is a negative correlation between corruption between economic growth and overall business environment. First, corruption increases the transaction costs for entrepreneurs by forcing them to pay for services which are normally free. Secondly, corruption undermines the capacity of public staff. Thirdly, it increases government expenditure, and lastly, corrupt practices impede foreign direct investment by increasing costs for foreign investors. In addition, corruption undermines foreign aid, especially when donor countries realized a lack of accountability and transparency in receiving countries.

Being the winner of the most corrupt country award for three consecutive years (1998-2000) according to Transparency International (T.I.), reforms by the GoC towards shaping the public sector to combat corrupt practices which has become a cankerworm can be seen by recent by: First, Decree No. 098/273 of October 1998 establishes the Ministry in charge of the Supreme

State Audit to ensure ethical and best practices in public sectors and control of state's accounts. Secondly, The National Anti-Corruption Observatory, created in 2000,The National Agency for Financial Investigation (ANIF), created by Decree No. 2005/087 May 2005,National Anti-Corruption Commission (NACC), created by Decree No. 2006/088 of March 2006 which took over The National Anti-Corruption Observatory(Siyam et al. 2012 ; AfDB 2009:4).

The capacity of these reforms by the GoC to tackle corruption still suffers from credibility issues since according to TI Corruption Perception Index (CPI) 2013 and 2014 (see table 8), Cameroon still lies along the boundaries of the most corrupt countries in the world. With such notions in mind about the public sectors, the reliability of public agencies like MEPA undoubtedly raises concerns as to if these agencies are job banks for bureaucrats or an avenue for cronyism.

Table 8: Cameroon's CPI between 2009 - 2013

| Years | Ranking / Total | CPI Score / 100 |
|-------|-----------------|-----------------|
| 2013 | 144/177 | 25 |
| 2012 | 144 /176 | 26 |
| 2011 | 134/182 | 25 |
| 2010 | 146/178 | 22 |
| 2009 | 146/180 | 22 |

Source: Transparency International 2009 - 2013

According to the survey, a CPI (corruption perception index) score of 75- 99/100 implies a highly clean or less corrupt countries/economies while a score range 0-25 implies highly corrupt countries/economies.

3.3:  **Policy Transition**

Policies are designed to enhance internal institutional and administrative capacities which are believe will solve socio-economic imbalances, market imperfections aimed at achieving shared economic growth, peace, and prosperity. The relevance of any policy framework could be measured by its outcome, impact and value of change to its beneficiaries.

The shift by the GoC to promote SMEs as a result of the devaluation of the CMR currency and global financial crises in 1985, 1990, 1995 and 2008, were eminent in order to

diversify economic growth which saw the passing of Law No 2010/001 of 13th April 2010 To Promote SME's in Cameroon.

Among the key objectives of this decree are:

- Provision of information on investment opportunities to SMEs (Chapter II/Section 9)

- SMEs incubation structures should identify the potential of SMEs and develop the skills of their promoters, acquaint SMEs with networks of effective relations and business opportunities (Chapter III/Section 12)

- Building SMEs capacities, promoting scientific and technical research, facilitate and ease SMEs access to finance, modern management methods, enhance their competitiveness (Chapter IV/Section 17-19)

- Chapter V/Section 34; Approve SME management centers to provide accounting and tax management assistance to SMEs in accordance with the regulations in force (CIPA n.d).

The expectations of the PAs and SMEs with respect to this law on the basis of value promises could be assess by monitoring and evaluation of outcomes (Dunn 2012:246). Hence, policy monitoring and impact evaluation of outcome could be very essential in that: First to ensure compliance of norms set aside by policy guidelines and implementation. Secondly, the extent under which the outcome meets the needs of the target beneficiaries. Third, to provide data on policy outcome which will create awareness of policy customize programs, planning and to gain trust in public institutions. In essence, policy monitoring and actions related to allocation and regulation help to enable a policy to meets its intended mission, goals and objectives (Dunn 2012:246-249).

Figure 4 below shows that if those to drive policy outcome are given and empowered in relation to policy inputs (financial and non-financial) and there is careful monitoring of policy projects, then the policy impact could be feasible.

Figure 4: Policy actions, their implementation, monitoring, outputs and impacts
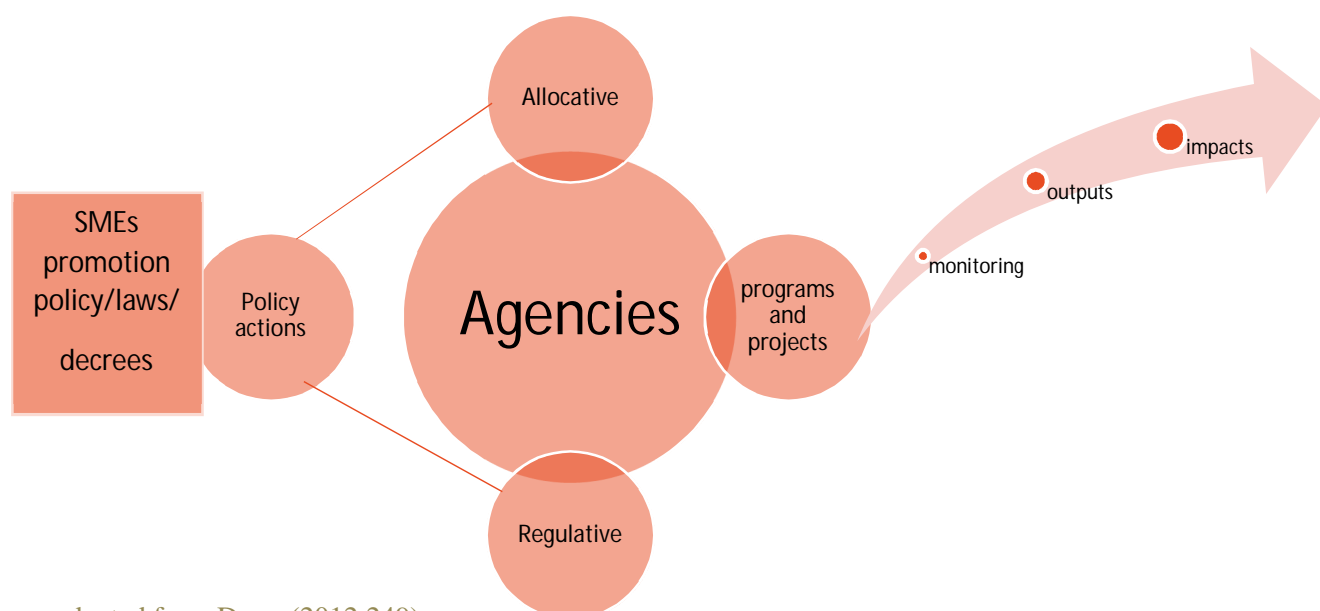
According to OECD (2011:93-94), most PAs are confronted with two main problems in their struggle to promote SMEs. First is the need to ensure that policy projects and programs meet policy goals and objectives. Second is to ensure that the budget meant for policy projects and programs is used to achieve optimal returns. Based on these claims, it could be said that the ease with which policy goals and objectives can be achieved rests on three main factors: effective implementation, monitoring each phase of the projects and programs, and evaluation of outcomes (Dun 2012:248).

## 3.4: **Promotional Agencies**

The role played by PAs, if well managed and implemented through a multistakeholder, inclusive and capacity building approach could be a major breakthrough to foster and enhance SME growth capacity. In line with this, there is the need for a comprehensive, coherent, and consistent commitment of all parties involved at all levels to ensure that the objectives described in the policy documents are fully addressed, harnessed and translated to intended outcomes. The expectations of agencies entrusted to promote SMEs could therefore able to clearly define and communicate what their agency seeks to provide and how, not only within their internal structure

but also to SMEs and interest groups. Far from that, a clear and reliable channel of information and awareness could be a powerful tool in achieving the climate that SMEs need to strive and succeed.

Similarly, the introduction and SME access to the technology they need to boost their outputs, creating incentives for SMEs to lobby for and participate in research and management projects, promote and encourage foreign linkages which will open investment corridors and partnerships for SMEs to gain and access not only to new markets, but also recent technologies and management skills (OIC 2011). If the "how to do and expected outcome" of these actions are not well communicated to SMEs, then success will only be a shadow rather than reality which accounts for the growing needs and mismatch seen by SMEs.

According to OECD (2004:9), prioritizing policies could be successful by considering the economic terrain and factors under which SMEs operate and which are affected upon such as labour market mechanisms, tax schemes, competition, capital markets, bankruptcy laws, skills enhancement, innovative capacities, and SMEs cultural values.

Some of the private stakeholders as, para-statal, multilateral, as well as public, financial institutions and agencies (see table 9) whose range of activities involve promoting the business climate in Cameroon and Douala in particular include those listed in the table below:

Table 9: Lists of SMEs support agencies and institutions

| Name of Agency | Legal Status | Main Function |
|---|---|---|
| National Investment Corporation (SNI) | Public | Promote socioeconomic development of the country through buying of company shares, granting loans to investors and managing investment projects on behalf of the state |
| Cameroon Chamber of Commerce, Industry, Mines and Handicraft (CCIMA) | Public | Disseminate economic and commercial information, support creation of enterprises, export support, certification and training |
| Investment Promotion Agency (IPA) | Para-statal | Promote Cameroon business climate to abroad; attract foreign direct investors ; present lucrative projects to investors and carryout certification |
| Ministry of Small and Medium-size Enterprises, Social Economy and Handicrafts (MINPEMEESA) | Public | Responsible to develop, implement , monitor and evaluate government's policy to develop SMEs, Social Economy and Craft |
| Groupement Interpatronal du Cameroun (GICAM) | Private | Empower businesses though training on business matters and defend business owners on issues that directly and indirectly affects their business and to enable them benefit |

| | | from favorable business environment |
|---|---|---|
| International Finance Corporation Cameroon (IFC) | multilateral | Provides financial support and advice to private sector development projects including SMEs |
| The SME Promotion Agency (MEPA ) | Public | Targets SMEs nationwide vis-à-vis capacity building to fight competition, management and all activities aim at fostering SMEs growth and development both in domestic and international markets |
| BICEC , SCB Banks | Para-statal | Provide financial aid to SMEs' projects |
| Advance Cameroon Group , African Development Bank | multilateral | Provide funding assistance to SMEs Projects |
| Cameroon Business Forum (CBF) | Public | Improving business climate by empowering the activities of the private sectors and strengthening public private partnerships |
| SMEs Promotion bank | Public | Provide SMEs financing windows |

Source: (British High Commission – Yaoundé 2013:10 , Biankong 2010 ,  Africa Development Bank 2014 ; Cameroon Business Forum 2014)

Among these institutions, only The SME Promotion Agency (MEPA--see table 10 below ) was created by presidential decree 2013/092 of 3 April 2013 to promote the activities of SMEs. Unlike the other agencies that see into the improvement of the general business climate, MEPA specifically targets SMEs in relation to their shared vision of growth, development, and economic prosperity.

The main objectives, activities and expectations of MEPA are:

- provide assistance and guidance to SMEs

- facilitate formalities for starting a business

- assist and advise holders of ideas and projects

- build capacity

- establish a data bank and project

- promote technological innovation

- establish an observatory for SMEs

- incubatestart-up

- encourage companionship (partnership with large companies), etc.

MEPA is led by the MINPEMEESA and Ministry of Finance (MINFI) for technical and financial supervision respectively and managed by a team of 12 appointed by presidential decree for a 3-year term (MINPEMEESA, n.d.).

Table 10: Summary of MEPA

| Shortname | MEPA |
|---|---|
| Headoffice | Douala, Cameroon |
| Status | Government Agency |
| Main activities | Promotion of SMEs through;<br><br>-capacity building against competition and skills gap<br>-technological innovation<br>-guidance and assistance<br>-assistance and guidance of SMEs projects<br>-provide information on support programmes<br>-linking SMEs with foreign enterprises and investors |
| Sectoral priorities | Focused on SMEs, but priority is giving to SME with high potential<br><br>(the kind of priority and sectors are not specify) |
| Function | SME Promotion |
| Source of funds | State budget |
| Budget | 12billion FCFA $\cong$EUR 18,293,882 |
| Number of staff (national) | 600 |
| Management board | 12members appointed by presidential degree |
| Technical supervision | Ministry of Small and Medium Size Enterprises, Social Economy and Handicraft |
| Financial Supervision | Ministry of Finance |

Figure 5: Organigram of MEPA
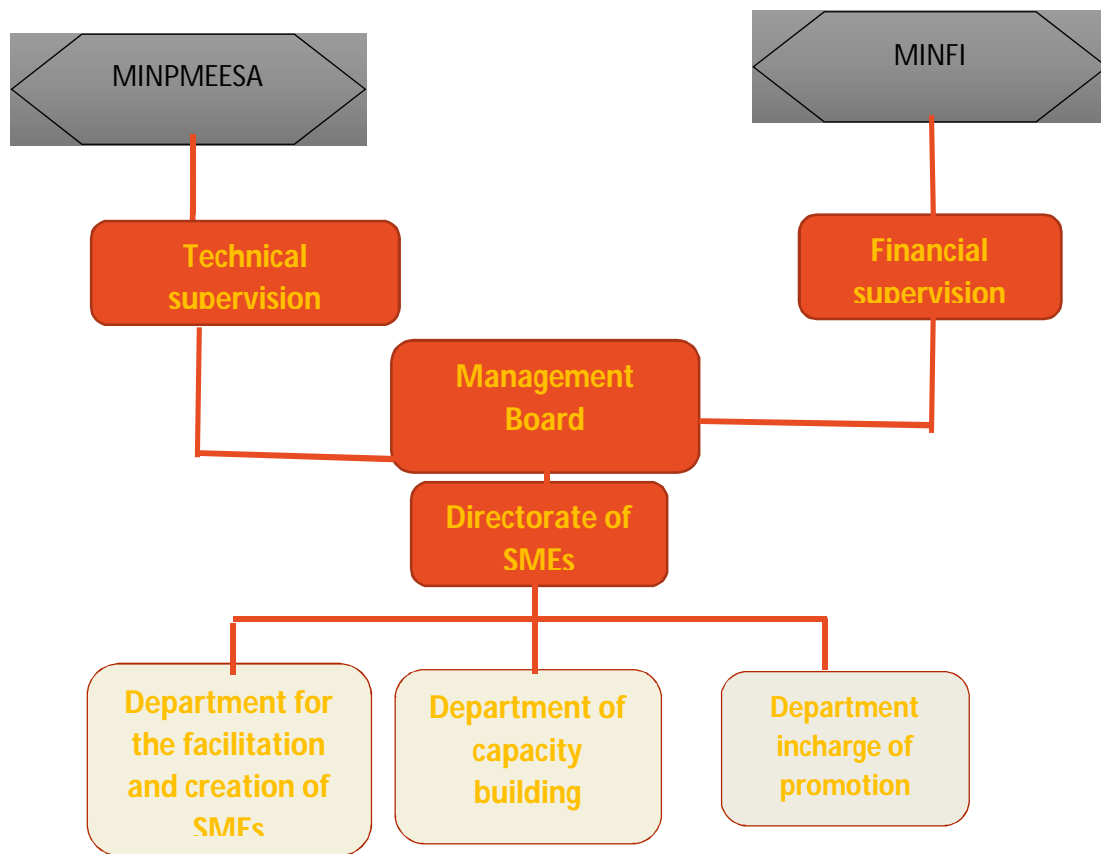
## 3.5: The Study Area – Douala
### 3.5.1: Overview

Discovered in 1472 by a Portuguese sailor named Ferdanando Poo, the city of Douala lies within the geocordinates of latitude 04 3N (4.04827) and longitude 009 42E (9.70428) with IATA city code DLA and located along the banks of river Wouri. Being the economic capital of Cameroon and the capital of the littoral region, it is divided into seven main districts: Bonanjo, Akwa, Bonapriso, New Bell, Bonaberi,Deido, and Bassa, with Akwathe central business district. It has a population of about 2.5million people and a surface area of 210 km2 (80 sq mi), hence a population density of about 11,904 inhabitants/km2 (Presidency of the Republic of Cameroon,

n.d. ;All About Cameroon, n.d. ; Geoban.d.; Index Mundi n.d.; Cameroon Infotourismen.d. ; Tansi 2011:29).

Douala is the richest and most urbanized city in CMR that attracts about 100,000 migrants annually for businesses, leisure, employment, and investment (Les Ateliers 2013:2). From 1987 through 2005 to 2012 (809 852, 1 907 479 and 2 446 945 respectively) the number of inhabitants in the city has increased dramatically with an annual growth rate of 3.62%, making it the fastest growing city in the country, with an estimated population of 4 million inhabitants by 2025 (Les Atelier 2013 ; World Gazetteer 2013).

As the population increases, the demand for goods and services to meet household needs and wants increases. To support the growing population, job creation is paramount. As a business hub, Douala is home to most of the country's enterprises and diplomatic mission such as those of Turkey, USA, Italy, India, Denmark, Israel, Nigeria, Senegal, Canada, Belgium, France and Mali (Douala City, n.d.).

### 3.5.2: **Economic potential of Douala**

Of all the enterprises in the country, 35.1% are located in Douala (See fig 6) of which 89% are owned and managed by sole proprietors, mostly Cameroonians. In 2008, enterprises in Douala accounted for 59.7% of the total turnover of 10 225 billion FCFA (about €15 million), 47.1% of permanent jobs in the country and 31% of the country's GDP (Euromonitor International 2013; NIS/GEC 2009).

Figure 6 : Distribution of enterprises
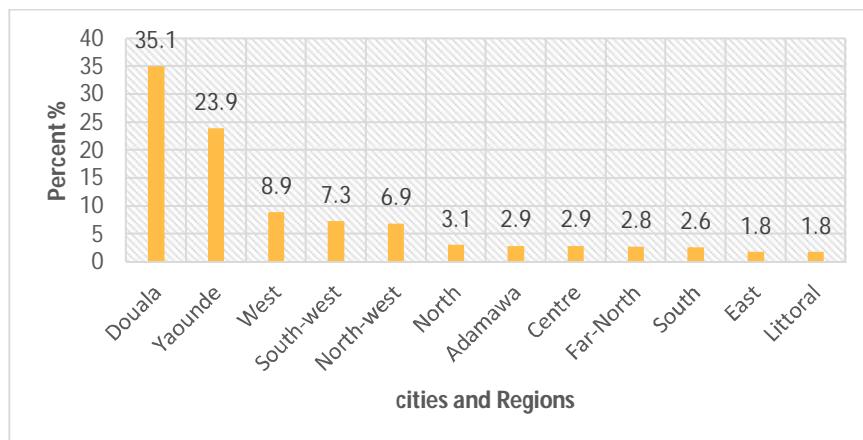
The presence of a ring road that connects the city to all parts of the country has given the city an edge in addition to its economic potential. The largest seaport in Central West Africa, the Douala port has a carrying capacity of 6million tons of cargo per year and constitutes 95% of all entry and exit of imports, exports and goods to the CEMAC countries. For this reason, it serves as a transit hub to the rest of the CEMAC countries such as Chad, Congo, Central Africa Republic (World Bank 2010a, 2010b). Despite the fame of the city, it still faces numerous impediments to socio-economic development, such as an underdeveloped infrastructural network, poor urban management, poor sanitation, and high rates of unemployment (see fig 7 below) and urban crime .

*Figure 7*: Unemployment rate 2010 (%)
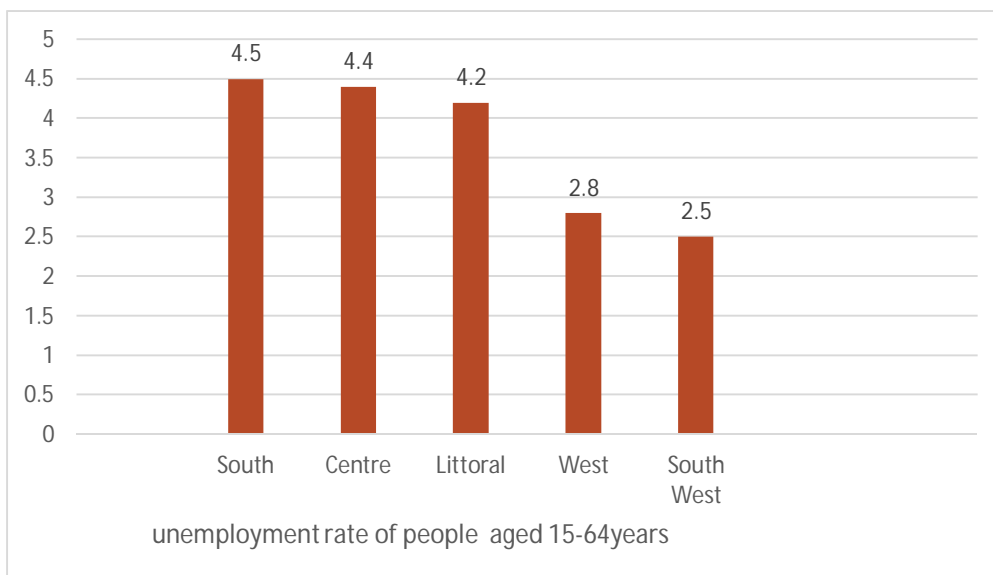
# Chapter 4: **SMEs' Constraints and the Performance of MEPA:**

This chapter presents and critically analyzes key findings from field work on the constraints of SMEs against the programs, activities and factors that hinder the performance of PAs.

## 4.1:    **Empirical Results**

### 4.1.1**: Respondents by Size**

The research covers enterprises governed by SMEs Promotion Law which include; VSE of staff count 1-5, ME of staff count 6-21, and ME of staff head count 21-100. From the data collected, 47% of the respondents (fig. 8) represented ME, 30% were SE and 23% were very VSM. Respondents here refers to SMEs.

*Figure 8*: Respondents by employee size
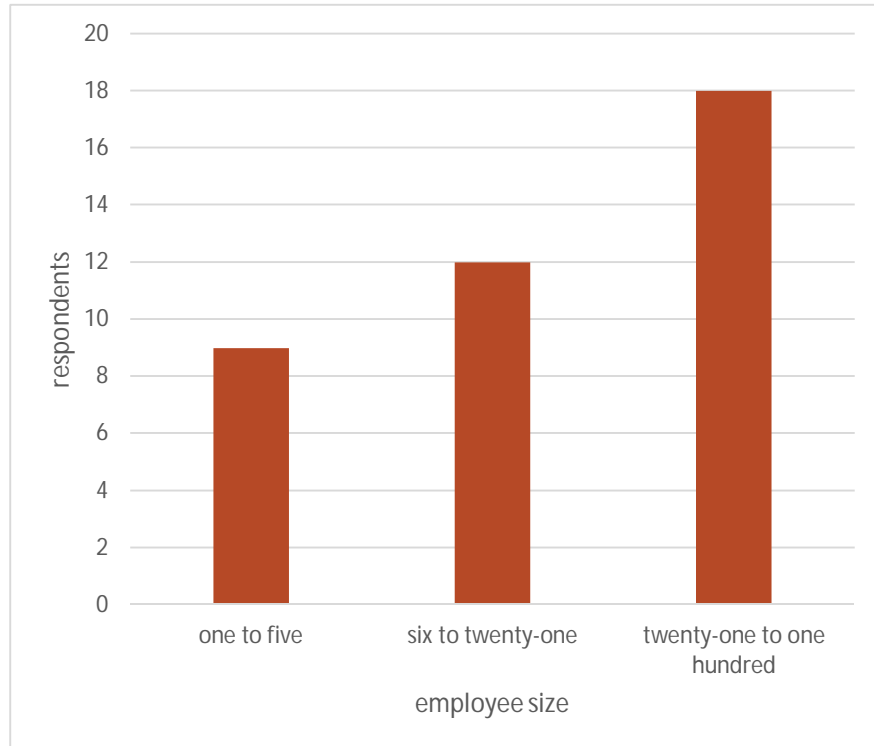


From the chart, the survey registered a great success by covering all types of enterprises; VSEs, SEs, SMEs governed by the SMEs promotion law which means that a common variable seen as a core problem runs through all enterprises irrespective of size in which value judgment can be reach.

### 4.1.2: **Respondents by positions in enterprises**

It was necessary to know the position of the respondents (fig.9) in these enterprises so as to ascertain the extent of their familiarity with the needs and constraints of SMEs. The assumption is, owners and managers of these enterprises may be more familiar with their constraints and needs since, in most cases, they represent their enterprises in public matters

*Figure 9*: Responses by position in enterprise
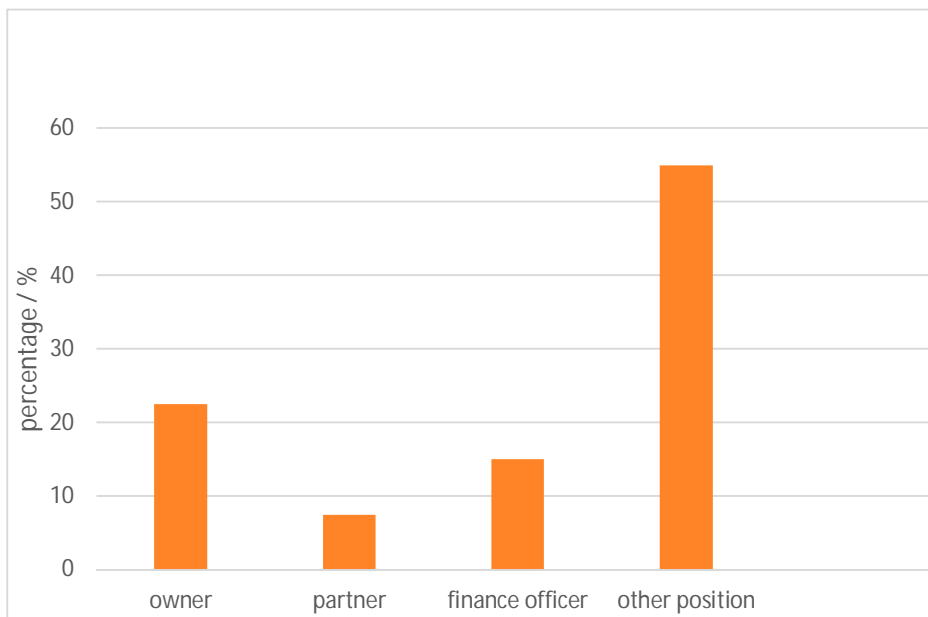


From the chart, over 55% of the respondents holds position other than owner which follows by 22% then finance by 13% and partner by 5%.

The percentage of owners who responded reflects a considerable margin of the survey. It is also important to note that it is the decision of the respondents not to disclose their position.

### 4.1.2:  **Constraints faced by SMEs:**

The questions were posed to meet the objectives of the study and most importantly to answer the research question and sub questions. Table 11, below shows the sub-questions and indicators to the questions posed to SMEs and policy guidelines.

Table 11: SME constraints vs performance check

| Sub questions | Question(s) asked (SMEs survey) | Indicators | Policy checks | Agency performance benchmark |
|---|---|---|---|---|
| 1) How are the internal structures and programs of PAs structured to reflect what SMEs say they need? | 1) Barriers to SMEs development<br><br>2) Services and programs most important for SMEs | What SMEs need | 1) Information, training, management skills, capacity building | 1) Voice and Participation |
| 2) What has been the outcome of the policy intervention through PAs to meet the needs seen by SMEs? | 1) Which organizations support SMEs in Douala, Cameroon<br><br>2) Services and programs most important for SMEs | SMEs awareness | 1) Channels of information to SMEs<br><br>2) PAs – SME relationship | 1) Transparency,<br><br>2) 2) Accountability |
| 3) Does the performance and activities of the PAs correspond to what SMEs say they need? |  Comparative analysis of SMEs' promotional approaches in Singapore, and Rwanda | Performance measurement, |  SMEs policy and programs outcomes | 1) Transparency<br><br>2) Accountability<br><br>3) Voice of Participation<br>4)Integrity of PAs |
| 4) What possible intervention and social policy measures lies ahead to contain the prevailing views of what SMEs say they need against what PAs provide? | Analysis of what SMEs they need, what PAs provide | Performance measurement, | SMEs needs and performance of PAs | Policy implication |

Besides the employee size and position of respondents (the respondents here refers to SMEs) in enterprises, the survey also covers;

- If SMEs are aware of the existence of promotional agencies

- If SMEs are registered with the chamber of commerce

- If respondents want their enterprises to grow

- External growth related obstacles

- Internal growth related obstacles

- Organizations that support SMEs

- Barriers to SMEs growth

- Services most important to SMEs

From the responses, 75% of the respondents were aware of the existence of PAs (see fig.10). Literally, most respondents see the CCIMA as the main SME PA rather than MEPA. The researcher went further to find out if the respondents were registered with CCIMA. Those who were registered claimed that it was necessary, according to the organization for the harmonization of business law in Africa (OHADA) and registration sometimes is a criterion to be awarded public contract. Only about 15% see registration as a means through which they can benefit from government subsidies, an arena for networking and publicity. So it could be that the services that CCIMA provides to the SMEs tend to be perceived as more beneficial to the SMEs as compared to those of MEPA.

On the other hand, there are those (10%) that are not registered partly because they see no benefits of being a member. Another reason cited by this cohort is, even with membership, one has to be well connected in order to achieve full benefits that registration comes with and in addition, the high cost of registration, the nature of CCIMA's services not being transparent was a major setback.

Figure 10:  Respondents level of awareness of SMEs PAs
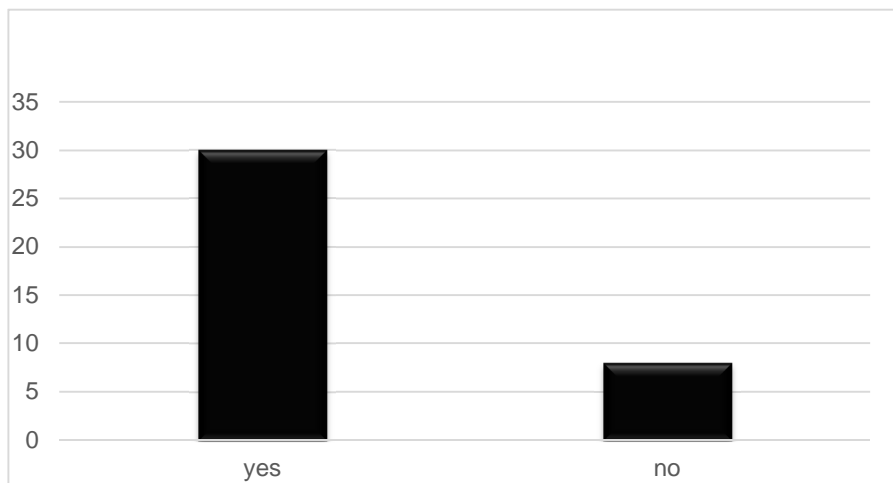


When asked if respondents wanted their businesses to grow, all said yes. But despite the respondents' desire to achieve their growth potential, they are however limited by series of internal and external obstacles as mentioned earlier.

With regards to respondents' main internal obstacles(see fig 12), 40% cited maintaining cash flow as their main constraint as well as devoting too much time on daily operations. Similarly, inadequate skills in managing debt level and inability to monitor daily business operations were cited by 25% and 20% respectively. In addition, lack market knowledge trends or competitiveness and difficulties in recruiting and retaining staff make up the bottom portion of respondents' internal obstacles with 15% on both cases.

In terms of external obstacles (see figure 11 below), the respondents were quick to cite increasing competition, government regulations, and most importantly access to finance which were represented by 60%, followed by fluctuations in demand of goods and services represented by 30%.At the lower end, 10% of the respondents indicated shortage of labour among external constraints (fig. 13).

*Figure 11*: SME internal obstacles



Figure 125: SME external obstacles
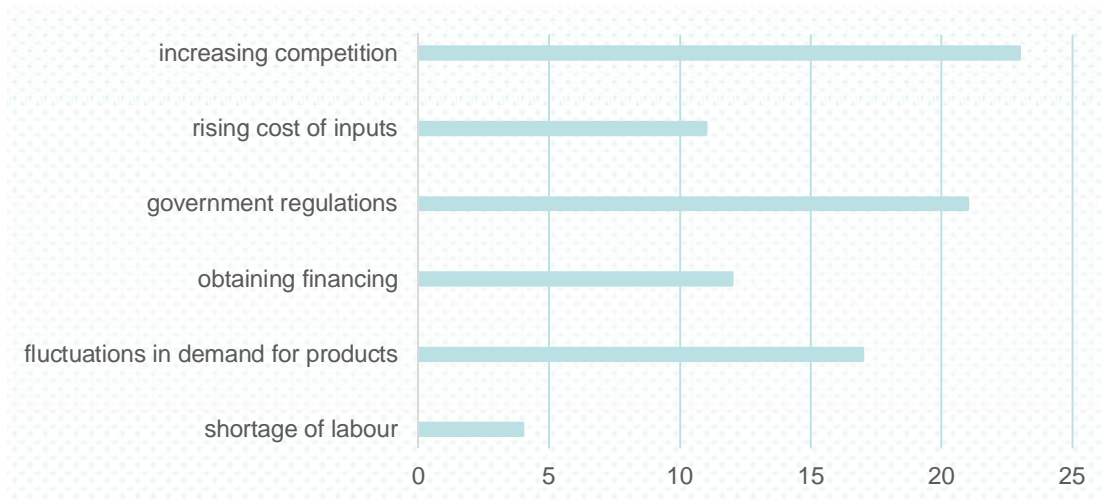


When considering which organizations support SMEs in general, 80% of the respondents were quick to recognize the tremendous role played by the banks, while large foreign companies, CCIMA, consulting firms, SME PA, insurance companies and international donors all stood at 20% as respondents' support structures. The views shared by the respondents here indicate the low awareness or by the small role played by SMEPAs, who are supposed to be the main support structure.

Figure 13: Structures that support SMEs
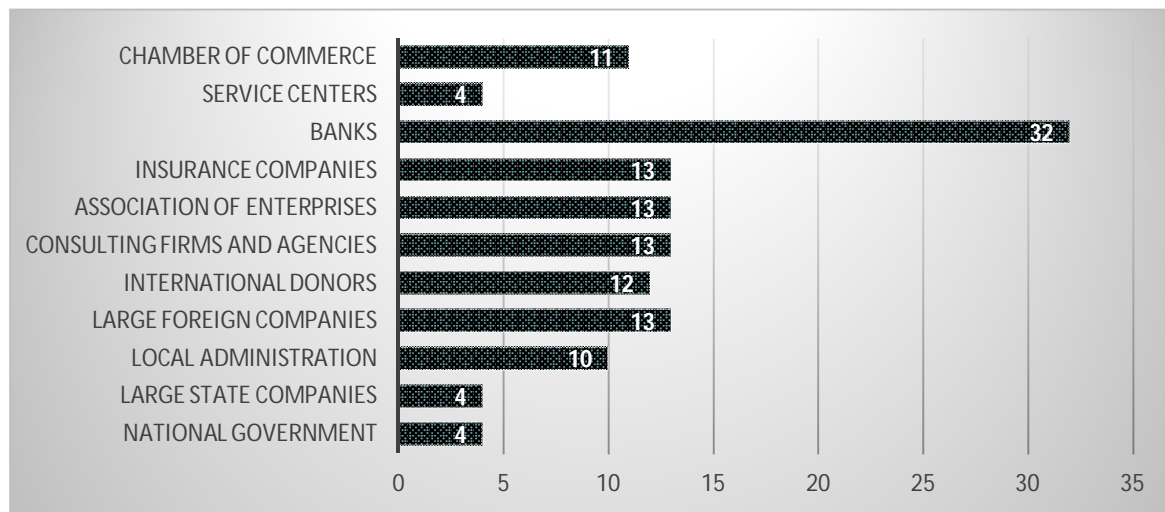


Figure 14 below illustrates that 57% of the respondents cited high tax rate as the main growth barrier, followed by difficulty in accessing finance with 23% and unstable legal environment including corruption with 20%. At the mid-level, the respondents indicates low purchasing power, lack of market information, insufficient support from local authorities, procedural difficulties in staring an enterprise, lack of proper marketing skills as main barriers to SMEs development as illustrated in figure 14 below. The respondents recognized lack of clear government SME program, low coordination between organizations supporting SMEs, lack of qualified human resources, low purchasing power, high cost of money, and competitive products.

Figure 14: Barriers to SME growth

To verify which services are most important (fig 16 and 17) to SMEs, 50% of the respondents cited marketing strategy, for 30%, it was staff motivation and information on fiscal incentives and policies, 20% cited marketing skills and credit financing but not limited to linkages to potential investors, market research, product design, and information for startup entrepreneurs as shown in the figures below.

Figure 15: Services most important to SMEs



Figure 16: Services most important to SMEs

## 4.2:   **Activities and Performance of PAs**

This sub-section seeks to benchmark agency performance against the needs seen by SMEs d. In doing so, the section will analyze feedback from MEPA which is the main custodian to SMEs in Cameroon and Douala in particular, and two other PAs (CCIMA and IPA) as explained earlier.
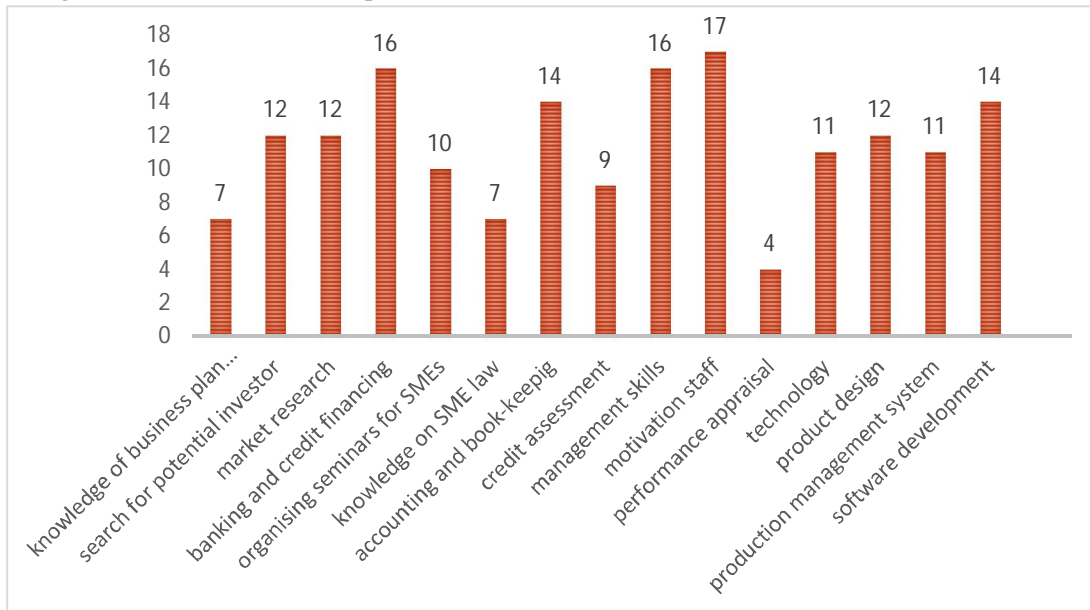
The agency survey questionnaire covers the following questions:

- What programs are there to improve SMEs' ability to strive and grow in domestic and international markets?

- What has the agency identify as SMEs main growth constraints and how does the agency assist SMEs to overcome these growth constraints?

- Does your agency have a research unit? And what does your agency need to meet its objectives in promoting SMEs?

- What are the means of communication with SMEs?

- How does Agency recruit its staff? How many staff members does it employ? What are the incentives for staff?

- Whether Agency include informal enterprises in agency support programs and whether private bodies participate in agency program design mechanisms and implementation

In order to ascertain, the nature of PAs' programs in relation to what SMEs say they need, for MEPA, they organized exhibition show every two years, a day for SMEs as a channel of awareness and also the presence of support structures like Exchange Subcontracting and Partnership (BSTP), which offers paid services. The CIPA on the other hand links SMEs to potential FDI (Foreign Direct Investors) seeking reliable partners, while for CCIMA there are approved management centers. Based on the feedback, it could be said that these agencies focus on external capacities to enhance SMEs' potentials but even at that, how these links are done is not quite clear .Secondly, MEPA cited exhibitions as a channel of their program awareness creation and information dissemination. For these agencies, the

main problems faced by SMEs ranges from access to finance, to skills gap, and lack of information.

It is worth noting that appraisals of any kind rest on outcomes which are reflected on the value added to target beneficiaries. If the outcomes and outputs don't reflect policy objectives, there are likely to be performance setbacks. Forinstance, the Thai Board of Investment (BOI) Unit for Industrial Linkages and Development (BUILD) that won the World Association for Investment Promotion Agency (WAIPA) Business Linking award in 2004 was able to match Thai SMEs with FDIs in which currently 100 Thai SMEs benefit from the program annually (UNCTAD 2006:5-7). In addition, UNCTAD reveals that the linking program between Ghana Investment Promotion Agency (GIPA) and Unilever Ghana Ltd was able to link 3,000 SMEs which resulted in the creation of 12,000 jobs .

Some of the PAs (MEPA) do have research units and also work in collaboration with Ministry of Scientific Research and Innovation (MINRESI). The outcome of their research units is often flawed by limited information or publications of their work and activities with SMEs is not made public or rather inaccessible which undermines the fundamental value of NPM in speedy and accurate flow of information and accountability (Herrero and López 2010:9). On the means through which MEPA communicate with SMEs, MEPA admitted they communicate through representatives of SME related associations, as well as during training workshops, seminars, and conferences. For CIPA, they communicate through emails and regular postal services, while CCIMA cited their web-page and local newsletters as outlet of information and the offices of PAs.

While communication is important in such relationships (SME–Agency), the degree of effectiveness and efficiency under which it is done could be a reference point. First, the digital infrastructure of these agencies which might be the most convenient and effectivein terms of cost, time and access is inefficient. Secondly, communication through representatives of SME association doesn't guarantee full information dissemination or mass coverage since not everyone is a member as membership often comes with eligibilities (Clark 1995:594).Base on this, two possible setbacks remains: First, information on PA's achievements and information on their quarterly programs like capacity building is also not readily available. Secondly, their activities alone are sufficient to or could encourage

clandestine activities of firms, demotivate informal enterprises from going formal by questioning the benefits of being formal and transparency of the activities of PAs. Similarly, almost 80% of the enterprises found on the website of CCIMA do not have reliable emails or phone contacts.

Reference to the Dutch Chamber of Commerce "Kamer van Koophandel," information on capacity building workshops runs yearly on the website, on different enterprise related constraints ranging from startups, business development, finance management and planning, tax scheme, and where current and prospective entrepreneurs can easily access and register for capacity workshops. While it's also important to note that differences in economic background and governments, a program worth working in country A cannot be claim efficient in country B. However, basic practices of transparency, accountability to enhance agency efficiency and effectiveness could make a difference. The digital diffusion is growing at a faster pace, the use of twitter, facebook, instagram are possible channels of information which could be harnessed, but same is lacking among these agencies. Physical contact between agencies and their clients could fuel rent-seeking behaviors which could be easily minimized through e-governance (Bhuiyan 2010:54).

E-governance allows the dissemination of information easily and user-friendly to the public through the use of ICT and at the same time promoting transparency in public sector service delivery(Kitcat 2005).In the absence of digital information, it therefore implies that agency clients are bound to hit the doors of public staff each time they need information which in turn increases costs for prospective entrepreneurs and time through informal rent-seeking networks and bureaucratic hurdles thereby making greasy wheel lender of last resort.

Recruitment of staff in top positions (MEPA) is by direct presidential degree .The backdrop about such practices is that, it often led to managers being accountable to hierarchy than to their clients which undermines public responsiveness, participation and the voice of stakeholders in decision making process (IMF 2014:40).

While the PAs cited allowances and wage increase as main incentive to enhance staff performance, an important aspect is, merit base pay is not always a guarantee to boost staff performance since different staff have different desires and so one cannot independently

confirm that salary increase or allowance based incentive alone will make a difference among other incentives like staff recognition, staff training, and leave periods.

Informal SMEs for MEPA are catered for by a special unit in charge of informality. For CCIMA, only formal enterprises with their membership benefits and partake in their support programs. Similar to CIPA, they don't work with informal enterprises. This raises question to the research unit as if they are truly aware of the share of informal enterprises in the economy. Rather, strategies to get the informal SMEs to the formal market could be rewarding by increasing government revenue and create descent jobs. According to a World Bank report 2012, 90% of Cameroon workforce earns their living in the informal sector in which the agro sector employ 57% and the service sector employ 37%.This suggests that activities of PAs and policies to promote SMEs could be structured to target more of the informal economy through incentivized programs.

To find out if MEPA private bodies during decision making process, MEPA noted that they only include private parties and consultants when necessary and in an undefined frequency. While it is not a guarantee that routine inclusion of non-state actors will yield fruitful results, other setbacks might possible arise caused by participation which include fear of public staff losing voice and position to private actors, fear of accountability and transparency, undermining capacity, loss of autonomy, purse of one's interest and complex decision making processes that could possibly arise from participation.

## 4.3: **SMEs and MEPA Paradox**

Juxtaposing what SMEs say they need next to the activities that MEPA provides reference to policy guidelines and expectations of MEPA, there are still a number of implications. First, among the services most important to SMEs were marketing strategy, information on fiscal incentives and policies, management skills, credit assessment, followed by banking and credit financing. Secondly, tax scheme was among the highest barriers to SME development , in which Chapter IV section 34 of the law to promote SMEs challenged MEPA to provide accounting and tax management assistance and giving that this forms SMEs highest

barrier to development, it evident the paradoxical relationship between what SMEs and what MEPA actually provides.

Thirdly, majority of the SMEs cited their inability to manage debt level and lack of business monitoring and operation skills. While globalization and continental free trade agreements are growing recently, SMEs faces tough competition with foreign goods in which case if they are not competitive enough, then there will be more market exit than entry. On this note, increasing competition and government regulations were among SMEs' top external constrains. In order for this to happen, sound and ethical public sector principles must be brought to book and well integrated in order to achieve a sustainable, efficient and effective outcome. Hence, regulations should be able to protect infant and domestic enterprises from stiff completion from foreign products.

In GG terms, how transparent, accountable, responsive, effective and efficient MEPA is will create an avenue to be able to measure and quantify their performance in promoting SMEs giving the growing concerns of what SME need. Of course every business is confronted with business and regulatory challenges, the recognition of these challenges have prompted most government to create agencies to promote and to an extent translate what SMEs see as their main challenges into workable solutions. If this is true, then the baseline and after effect of MEPA's programs and activities could be a point of reference in measuring the impact of their programs.

But first, measuring the performance of MEPA seems useful. For Neely et al. (1995:95), incentives be it rewards or sanctions play an important role in employee behavior. Similarly, studies by Havard Business Review 2013, Markos and Sridevi (2010:90-91) and Salanova et al. (2005:91) suggest that employee engagement , recognition for high performance and clear understanding of organizational goals could be key drivers to overall performance in agency programs. For MEPA salary and allowance base incentives were those suitable to boost staff performance. However,Modell (2001:444) and Dunleavy et al. (2005:473) argue it is very unlikely that performance base-pay will translate into efficiency which in most cases is the reverse. By implication, salary increase or allowances alone do not necessarily boost employee performance. Hence, the need for MEPA to tap other incentivize options could make a positive change.

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In order to tackle financial mismanagement, Brignall and Modell (2001:292) suggests that it is equally important for the central government to allocate agency's financial performance to external bodies so as to strengthen management of financial resources which is expected will to enhance agency's financial performance and sound utilization to meet agency's programs. By implication, agency management will respond more swiftly and effectively to pressures from external bodies than central government whose public capacities are weakened by institutional lapses. This approach however, undermines government's autonomy which can pose significant struggle and conflict of interest.

Table 12: SME needs against PA policy checks

| SMEs needs and constraints | PAs' Performance | Policy Implication |
|---|---|---|
| Government regulations (tax burden, corruption) | Provides advice on tax scheme, but channel of information , but not clear on channels to get advice | Provide accounting and tax management assistance to SMEs in accordance with the regulations in force (Chapter V/Section 34) |
| -Lack of business management skills, inability to managing cash flow, inability to manage daily work balance<br><br>-unable to access external finance, lack of technical expertise | -Organized exhibition show every after 2years, SMEs day to create awareness<br><br>-subcontracting, provides training, channels of information for training which are inaccessible not precise and adequately stated | Ease SMEs access to finance, technological transfer, modern management methods (Chapter IV/Section 18)<br><br>Identify the potentials of SMEs and develop the skills of their promoters , acquaint SMEs with networks of effective relations and business opportunities (Chapter III/Section 12) |
| Increasing competition, lack of marketing strategy | Training objectives and outcome not adequate and not clearly defined | Training programmes and dates are available on online databases |
| High level informality and increasing competition | Informal cell for MEPA, CCIMA and CIPA donot accommodate informal SMEs | Upgrading SMEs with growth potentials and growth sectors and empower SMEs to enhance their competitiveness and performance ((Chapter IV/Section 19)) |
| Lack of market information, no information on incentives<br><br>-little of no information about foreign investors | Channels of information not readily available and reliable | Provision of information on investment opportunities to SMEs (Chapter II/Section 9) |

## 4.5: **Risk Factors Affecting the Performance of PAs**

SMEs promotion is a multidimensional process that need to consider the entrepreneurial ecosystem since formal authority might not have the full capacity to single handedly enhance change and create public value. However, there are often some risk factors that adversely affect the performance of PAs some of which include;

### 4.5.1 **Informality:**

Informality affects PA's promotion in two principal dimensions. First, their very activity makes it difficult not only for government's policy but also for PA's strategies to bring them to the lamp light. As such, PA's programs to mobilize the informal sectors are bound to fail. Secondly, their untaxed activities reduces state's revenue and hence spending on projects and incentives that can bring them to the formal economy and benefits from privileges enjoyed by large enterprises such as contract procurement.

In all, Nichter and Goldmark (2005:1456) stated that *'not only does informality in itself reduce the chances for growth, but also it is associated with several other characteristics that make growth difficult'.* With high level of informality as seen earlier, it goes further to say that multistakeholder approach in including SMEs in decision making is undermine MEPA and others. Further to this, Blaire (2000) and Ubels et al. (2010:146-147) suggest that bureaucracy and power struggle from central government which undermine the capacity of local agencies is among the reasons why these agencies fail to translate the plan and actions to bring informal sectors to the lamb light of the formal economy.

## 4.5.2 **Poor Governance**

Inorder to build public trust and create public values, PAs are ought to build sound commitment and integrity by demonstrating competence, accountability, transparency, legitimacy and encourage participation through public private partnership in decision making. This indeed will go a long way to foster change in the internal and external environment. In the absence of public trust and commitment in PAs' programs, the informal SMEs will otherwise see no reason to be formal let alone benefits that go with formality as oppose to being informal where they will minimize cost related to taxes and others and maximize profits. In the case of MEPA participation among stakeholders is often limited and undermine due to allegiance to hierarchy.

This notion explores the claim by Haque (2000:606) that, political neutrality is one of the basic principles that public agencies could adopt to successfully serve public interest. SMEs cited inadequate channels information dissemination among top constraints. The inadequate or lack of an efficient digital system increases costs not only for MEPA, but makes it difficult to reach their clients and hence erodes accountability and transparency since e-governance could possible serve as a unique platform to reach SMEs in a cost and time effective manner.

However, as indicated in the survey findings, SMEs themselves do not have reliable emails. This suggests that, the need for a wind-wind and mutual corporation between the client and the principal to establish capacity building programs in digital empowerment is inevitable. In addition, access to and openness of information to SMEs and  the general public will boost investment opportunities and safe  transaction costs as well reduce the risks associated with information asymmetry and underground informal networks (OECD 2003:18). According to UNDP (2002:8), *"Public sector activities that set a clear and transparent framework for private sector engagement in public policy can make an important contribution to alignment of business practices with sustainable development goals"*.

### 4.5.3 **Corruption:**

With a high CPI by TI as seen earlier, rent-seeking activities is common between SMEs and tax officials where entrepreneurs are able to grease tax officials in order to be excluded from tax audit.Forinstance, (Pellegrini 2011:24; Lindauer 1999)points out that there corruption adversely affects the economy by increasing cost for investors and discourage not only domestic, but foreign investments. This do not only undermines PAs' programs and efforts, but increases the penetration of more firms to informal activities, reason why promoting SMEs could be look upon as a multi(stakeholder)dimensional process in which PAs could liaised with other public agencies whose activities indirectly or directly affects PAs performance in fostering and bring informal SMEs to the formal economy which is so far PAs' greatest challenge. In addition, Haque (ibid.608) and Gomez et al. (2010:169) concluded that control of public agencies by elites undermines public accountability and could fuel the abuse of public resources and mismanagement.

### 4.5.4 **Inadequate Human and Financial resources**

Earlier in this paper, we were able to demonstrate that there is positive correlation between education and growth as the latter equipped staff with the necessary skills to implement, monitor and evaluate programs and projects, as well carrying market research in order to design appropriate strategies to effectively and efficiently meet and develop the capacity of entrepreneurs as most cited skills gap among other challenges. According to a World Bank Report 2012, titled "Governance *and Management in the Education Sector in Cameroon*", the national primary enrollment rate is appreciable, which however doesn't translate to skills attainment since completion rate is very low. Hence, there is a wide circulation of those without basic knowledge and skills good enough to prioritize task in a working environment and since they cannot gain formal jobs, two options is left for them: either to take unskilled informal jobs for those who doesn't have the means to establish a business or to run small businesses.

It will therefore take tremendous efforts and intervention for the former to survive owing to their skills gap and lack of proper training -- reason why in developed country like The Netherlands certain educational level and qualificationsto run a business is a must criteria. This goes further to conclude what Nichter and Goldmark (2005:1454)noted that, education and skills orientation work side-by-side in business growth models, hence entrepreneurial education should be encourage at all levels.

## 4.6: **PA's Performance Indicators**

Table 13 below provides indicators and performance checks on what the needs of SMEs are against what MEPA provides with possible best practices (benchmark) to enhance PA's performance.

Table 17: SME - MEPA performance benchmark

| What SMEs say they need | What MEPA provides | Benchmark |
|---|---|---|
| Government regulations (tax burden, access to finance) | Provides advice on tax scheme, but channel of information not clear | Accessible digital infrastructure that provides information on all |
| -Lack of business management skills, market information, managing cash flow, daily work balance<br><br>-little of no information about foreign investors | -Organized exhibition show every after 2years, SMEs day to create awareness<br><br>-subcontracting, provides training, channels of information for training which are inaccessible not precise and adequate | Presence of policies that targets linkages , promotion of entrepreneurship learning programmes in school curriculum<br><br>-online portal serve as platform for prospective FDI and local SMEs e.g Singapore |
| Increasing competition, lack of marketing strategy | Training objectives and outcome not adequate and not clearly defined | Training programmes and dates are available on online databases |
| High level informality which limits access to finance | Informal cell for MEPA, CCIMA and IPA donot accommodate informal SMEs | High level transparency encourages SMEs formality, programmes on SMEs support serve as incentives to drive SMEs formality |

# Chapter 5: Concluding Remarks and Recommendations

This section summarizes the study based on its theme and identity the loop holes from analysis. This goes further to possible policy recommendation and a call for reform strategies.

The evidence in this study aims to advance our understanding in relation to the conventional literature on what SMEs need, which, in some instances, is not the case, like SMEs in Douala. We have also seen that high levels of informal economy are partly due to bad governance, which demotivates informal SMEs from going formal and pose great problems to the government and economy in two ways: First, government policies are not properly designed since they tend to leave out the informal sector which constitutes a significant proportion of the economy. Secondly, clandestine activities imply a loss of government revenue. On this note, there is a policy implication.

Corruption affects efficiency and effectiveness and has have effects on economic growth and business, that is, drains entrepreneurs of their already low levels of capital ( increases their transaction costs) and discourage not only local but also foreign investors, thereby further reduces government revenue.

We have also seen that bad governance undermines SMEs' growth and lack of access to information and incentives programs, insufficient and inefficient transparency, accountability and accountability measures in the public sector which also undermines participation of SMEs and interest groups in decision making phases.

As a recommendation, the GoC should establish SMEs' sectoral policies and inclusive incentives to encourage informal SMEs to become formal. Secondly, government should place emphasis on its GG policies and consequences to public managers. In addition, information should be made readily available to the public through the use of e-government in which case the government should open technology and innovation lab to train staff on the use of ICT to boost good governance practices. Furthermore, the government should also simplify its tax system by making it more flexible, easy to understand and empower incubation centers to be result-oriented rather than being based in processes. There is also need for effective communication between the

SMEs and the government as the latter tries to raise awareness of SMEs, since it was found that most of these SMEs tended to lack information on the benefits of being registered due to transparency of membership concerns. On the other hand, the PAs tended to misunderstand the SMEs main constraints, hence not meeting their needs.

With the many challenges that come with informality of SMEs in Douala such as exclusion from government policy that protect most businesses in the formal sector, lack of regulation, untaxed, inability to have tacit knowledge, lack of participation in decisions that affect them, inability to carryout R&D, lack of clear understanding of consumer preferences, lack of access to finance etcetera, the GoC should involve SMEs in all decisions that affect them instead of assuming they understand what they really need.

**Annex I. Questionnaire for SMEs**

1) Which of the following best describes your position in this enterprise/business?

i. the sole owner of this business

ii. a partner in this business

iii. the person in charge of finance in this business

iv. occupying another position in this business

2) In what year was this enterprise/business established?

3) What is your employee number/size?

i. 1 (one) to 5 (five) employees

ii. 6 (six) to 21 (twenty-one) employees

iii. 21 (twenty-one) to 100 (one hundred) employees

4) Is your enterprise/business aware of the existence of promotional agencies or support bodies that provides information or assistance on how your enterprise/business can succeed?

i. Yes

ii. No

5) Is your enterprise/business registered with the chamber of commerce or any promotional agency or support centres? If not why, and if yes what does your enterprise benefit from being a member in relation to your enterprise's need to grow and succeed?

**i.** Yes

**ii.** No

**6)** Do you want your enterprise/business to grow?

i. Yes

ii. No

**7)** Which of the following obstacles external to your business are serious problems for the growth of your company? (Please mark all that apply)

i. Shortage of labour

ii. Fluctuations in demand for your products or services

iii. Obtaining financing

iv. Government regulations

(please specify:_____ )

v. rising cost of inputs

vi. increasing competition

  i. others:


**8)** Which of the following obstacles internal to your business are serious problems for the growth of your company? (Please mark all that apply)

i. Managing debt level

ii. Maintaining sufficient cash flow

iii. Lack of monitoring of your business operations to make improvements

(PROMPT: information on business operation could be about your production of goods and services, client satisfaction, employee performance, financial performance, etc)

iv. Lack of knowledge about competitors or market trends

v. Devoting too much time to day-to-day operations

vi. Recruiting and retaining employees

  ii. Other:


**9)** In the last three years has your business developed or introduced:

(Please mark all that apply)

i.  A new or significantly improved good or service

(PROMPT: This may be a new or significantly improved good or service with respect to its capabilities, user friendliness, components or sub-systems. It must be new to your business but it does not need to be new to your market.)

ii.  A new or significantly improved production process or method

(PROMPT: This may be a new or significantly improved production process, distribution method or support activity for your goods and services. It must be new to your business but it does not need to be new to your market.)

iii.  A new organizational method in your business practices, workplace organization or external relations   (PROMPT: It must be a result of strategic decision taken by management.
Exclude mergers or acquisitions, even if for the first time.)

iv.  A new way of selling your goods or services

(PROMPT: This requires significant changes in product design or packaging, product placement, product promoting or pricing. Exclude seasonal, regular and other routine changes in marketing methods).


**10)**  What was the main reason your business did not develop or introduce any new or significantly improved product, process, organizational or marketing innovations in the last three years? (Please mark all that apply)

i.  Innovations were carried out prior to 2011

ii.  Market doesn't require new products/processes

iii.  Lack of funds to carry out innovation projects

iv.  Lack of trained staff to carry out innovation projects

v.  Business doesn't need to innovate/innovation is not part of business plan

vi.  Other:

**11)** In your opinion, which of the following organization support enterprises/businesses in Douala, Cameroon?

i. national government    ii.  large state companies

iii. local administration     iv. large foreign companies

v.  international donors     vi. consulting companies and Agencies

vii. associations of entrepreneurs    viii. insurance companies

ix. banks x. service centers  xi. chambers of commerce

xii. others:


**12)** In your opinion, what are the barriers to the development of Small and Medium Size Enterprises in Douala, Cameroon? (please tick several answers possible)

i. unstable legal environment                ii. uncompetitive products

iii.  high level of taxation                iv. lack of qualified human resources

v. low purchasing power of the population          vi. lack of market information

vii. insufficient support from local authorities       viii.  too high cost of money

ix. procedural difficulties in starting a company       x. lack of management skills

xi. difficulty  in accessing to credit    xii. lack of clear government SME program

xiii. low coordination between organizations supporting SMEs

xiv. lack of proper marketing skills     xv. other (what exactly?)


13) Typical SMEs services are listed below. Please in your opinion what services are the most important for your Enterprise/Business ?

a)  **Information Services**

i. providing basic information on foreign companies searching for partners in Douala, Cameroon  (example : their addresses and their offers)

ii. information on Cameroon SME law

iii. information about fiscal incentives and policies

iv. information for start-up entrepreneurs

v. providing package of information for company registration

vi. Others (please specify)_

b) **Consulting Services**

i. business planning for SMEs (to be presented to the bank or investors)

ii. help with the presentation of business plan to the banks

iii.  search for a potential investor using the business plan

iv. market research/marketing

v. Banking and credit financing

vi. Seminars and exhibitions for SMEs on specific subjects (international services)

vii. SME law (lawsuit, enterprise law)

viii. Accounting and book-keeping

ix. Credit assessment (Loan application)

x. Employment (Recruitment)

xi. Others (Please specify)

c)  Training Services

**Marketing**

i. Marketing plan

ii. Marketing research

iii. Product promotion

iv. Marketing strategy

v. Advertising

**Accounting**

i. Cash flow

ii. Book keeping

iii. Audit

iv. Taxation

v. Business planning

Human resources Management

i. Management skills

ii. Motivation of staff

iii. Performance appraisal

iv. Technology

**Production/technology**

i. Product design

ii. Production management system

iii. Software development (IT)

iv. Others (specify):

v. Advertising

**Annex II. Questionnaire for PAs**

**1)** What does your agency do to improve SME's competitive performance in domestic and international markets?

**2)** How does your Agency improve SME's competitive performance in domestic and international markets?

**3)** What is the budget allocation for your activities, how many staff and offices does your Agency have?

**4)** How are your low-level staff employed?

**5)** Does your Agency seek advice from private parties in decision making and program appraisals? If no, Why and If yes, how often?

**6)** How effectively are your staff motivated?

**7)** Does your Agency's programmes include informal SMEs? If no why?

**8)** How does your Agency promote SME's activities in Domestic and International markets?

  i.    Domestic:
  ii.   International:
 iii.

**9)** What does your Agency need to meet its goals and objectives in promoting SMEs?

**10)** How does your Agency ensures that SMEs are well informed and understand information that best serve their needs and wants?

**11)** Does your Agency have a research unit/team/department?

**12)** How do you evaluate your programmes to ensure they meet objectives?

**13)** What does your Agency consider as SMEs main growth constraints and what must they do to overcome this constraints?

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