AFRICAN ECONOMIC CONFERENCE 2012, KIGALI, RWANDA

Corruption and small and medium-sized enterprise growth in Cameroon.

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Abstract.

This paper uses data from a firm-level survey carried out in Cameroon to investigate the types of public services for which small and medium-sized enterprises pay bribes, the characteristics of these transactions and to estimate the impact of bribe payments on the SMEs growth. The results show that tax inspectors, police officers, hygiene and epidemiological officers, Officials from ministries and other public bodies, customs officers and Electricity officers exercise pressure on business people most often for informal payment. Bank staff and telecommunication officers are assessed as being the least corrupt. The econometric assessment of the correlation between corruption and firm performance reveals that bribe payments significantly slow SMEs growth. The firms' age, market share, involvement in international trade impact positively on firm growth, while frequent contact with public services negatively affects the growth of firms. The key message is that unofficial payments are costly to SMEs in monetary terms and in terms of unfulfilled transactions.

JEL: H32, H41, C42, C51.

Key words: **Corruption, SME growth, Cameroon**

1. Introduction.

Conventionally, corruption is understood and referred to as the private wealth-seeking behaviour of someone who represents the state and the public authority or as the misuse of public goods by public officials for private benefits. This issue has to some extent entered the political and economic sciences from the new interest in the role of the state in the developing world, and in particular from the idea that the state is an indispensable instrument for economic development. There is now much consensus on the relevance of an efficient state in economic development (UNECA, 2011). The World Bank (1997) stated that "an effective state is vital for the provision of the goods and services and the rules and institutions that allow markets to flourish and people to live healthier, happier lives. Without it, sustainable development, both economic and social is impossible".

Corruption has come up as a thematic constituent of this renewed paradigm, in which development depends on good governance and accountability, and necessitates economic reforms. The decisive role of the state is also reflected in most definitions of corruption. Corruption is a particular state-society relation. On one side is the state that is the civil servants or bureaucrats who hold a position of authority to allocate rights over scarce public resources in the name of the state or the government. A corrupt act is when these responsible persons accept money or some other form of reward and then proceed to misuse their official powers by returning undue favors. On the other side of a corrupt act is the "corrupters", those who offer the bribes. These suppliers are businessmen, entrepreneurs or the general public.

Corruption is principally a governance issue, perceived as a failure of institutions and a lack of capacity to manage society by means of a framework of social, judicial, political and economic checks and balances. It is an evil, certainly universal, but more wide spread in developing countries because conditions favor it. The urge for gain is extremely strong and exacerbated by poverty.

In Cameroon, corruption is constantly manifested in the forms of embezzlement of public funds, bribery, influence peddling, and fraud. These abuses are the prime motivation for the series of anticorruption campaigns launched by the Prime Minister of Cameroon since March 1998.

Corrupt officers always seek to bypass legal competition and hamper the rules of normal societal functioning. At the level of public markets (contracts), they influence the choice of suppliers of goods and services to the State and also influence the exact modalities of contracts and their renewal. At the level of state accorded advantages, they favor fiscal fraud, have access to privileged schools, to medical attentions, to housing and lodging, or access to shares in enterprises through undergoing privatization.

The abuses enumerated above can lead to reduction in the amount of tax and other levies imputed by the state on individuals. They favor the alteration of the results of juridical regulation by pushing public authorities to avoid reprimandation of illegal activities or to unduly favor one group at the detriment of the other in the framework of court proceedings and other actions in justice. This situation stems from the fact that in Cameroon, the discretionary power of many civil servants is quite extended. Moral laws and principles in the leading of public affairs are less developed and law officers charged with the responsibility of ensuring their implementation and respect are not well prepared for this task. People or organs such as accountants and the press in charge of supplying information on which to detect and apply the

law are weak and most of them even part-takers of corrupt acts. This has made corruption endemic and systematic such that it is very difficult to punish an individual since many others are also guilty. This situation has made of Cameroon the most corrupt country in the years 1998 and 1999[1].

In the light of economic theory, corruption reduces growth by virtue of its attenuating impact on investment attraction for both the local and foreign entrepreneurs. When these entrepreneurs are asked by state authorities to give bribes before creating an enterprise or when some civil servants ask for part of the fruit of investments as such, corruption plays the role of a tax. Corruption also reduces growth by lowering the quality of infrastructure and public services, by reducing fiscal revenues, and by faultily altering the composition of public expenses. Concerning the alteration of the composition of public expenses, a comparison between countries seem to show that corrupt public authorities particularly allocate smaller proportion of public expenses to education, health and a greater proportion to public investment especially in non productive projects, thereby reducing the productivity of the available stock of public capital (Tanzi and Davoodi, 1997). An econometric analysis indicates that countries that advance from 6 to 8 in the corruption perception index (CPI), generally increase their credits to national education by 0.5 of GDP, representing a considerable change (Mauro, 1998). This result is of prime importance, for it has been more and more proved that the level of education has a high correlation with poverty and economic growth (Gbetnkom, 1999). The same country experiences a 4 points percentage increase in her investment rate (Mauro, 1995).

Beyond the developments highlighted above, theoretical and empirical studies that handle objectively the economic incidence of corruption have generally concluded that:

- Corruption increases the cost of transaction as well as uncertainty.
- It leads to inefficient economic results, brings about a bad talent distribution in favor of rent seeking activities and displacing sectoral priorities as well as technological choices
- It leads enterprises to underground economies, which reduces public revenue such that a restricted number of taxpayers bear a much more tax burden. The State thus becomes incapable of supplying essential collective goods, notably those of assuring the implementation and respect of law principles. As such, a vicious circle of growing corruption and clandestine economic activities can develop.
- It imposes a particularly heavy but regressive tax on commercial activities and services of small-scale enterprises. Corruption jeopardizes the legitimacy of the state (Gray and Kaufmann, 1998).

Given these pervasive effects of corruption, its eradication has become a key element in the policy agenda of many governments and international agencies and a fundamental challenge for the long-term development of many African countries.

[1] In fact, four surveys carried out by "Transparency International", a Non Governmental Organization (NGO) at the level of the heads of some local enterprises and expatriated businessmen situated Cameroon at 1.4 and 1.5 on the scale of corruption perception index[1] with a standard deviation of 0.5 for 1998 and 1999 respectively (http:// www.gwdg.de).

However, proponents of "efficient corruption" claim that bribery may allow firms to get things done in an economy plagued by bureaucratic holdups[2]. Moreover, it has also been argued that a system built on bribery will lead to an efficient process for allocating licenses and government contracts, since the most efficient firms will be able to afford to pay the highest bribes (Lui, 1985). Leff (1964) argued that corruption is likely to have beneficial effects in developing countries suffering from high levels of state intervention and monopolies. First, corruption corrects the detrimental effects of the indifference and hostility of a government or redirect government priorities toward the business sector to entrepreneurs, thereby offering them a more propitious environment for business. Second, corruption reduces uncertainty and increase the rate of investment by making government behavior more predictable, especially in the presence of an irrational style of decision-making (P. 9). Corruption is also deemed to enable innovators to bypass entrenched economic interests. Finally, corruption introduces an element of competition in market allocation and thereby increases overall efficiency of the economy.

With respect to this controversy, the issue of whether corruption is damaging at all, is primarily an empirical question. In view of this concern, research on the effects of corruption on economic growth has been examined extensively in the macro literature, beginning with Mauro (1995). Generally, these studies have three common features:

- They are based on cross-country analyses,
- exploit data on corruption derived from perception indices, typically constructed from foreign experts' assessments of overall corruption in a country, and
- They explain corruption as a function of countries' policy-institutional environment (Svenson, 2003).

Though this literature has provided important insights on the aggregate effects and determinants of corruption, it also has its shortcomings. First, the use of perception indices raises concern about perception biases. Second, due to the aggregate nature of the data, it tells us little about the relationship between corruption and individual agents. This relationship is still not fully understood, and is less systematically investigated, particularly in Africa. Most importantly, macro-effects cannot by definition explain the within-country variation in corruption.

Thus, the literature that directly deals with firms under conditions of corruption is somewhat limited in its scope. Meanwhile, small and medium enterprises[3] play an important role in providing productive employment opportunities for an increasing number of job seekers (Mead, 1994), arguably an important role given recent enterprise restructuring programs that has led to the observed high systemic unemployment. Indeed, small and medium enterprises have been known to contribute to:

- Household income and welfare,
- Social change, political stability, and democracy,
- Distributional or development objectives, as well as,

[2] See Bardhan (1997), Tanzi (1998), and Wei (1999) for reviews of existing literature.
[3] Small enterprises are enterprises that have 50 or less employees. Medium enterprises have a number of employees between 51 and 500.

- Self-confidence and empowerment of the individual (Liedholm and Mead, 1999).

Furthermore, a better understanding of a firm's allocation of resources and its economic determinants is crucial for formulating appropriate development policies and projects and for evaluating those already existing.

This paper examines the impact of bribes on the growth of the small and medium firms in Cameroon based on the primary data on corruption. This approach has a range of feature to ensure higher reliability and greater depth in assessing the effects of corruption. Questions are based on the direct experience of firms rather than subjective comparisons across countries. Where possible, numerical cardinal estimates of problems are used (such as share of annual sales spent on bribes) as opposed to subjective assessments of the extent of corruption. Furthermore, data on firm-level performance in terms of sales, investment and employment provide specific estimates of the costs and benefits to firms associated with governance issues. We believe that for a society to engage seriously in the process of identifying the pervasive effects of corruption, both bottom up and top down approaches are necessary. This paper is a bottom up contribution to this process.

At the conceptual level, the debate on the effects of corruption on economic growth has been going on for several decades (Bardhan, 1997). Despite this, little is known about the incidence and cost of corruption on firm growth and performance. Available literature relies on macroeconomic or cross-country comparisons. Few empirical studies have been conducted at the firm level (Svenson, 2000, 2003). However, this perspective provides a number of advantages. First it allows us to explore the relationship between different characteristics of firms and their effects on the firms' interactions with the state. Second, it provides an opportunity to investigate in depth the types of services for which firms pay bribes and the characteristics of these transactions. Third, it provides a micro-economic perspective on the costs and benefits to firms associated with corruption and different levels of governance. This is why this paper aims at deepening our understanding of the linkages between bribe payments and firms' growth based on the critical information that firms can provide about the nature and extent of corruption. Our question of research is therefore: What are the effects of bribe payments on small and medium-sized enterprises' growth? Specifically this paper investigates the types of services for which firms pay bribes, the characteristics of these transactions and estimates the impact of bribe payments on the SMEs growth.

The remaining part of the paper is structured as follows: section 2 presents the literature review; section 3 and section 4 examine the methodological approach and the empirical results respectively.

2. Literature review.

2.1 Theoretical framework

Various definitions of corruption maintain that the state is always involved, and that corruption is basically a particular state-society relationship. It is furthermore maintained that this relationship is based on a mutual exchange of benefits that is an exchange from which both the state and the society will draw some immediate and private benefit. This state-society relationship is rarely balanced however. In aggregate terms, corrupt practices will generate a

flow of resources either from the society to the state (extractive corruption) or from the state to the society (redistributive corruption).

This paper is rooted in the theory of extractive corruption (Principal-Agent theory) where the state (regulator) is the stronger part in the state-society relationship. According to this theory, the corrupter is more or less a passive player. The public agent who has discretion over disbursements of public goods is tempted to corruptly charge monopoly rents. This creates inefficiencies, as the firm pays too high a price for these goods and services (Klitgaard, 1988). Corruption in this circumstance is considered as an agency problem where an official entrusted with carrying out a task by the state engages in some sort of malfeasance for private enrichment which is difficult to monitor for the principal (Bardhan, 1997). This is an analysis of a regulator who acts as a pure single-product monopolist facing a large number of price-taking buyers. He has full control over his choice of a price function, and can charge different prices to different buyers.

In the theoretical framework presented above, the effect of bribe payments on small and medium enterprises can be deleterious on both a sectoral and an individual firm level. Meanwhile, policies that inhibit the development of a small enterprise sector have implications for poverty. In the context of Cameroon, the small enterprise sector is particularly important because extended households and other social insurance mechanisms to deal with unanticipated income shocks, such as sudden unemployment, are not prevalent. In the absence of traditional state-sponsored employment or other social safety nets that have gradually disappeared over the past decades, the income-generating opportunities provided by small and medium enterprises play an important role in poverty alleviation and household risk reduction.

Corruption may also cause a loss of efficiency for individual firms because it may force firms to incur a number of unproductive costs, thereby leading to a welfare-reducing allocation of resources. When government officials base their bribe price on what they can observe during a firm inspection, bribe payments act as a tax on certain factors of production. In this sense, corruption changes relative factor prices and may lead to sub-optimal use of inputs. Furthermore, firms may be less inclined to invest in cost-saving or production-enhancing technologies because of the additional regulatory scrutiny that such actions may attract, and because finance, from any source, may be inaccessible.

2.2 Review of empirical works.

Quantitative literature on corruption is not as extensive as the theoretical works. Many papers on corruption are often in theory, at times with a section on empirical examples. Little effort has been deployed to systematically conduct tests on the several hypotheses particularly at the firm level. Despite more than two decades of modern research, beginning with Rose-Ackerman (1975, 1978) on the economics of corruption, however, economic studies on corruption at the firm level are rather scarce. Shleifer and Vishny (1993) analyse a bureaucracy selling a government-produced good (e.g a permit), noting that if the officials do not coordinate the extraction of bribes, they fail to internalise the effect of their demands for bribes on other officials' income, thereby leading to very high corruption levels. These authors show that the illegality of corruption and the need for secrecy make it more distortionary and costly than its sister activity taxation. Shleifer and Vishny (1995) present a model of bargaining between politicians and managers that explains many stylised facts about the behaviour of state firms.

Kauffman and Wei (1999) examine whether bribery offers enterprises the possibility of avoiding excessive bureaucracy, by comparing average time wasted with bureaucratic negotiations and the level of bribery across countries. They conclude that corrupt officials may instead of speeding up economic activities, actually cause administrative delays in order to attract more bribes. Johnson et al (1998) show that corruption distorts the development of enterprises and favours the emergence of an unofficial or underground economy. Corruption reduces fiscal income especially because it favours the growth of a non-official economy. The practices inherent to rents in the official economy divert enterprises towards parallel economies where they pay fewer taxes. Such reduction in fiscal income return affects the capacity of the state in supplying important public goods such as laws and principles of ethics and this favours the more, underground economy to the detriment of public finance.

Bliss and Di Tella (1997) study the relationship between corruption and competition. They show that if bureaucrats have the power to extract money from firms under their control, they will drive the most inefficient firms out of business, thereby enhancing the profitability of remaining firms, which, in turn, makes it possible to demand larger bribes. Choi and Thum (1999) use a similar model to study the effects of repeated extortion. Hellman et al (2000a) demonstrate that corruption favours the monopoly of the state by certain groups of privileged population that give bribes to state agents and the police, hence sapping growth of production and private sector investments.

Vinod Thomas et al (2002) show that corruption distorts infrastructural investment to the detriment of aid projects to the poor hence compromising the use of small enterprises to fight against poverty. The situation is even worse as corrupt regimes prefer defence contracts to construction of dispensaries and rural schools, a policy that jeopardise the proper distribution of revenue and divert rural resources to the metropolis. Based on data collected on bribe payments across firms in Uganda, Svensson (2003) investigated the concern related to who must pay bribes and how much. He came to the following conclusions: First, a firm with extensive dealings with the public sector is more likely to be under bureaucratic control and therefore faces a higher probability of having to pay bribes. Second, there's no evidence that the firm's profitability or alternative return on capital influences the likelihood of having to pay bribes. Thus, even firms with low profits will be forced to pay bribes if officials have control rights over the firm's business. Finally, larger firms also appear to be more likely to have to pay bribes.

Fishman and Svensson (2002) have shown that the effect of corruption on short-run growth rates of Ugandan firms is much larger than the retarding effect of taxation. In the theoretical framework used by these authors, three reasons are put forward to explain differences in amounts of bribe paid across firms. First, firms may be dealing with public officials who differ with respect to the personal (moral) cost of demanding bribes. Secondly, public officials' perception of the likelihood of getting caught in corrupt practices and the perceived punishment if found guilty may also differ. However, the most important explanation is that officials' opportunity to extract bribes differs across sectors and locations. In brief, the control rights determine the threat point in the negotiation between a public official and a firm. When public officials maintain control over firms through regulation, the firms must either pay the required bribe or exit the market. Thus, if a firm operates in a sector or organizes production in such a way that the need/demand for public services is minimized, then it is also more likely to be able to avoid paying bribes without any major impact on its business. If on the contrary, a firm is under public control, in the sense that it benefits from public services and operates in a sector

regulated by public officials, then it is costly to refuse to pay. The authors formalise the control rights hypothesis as follows:

$$P^i = \alpha^0 w_i + \upsilon_i \qquad (1)$$

Where P^i is the probability that firm i must pay bribes, W_i is a vector measuring dealings with public sector, α^0 is a coefficient vector, and υ_i is an unobserved error term.

To sum up, the micro-level support for firm-based theories on the effects of corruption that have generated much attention in recent years is still in its infancy. Much more work is still required in this area, and this paper falls in line with this concern.

3. Methodological approach.

To assess the effect of corruption on firm growth, this paper utilised the theoretical framework that follows Fishman and Svensson (2002), and Svensson (2003).

3.1 Model specification

The theoretical framework laid out above suggests that the short-run growth rates of firms depend on the bribe amount, the firm age, the initial sales and the type of ownership. Following the basic formulation of Fishman and Svensson (2002) our empirical model is:

$$Y = \alpha_0 + \alpha_1 B_{it} + \alpha_2 A_{it} + \alpha_3 E_{it} + \alpha_4 O_i + \alpha_5 IE_i + \mu_{yt} \qquad (2)$$

Where Y is the rate of growth of output, B the ratio of bribe amount over sales, A the firm age, E employment to control for size, O the type of ownership taking 1 if the firm is owned by a Cameroonian and 0 otherwise, IE a dummy variable taking 1 if a firm either exports or imports directly and 0 otherwise, and μ_{yt} the error term.

As our measure of firm growth, we use historical sales data that were collected. Our measure of B is given by (bribe payments)/sales. The most natural approach for bribery would be to look at bribes as a fraction of profits. This, however, would require perhaps excessive confidence in the abilities of firms to produce accounts that adhere to some uniform standard. This is why firm sales are used, since they are much less prone to manipulation and misreporting. A negative relationship is expected.

Firm age has been found to be correlated with growth in many firm-level studies, and may be correlated with bribes if longer established firms have better relationship with banks, suppliers and clients as well as government services. With respect to these advantages, we expect that firm age will positively impact on firm growth. Since firm size may be correlated with bribe payments (as larger organizations are more visible to bureaucrats) and since size may also affect future growth, we include employment to control for size. Foreign ownership (as opposed to local) can affect performance in the sense that such firms may grow more quickly due to greater resources, access to markets, and technical expertise, while they may be exempt from bureaucratic harassment as an inducement to locate their operations in Cameroon. A

positive relationship is expected. Finally, firms involved in international trade, either exporting or importing may be more vulnerable to rent extraction and subject to greater bureaucratic scrutiny and regulation than firms with only local sales. Since a correlation between growth and trade has been reported in many studies, this will also be an important control. Hence, we include a dummy variable denoting whether a firm either exports or imports directly (IE).

To measure corruption we draw upon questions which ask if firms like yours typically need to make extra, unofficial payments for access to publicly-regulated goods. And over the last two years (2003, 2004) what would you estimate as the total amount spent by your firm in unofficial payments or gifts for the following services (connection to electricity, phone, water; acquisition of licenses and permits; dealing with taxes and tax collection; gaining government contracts; dealing with customs/imports)? For each of these areas susceptible to bribery, respondents gave figures that were summed up to get the annual amounts of unofficial payments for each of the firms.

The model takes the form:

$$\begin{cases} LnB = \beta_0 + \beta_1 LnSL_{it} + \beta_2 LnA_{it} + \beta_3 E_{it} + \beta_4 O_i + \beta_5 IE_i + \beta_6 PS_i + \beta_7 LnF_i + \beta_8 Baf + \beta_9 Bam + \beta_{10} Yao + \mu_{Bt} \end{cases} \quad (3)$$

Where, B is the reported bribe ratio over sales. E is firm level employment for 2003 and 2004. SL is the gross sales in 2003 and 2004. F is a dummy taking 1 if a firm has a bank and /or microfinance loan and zero otherwise. IE is a dummy taking 1 if a firm is involved in import and/or export activities and zero otherwise. PS is an index of public services, including electricity and water. It takes 1 if a firm interacts with public services and zero otherwise. O is a dummy for ownership. It takes 1 if the owner of the firm is a Cameroonian and zero if he is a foreigner. The four cities covered are categorised into four dummy variables - Bamenda (Bam), Bafoussam (Baf), Douala (Dou) and Yaounde (Yao). Each of the categories takes 1 or zero depending on the location of the firm. The dummy for Douala was dropped to serve as reference location. The combined equation to be estimated is as follows:

$$\begin{cases} LnB = \beta_0 + \beta_1 LnSL_{it} + \beta_2 LnA_{it} + \beta_3 LnE_{it} + \beta_4 O_i + \beta_5 IE_i + \beta_6 PS_i + \beta_7 F_i + \beta_8 Baf + \beta_9 Bam + \beta_{10} Yao + \mu_{Bt} \\ LnY = \alpha_0 + \alpha_1 LnB_{it} + \alpha_2 LnA_{it} + \alpha_3 LnE_{it} + \alpha_4 O_i + \alpha_5 IE_i + \alpha_6 PS_i + \alpha_7 F_i + \alpha_8 Baf + \alpha_9 Bam + \alpha_{10} Dou + \mu_{yt} \end{cases} \quad (4)$$

3.2. Data collection.

The first data source was the Department of Statistics and National Accounts where we collected information related to the number of firms and their contribution to the total output in each of the eligible categories, and the volume of employment in each of the firms. These information helped us select the sample of firms that we surveyed.

For the empirical analysis, the main source of data for this study is a firm-level survey that we carried out. The sampling frame was confined to four general industrial categories, namely agro-processing, chemical, light manufacturing and food processing. These four sectors employ a high percentage of the total labour force in the industrial sector. Concerning the geographical regions, our work covers Douala and Yaounde respectively the economic and the capital cities where most of the firms are based. These cities are large, and each has a population of over one million inhabitants. They are characterized by a high degree of economic diversity. We have also covered other cities namely Bafoussam and Bamenda in the rural area of the country. The choice of procedure in selecting the sample from the eligible categories was governed by three

main criteria. First the sample should be representative of the population of firms in the specified industrial categories. Second, the firms surveyed should account for a substantial share of national output in each of the industrial categories. Third, the sample should be sufficiently diverse in terms of firm size to enable empirical analysis on the effects of firm size. To account for these three considerations, employment shares were used as weights.

Given that bribery is illegal, firms were expected to be reluctant to admit that they pay bribes. In implementing the survey, the problems associated with collecting reliable data were kept constantly in mind, and every effort was made to assure respondents that their answers would be treated confidentially. For instance, the empirical strategy to collect information on bribe payments across firms was guided by the following components: First, questions on corruption are phrased indirectly to avoid implicating the respondent of wrongdoing. Second, corruption related questions are asked at the end of the interview, when the enumerators have presumably established credibility and trust. Third, multiple questions on corruption are asked in different sections of the questionnaire. Our effort to collect information was aided by the fact that the issue of corruption is desensitised in Cameroon, due to Prime Minister's awareness-raising campaigns on the subject.

3.3 Estimation techniques.

In assessing the effects of corruption on growth, one main econometric issue is taken into consideration. It is the fact that both growth and corruption are likely to be jointly determined. This problem of endogeneity arises if firms specialize in rent-seeking or efficiency as a means of growth (Fishman and Svensson, 2002). It is possible that firms differently choose to devote resources to obtaining valuable licenses, preferential market access, and so forth. Thus some firms choose to compete based on costly preferential bureaucratic access, while others focus on improving productivity and investing in new capital. Both strategies may lead to growth, and in equilibrium, it is not clear that either firm type will grow more rapidly (Idem). This effect tends to attenuate any measured effect between bribery and growth. In order to account for this problem in estimating the impact of bribe on firm performance, the panel simultaneous equation model in (4) is estimated.

4. Empirical results.

Before presenting the econometric results, the descriptive characteristics of the data are first explored. Table 1 presents the breakdown of firms by city, size and sector. Both small and medium enterprises were sampled. Small enterprises comprised the clear majority.

Table 1. Distribution of firms sample by city, size and sector (% of firms in the category).

	Agroprocessing	**Chemical**	**Light manufacturing**	**Food processing**	**Total**
	Bafoussam				
Small	15.4 %	30.8 %	30.8 %	23 %	13
Medium	11.2%	66.6%	22.2 %	-	9
Subtotal	13.6 %	45.5 %	27.3 %	13.6 %	22
	Bamenda				
Small	20 %	5 %	45 %	30 %	20
Medium	-	-	100 %		2
Subtotal	18.2 %	4.5 %	50 %	27.3 %	22
	Douala				
Small	12.3 %	24.5 %	32.6 %	30.6 %	49
Medium	27.8 %	55.5 %	11.2 %	5.5 %	18
Subtotal	16.5 %	32.8 %	26.8%	23.9 %	67
	Yaounde				
Small	5.5%	5.5%	21%	68%	19
Medium	-	14%	57%	29%	7
Subtotal	4%	8%	30%	58%	26
TOTAL	13.9 %	25.5%	31.4%	29.2%	**137**

The businesses covered were diverse in terms of size and main activities. We interviewed 19 agro-processing firms, 35 chemical enterprises, 43 light manufacturing businesses and 40 food processing firms. With regard to size, the sample covered 101 small and 36 medium-sized enterprises.

The analyses in this paper are based on a sample of 137 firms that responded to the core questionnaire.

4.1 Firms' perception of the environment climate constraints.

Institutional capacity for public service delivery

As far as public service delivery is concerned, especially in the domains of public utilities, public transportation, security, education and health, 65 % of all the firms interviewed think that the government is very inefficient, 19% says the public service delivery is inefficient and only 16 % think that the government is somewhat efficient or efficient.

With respect to regulations and government officials' interpretation of such, 85.9% of the firms interviewed viewed them as not consistent and unpredictable with respect to their activities. This declaration consolidates the above information on government inefficiency in terms of public service delivery. This inconsistency and unpredictability cause increasing difficulties in the firms-government relationship. 76.6 % of the firms effectively declared that the difficulties in dealing with government officials have increased in the last five years, 7.4 % think that these difficulties have remained the same, while only 9 % thinks that they have decreased.

4.1.1. Corruption practices in SMEs.

Spread of corruption

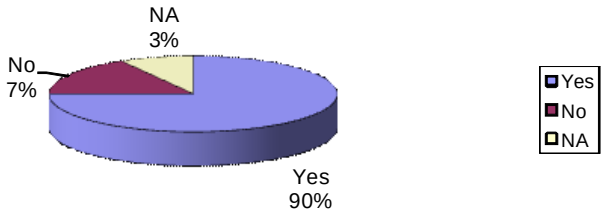
According to a number of theoretical views, the spread of corruption is determined by its practical efficiency. The faster and the easier it is to overcome administrative obstacles and restrictions by giving bribes, offering services and / or gifts, the more people will become involved in such activities as this saves time, nerves and resources. Two equally interested parties therefore, carry out the act of corruption. The survey data show that a large number of firms interact with various public services as shown in Table 3 below.

Table 2: Interaction of firms with public services

Services	Yes	No
Customs officers	46%	54%
Tax inspectors	100%	-
Water authorities	85%	15%
Electricity authorities	100%	-
Telecommunication authorities	100%	-
Police officers	62%	38%
Court / Magistrates	31%	69%
Banks	85%	15%
Services of Licensing and operating permits	69%	31%
Other (Specify)	-	-

Nearly 90% of the respondents declare that they have experienced, when interacting with public services, in one form or another, corruption pressure on the part of public-sector officials, when they tried to facilitate the process or to get things done, 7% multiply contacts or make friends and 3% of the firms do nothing (Figure 1).

Figure 1: Relative share of cases when informal payments were made to obtain public service



Public service delivery

The general observation is that firms always pay more than the official cost for public service delivery. For instant, only 40% of firms concerned with telephone connection problems pay 60,000 cfa franc which is the official cost of getting a telephone line. The remaining 60 % of firms pay between 70,000 to 300,000 FCFA francs depending on the urgency of the telephone line and the location of the firm. The same observation applies to other public services such as electricity connection, water connection, and obtaining import licenses.

A large proportion of the firms interviewed are required to make extra, unofficial payments or gratifications for most of the public services.

Table 3: Frequency of bribe for public services by firms.

	Never	Sometimes	Frequently	Mostly	Always	NA
Obtaining a building permission	-	12%	31 %	-	10%	47 %
Obtaining permits and Licenses	10	-	40	8	8	34
Getting electricity installed	-	51	17	22	8	-
Getting water installed	-	80	20	-	-	-
Acquiring a telephone line	10	46	20	10	-	14
Obtaining credit	20	15	-	-	-	65
Payment of customs duties	-	9.5	13	15	42.5	20
Speeding up juridical process on the court	23	20	7	10	-	40
Registration of a company/enterprise	9	22.5	30	8.5	-	30
Paying lower taxes by reduction of the tax base	-	7	-	10	83	-
Winning public procurement contracts	17	23	-	-	-	60

Several tentative conclusions may be drawn concerning the spread of corruption practices. After combining the three columns for frequently, mostly and always, paying lower taxes by reduction of the tax base comes first on the list. In nearly 93 % of the cases, firms interviewed reported that they have to give bribes. Payment of customs duties is amongst the services where corruption occurs most frequently. Seven out of every ten respondents (70.5 %) think that in all cases when it comes to paying customs duties, business people have to make unofficial payments. Obtaining permits and Licenses comes third. 56 % of the respondents reported that in all cases, when interacting with permits and Licenses officers, firm's managers have to give bribes in order to get things done. Getting electricity installed and obtaining a building permission come fourth and fifth respectively. 47 % of the firms think that giving bribe is compulsory to get electricity installed.

At the bottom of this classification are public services such as obtaining credit, winning public procurement contracts.

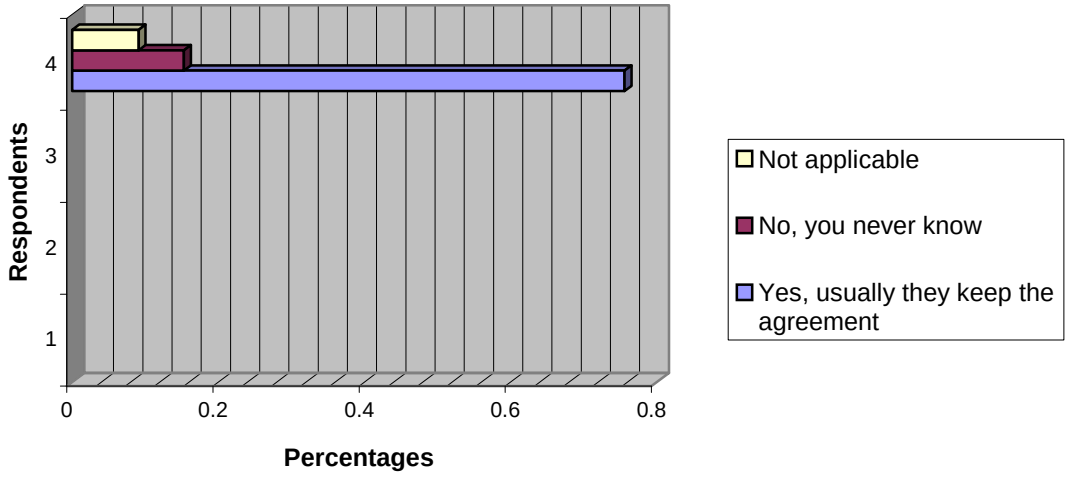
Table 4: Frequency of exerting corruption pressure by public officials (%)

	Very frequently	Frequently	Rarely	NA
Customs Officers	40.4	17.7	-	41.9
Tax inspectors	78.5	14	-	7.5
The Police	47.6	36.9	-	15.5
Lawyers/Magistrates	13.6	30.9	7.7	47.8
Officials from ministries and other public bodies	21.5	50.4	13.75	14.35
Hygiene and epidemiological officers	43	32.2	11.8	13
Bank staff	-	4.5	27.3	68.2
Telecommunication officers	-	4.5	54.2	41.3
Electricity officers	22.7	32.8	38.4	6.1
Water officials	-	46.2	34.75	19.05

After combining the percentages in the two first columns, tax inspectors, police officers, hygiene and epidemiological officers, Officials from ministries and other public bodies, customs officers and Electricity officers are reported to have exercised pressure on business people most often. Bank staff officers and telecommunication officers were assessed as being the least corrupt.

Generally the survey showed that after the unofficial payments or gratifications are made, 75.6 % of the promises are kept by the government officials vis-à-vis the firms as shown in the figure below.

Figure 2 : Keeping negotiated terms and conditions in corruption related deals



4.1.2. The cost of corruption.

Non monetary cost

The cost of corruption to firms here has been evaluated in terms of time wastage. All the firms interviewed, dealing with imports and exports of goods and raw materials, admitted that they spend one to two weeks in order to successfully send an outgoing container through a port. All of them equally admitted that they spend two to four weeks for the clearance of an incoming container. This time wastage can be shortened to a few days if informal payment is made.

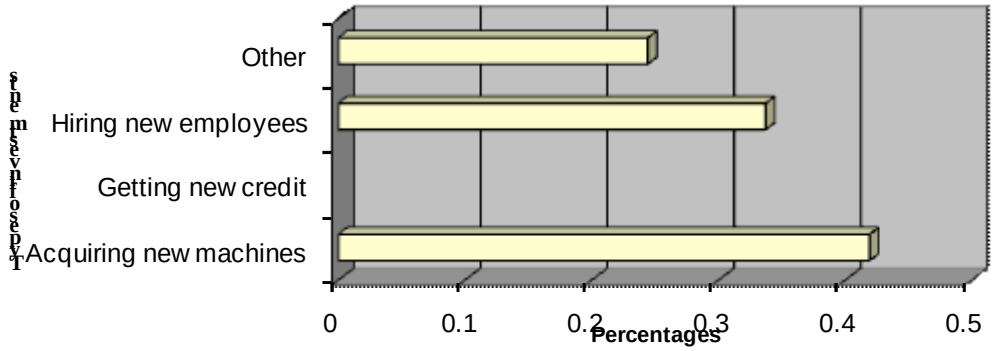
It is equally observed that there's a great difference between the time lapse with informal payment and without informal payment as shown below.

Table 5: Time lapse to get public services with and without unofficial payment

Problems	Actual delay Without informal payment or gift.	Actual delay With informal payment or gift
A mainline telephone connection	2 to 6 months	2 weeks to 1.5 month
An electrical connection	2 to 4 months	3 weeks to 1 month
A water connection	1 to 4 months	2 weeks to one month
A construction permit	2 to 8 months	Three weeks to 1.5 month
An import License	1 to 4 months	2 to 4 weeks
An operating License	2 to 7 months	1 to 2 months
Obtaining bank credit	2 to 4 weeks	3 days to 2 weeks

Over the four years taken into account, the informal payments have actually hindered the acquisition of new machines for 41.9 % of the firms interviewed. It has equally hindered the hiring of new employees for 33.7 % of firms, and other forms of investments for 24.4 % of the firms interviewed.

Figure 3: Unfulfilled investments on account of informal payment



Monetary cost

The ability to cope quickly and easily with administrative and bureaucratic obstacles facing business is an important prerequisite for the efficient functioning of SMES. Bureaucratic problems are a major factor in generating corruption and account for its spread.

Making unofficial payments leads to profit losses on account of unfulfilled transactions. These payments add to the cost of the deals and are extremely hazardous for small-budget enterprises that have to seek additional funding or restrict their business activity.

The survey provided bribery data for 128 firms out of 137 that reported positive bribe payments. What makes an impression is the relatively high share of respondents in Yaounde (3 out of 5) who have assumed a rather passive attitude. They have preferred not to give an answer to the question about the size of the bribes. Two reasons may account for this fact. Firstly, entrepreneurs consider the size of the bribe, regardless of its purpose, to be company secret or established practice, which should not be made publicly known. On the other hand, bribe payments for the various types of activities may vary depending on the specific situation.

Table 6: Average size of bribes in CFA franc (%)

	2003		
	Up to 500,000	**501,000 to 1,000,000**	**1,000,000 to 5,000,000**
Bafoussam	45.4 %	18.2 %	36.4 %
Bamenda	54.5%	13.6%	22.7%
Douala	33.4 %	33.3 %	33.3 %
Yaounde	61.5 %	23 %	15.5 %
	2004		
	Up to 500,000	**501,000 to 1,000,000**	**1,000,000 to 5,000,000**
Bafoussam	41 %	22.6 %	36.4 %
Bamenda	66.6%	4.5%	18.2%
Douala	33.4 %	43.4%	23.2 %
Yaounde	53.8 %	30.8 %	15.4 %

The figures in the table above show that bribe sizes in 2003 and 2004 are very high in Bafoussam and in Douala. For 2003 and 2004, 36.4 % of the firms interviewed in Bafoussam have declared that their annual average bribe sizes were between one and five millions of Cfa francs. In Douala, 33.3 % and 23.2 % respectively of the firms interviewed have declared that their annual average bribe sizes were in the same proportion. In Bamenda and Yaounde where the annual average of unofficial payments were low, 54.5 % and 61.5 % of firms respectively paid up to 500,000 Cfa francs in 2003 while in 2004, 66.6 % and 53.8 % of firms in the respective cities had the same range of annual bribe sizes.

4.1.3. Strategies to fight informal payments

The survey revealed a lack of efficient mechanisms to exercise public control over the activities of public institutions. These mechanisms are a prerequisite to restrict corruption in the public sector and to improve the quality of public services.

A very small proportion (12.1 %) of the firms' managers interviewed have made a complaint against low-quality public services, and a high percentage of firms` managers doubt the efficiency of making a complaint.

The pie chart above shows that a high proportion of bribe victims have abandoned the idea of lodging a claim because they are convinced of being likely to lose more. The share of those who are afraid such a step might have adverse consequences on them is equally high.

In corruption related cases,

- 48.5 % of the firms think that the bribe demanders should bear the punishment. 16.5 % think that both the bribe taker and the bribe giver should be punished the same way. 13 % think that bribe takers should be punished more. 9.8 % of the firms think that punishments should be case specific while 4.5 % think that bribe givers should be more punishable than bribe demanders.
- 49.5 % of firms view anti-corruption campaigns as potentially fruitful and that it is possible to improve the quality of public services. 41.1 % doubt the possibility of success while 9.4 % are quite convinced that informal payments cannot be contained in Cameroon.
- 91.8 % of firms are not confident as to the fruitful nature of the already launched anti-corruption campaign of March 1998. Only 8.2 % of these firms are confident of this.
- 71.8 % of firms would like to unconditionally cooperate with anti-corruption officials and institutions to denounce corrupt practices.
- 19.9 % would like to cooperate only if they are guaranteed anonymity of their personalities, whereas 8.3 % of firms would not like to cooperate at all for other reasons.
- 33 % of firms think that the act (sanctioning of 70 civil servants involved in corrupt practices) of the new government of Cameroon in January 2005 is a sign of determination to eradicate informal payments or gifts in the Cameroonian society whereas 67% think the contrary.

In order to improve the quality of public services and reduce informal payments, 34% of firms think that corrupt persons should be punished and 30.8 % suggest that the punishment process should start from the high ranked government authorities involved in corrupt practices. 17.5 % think that unjustified assets should be seized. 11.8 % of firm's managers think that the government should make corrupt cases and punishments public and introduce anti-corruption personnel in every public service. 9% of firms believe that emphasis should be put on moral probity in schools and universities while only 7.25 % think that the civil servant package of payments should be improved.

Table 7: Major government priorities in curbing unofficial payments and improving the level of public services**.**

Priorities	**Percentages**
1. Punishments of corrupt persons	34
2. Start punishing from the top government authorities	30.8
3. Seize unjustified assets	17.5
4. Make corrupt cases and punishments public	11.8
5. Introduce anti-corruption personnel in every public service	11.8
6. Emphasise moral probity in schools and universities	9 %
7. Increase salaries, denounce and punish corrupt officials	7.25%

4.2. Econometric Analysis

This section explores the output of the econometric exercise with model (5). Table 5 gives the descriptive statistics of the variables included in the model.

Table 8: Descriptive Statistics

	Mean	Median	Maximum	Minimum	Std Deviation
Age	13.9333	11	40	1	8.89172
Bribe	1.2754	0.66	52	0	4.669116
E	31.06	17	450	4	52.08167
SL	111.958	54.737	1300	2.35	191.4899
Bribe/Sale (%)	7.631	1.081	742.8571	0	64.2758
Taxes/sales(%)	0.2607	0.26	0.5	0	0.097313
Trade	0.437	0.0000	1.0000	0.0000	0.49786
Finance	0.4666	0.0000	1.0000	0.0000	0.500746
Public Service	0.9111	1.0000	1.0000	0.0000	0.285643
Ownership	0.9259	1.0000	1.0000	0.0000	0.262867

Table 8 reports the results of the two-stage least squares estimation of the model. The explanatory variables are grouped into the following categories: the characteristics of firms, the dynamics of firms and the location. The left hand block of columns shows the coefficients of variables considered in bribe equation. The right-hand block reports the coefficients of variables in firms' sale equation.

Table 9: Panel Two-stage Least Square estimates for bribe and firm performance.

Bribe equation				Sales Equation			
lbos	Coef.	Std. Err.	z	Variable	Coef.	Std. Err.	z
_cons	5.505	0.789	6.97	Constant	2.747***	0.538	5.10
Ln (SL)	-1.916***	0.146	-13.17	lbos	-1.179***	0.093	-12.72
Ln (E)	0.841***	0.136	6.20	*Ln (E)*	0.460***	0.098	4.67
Ln (age)	-0.173*	0.101	-1.72	*Ln (age)*	0.229**	0.116	1.98
Import/Export	0.383*	0.196	1.95	*Import/Export*	0.235*	0.140	1.68
Public service	1.147***	0.376	3.05	*Public service*	-0.625**	0.298	-2.09
Ownership	-0.780**	0.376	-2.08	*Ownership*	0.154	0.299	0.51
Finance	0.610***	0.213	2.87	*Finance*	0.198	0.167	1.19
Town Dummies (reference town: Douala)							
Bafoussam	-0.207	0.299	-0.69	Bafoussam	-0.385*	0.239	-1.61
Bamenda	-1.840***	0.357	-5.15	Bamenda	-0.757***	0.254	-2.98
Yaounde	-1.810***	0.342	-5.30	Yaounde	-0.438***	0.293	-5.93
Obs		**258**		**258**			
Model Chi2		**221.40**		**245.55**			
Under-Identification (P-val)		**0.008**		**0.001**			
Weak Instrument test (Wald F-stat		**6.15**		**5.48**			

Note: ***** , ** , *** imply significance at 1%, 5%, and 10% levels respectively.

With 258 observations, a model Chi2 of 245.55 for firm performance equation, and 221.40 for bribe equation suggest that the model has performed reliably. The tests for under-identification and weak instrumentation are both satisfactory. Following this, the impact of bribery on firms' performance is assessed, together with other control variables in sales equation.

Corruption and firm performance

The assessment of the impact of corruption on firm performance reveals some noteworthy results. As expected, bribe payment impacts negatively on the rate of growth of outputs of firms. This variable is significant at 1% level. One percent increase in bribe payment leads to 1.179 fall in firm performance. This result reflects the daily realities of SMEs. Unofficial payments lead to profit losses on account of unfulfilled transactions such as hiring new employees and acquiring new machines. This causes a loss of efficiency as firms are forced to incur a number of unproductive costs, thereby leading to a welfare-reducing allocation of resources. This situation is extremely costly for small-budget enterprises that have to restrict their business activity.

Firm age has a positive correlation with sales` growth and is statistically significant at 1% level. When a firm gets one percent older, its sales improve by 0.229%. This means that longer established firms master the production costs and may also have better relationship with banks, suppliers and clients as well as government services.

Firms with frequent contact with public officials negatively impact on sales` growth. This probably because they are likely to pay more bribes. Being involved in international trade equally impacts positively on firm growth. This dummy variable is significant at 10% level.

The location dummies are all significant (at 1% level for Yaoundé and Bamenda, and 10% level for Bafoussam). Firms located in Bafoussam, Yaoundé and Bamenda experience 0.385, 0.438 and 0.757 less sales growth than those in Douala. This result reflects the reality in Cameroon as external economies of scale beyond the control of firms such as transportation network are achieved in large cities. This results in a subsequent decrease of cost for firms and in a boost of production. Furthermore a high percentage of firms owned by foreign investors are located in Douala and Yaoundé, and to some extent Bafoussam. Such firms often grow more quickly due to greater resources, access to markets and technical expertise, while they may be exempt from bureaucratic harassment as an inducement to locate their operations in Cameroon.

Conclusion

This paper aimed at investigating the types of services in Cameroon for which SMEs pay bribes, the characteristics of these transactions and at estimating the impact of bribe payments on the SMEs growth. In pursuing these objectives, 137 face-to- face interviews were successfully carried out with firm managers in four cities of the country.

The analysis of data from the survey has singled out some characteristics of the Cameroonian private sector and identified public services where informal payments occur very often. These unofficial payments are costly to firms in monetary terms and in terms of unfulfilled transactions. The analysis has come up with some suggestions, which may represent the way to go in the fight against corruption.

A model was also estimated in order to identify the impact of bribe payments on SMEs growth. The results show that informal payments impact negatively on the rate of growth of outputs of firms. This reflects the detrimental effects of unofficial payments on SMEs in that it leads to unfulfilled transactions such as hiring new employees and acquiring new machines. This causes a loss of efficiency as firms are forced to incur a number of unproductive costs, thereby leading to a welfare-reducing allocation of resources. This situation is extremely costly for small-budget enterprises that have to restrict their business activity. All these concur to loss of profit for the firms. Firm age has a positive correlation with sales` growth. This confirms the fact that longer established firms master the production costs and may also have better relationship with banks, suppliers and clients as well as government services. Firms located in large cities impact positively the growth of sales of SMEs. This result reflects the reality in Cameroon as external economies of scale such as transportation network are achieved in large cities. This leads to a subsequent decrease of cost for firms and in a boost of production. Furthermore a high percentage of firms owned by foreign investors are located in large cities. Such firms often grow more quickly due to greater resources, access to markets and technical expertise, while they may be exempt from bureaucratic harassment as an inducement to locate their operations in Cameroon. Being involved in trade equally impacts positively on firm growth but multiplying contacts with public services offers opportunities for bribe extraction from firms and therefore slows down the growth of output.

In general, over the past decades, the development priorities of Cameroon have been centred on private sector development to build a strong market economy that gives a more dynamic role to entrepreneurs and their small and medium-sized enterprises (SMEs). However, institutional failures combined with very poor organisation of civil society have made corruption endemic.

This has been aggravated by the loss of purchasing power that followed the 1994 devaluation (between 1992 and 1995, the real wage of government workers dropped by 75-80 %). To compensate, many civil servants top up their wages by taking bribes. This situation is seriously weakening the development of a strong private sector as the main pillar of the economy. However, since 2005, the government has nevertheless adopted a number of clear and dissuasive initiatives to deal with corruption. The National Anti-Corruption Commission (CONAC) was established by presidential decree in March 2006. Over the past five years, a growing number of well-known representatives of the political elite have been arrested on charges of corruption under an anti-corruption campaign called 'Operation Sparrow Hawk'. These initiatives are expected to improve the business environment in Cameroon and to allow small and medium sized enterprises to post a sustainable growth.

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