

The Impact of Financing Sources and the Regulatory Costs Effect on the Propensity for Entrepreneurship in Cameroon.

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Summary:

By examining the determinants of the propensity for entrepreneurship, we realize that the literature of studies on entrepreneurship, which are centered on the psychological and demographic features of a founding businessman, is very abundant. Very recently, researchers such as Specht et al. (1993) started from the “features or traits” (or socio-economic characteristics of businessmen) approach, to adopt the founding approach of “rates” (of business creation) centered on factors affecting the organizational formation of the industrial fabric on the national level.

In this paper, we propose to analyze two important environmental business factors likely to behave like barriers to entry, and to influence the rate at which new enterprises are created. These factors are, namely, the financing requirement, and business regulatory costs (which generally derived from micro-credits and which are very widespread in Cameroon). This analysis will be carried out in conjunction with the conceptual model which includes financial support and weak market barriers as significant factors in the explanation of the determinants of entrepreneurship in a country (Reynolds et al., 2000).

The contribution of this paper is twofold: we compare different types of financing sources linked to financing requirements derived from the formal banking se and loans from micro-credit institutions or the local trade system, and we use a new measure of business regulatory costs to construct a composite index based on data from the Bank of Central African States (BCAS), the CRETES¹, and the Cameroon National Institute of Statistics and Accounting (NIISA).

Résumé :

En examinant les déterminants de la propension de l’entrepreneuriat, nous nous rendons compte que la littérature sur les études de l’entrepreneuriat qui se sont centrées sur les caractéristiques psychologique et démographique de l’homme d’affaire fondateur d’entreprise est riche : très récemment, les chercheurs comme Specht et al (1993) sont

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partis de l'approche de « traits », pour adopter l'approche par les taux centrés sur les facteurs qui influencent la formation organisationnelle de l'agrégat industriel au niveau national. Dans notre papier, nous nous proposons d'examiner deux importants facteurs environnementaux qui peuvent acter comme barrière à l'entrée et influencer négativement le taux de création de nouvelles entreprises : le capital exigé et les coûts régulateurs de l'affaire (qui émanent généralement des micro crédits et des mutuelles très répandus au Cameroun). Ceci est en droite ligne avec le modèle conceptuel qui considère le support financier et les faibles barrières de marchés comme facteurs important dans l'explication des déterminants qui incitent l'entrepreneuriat dans un pays (Reynolds et al. 2000). La contribution de ce papier est double : nous comparons différents types de sources de financement adressés aux questions d'exigence du capital émanant du réseau classique des banques modernes et des cercles de prêts de micro-crédit ou le système d'échange local, et nous utilisons une nouvelle mesure de régulation de coûts d'affaire en construisant un indice composite utilisant les données de base de la Banque des Etats de l'Afrique Centrale (BEAC), du CRETES et de la Direction de la Statistique et de la comptabilité nationale du Cameroun (DSCN).

Keywords: Entrepreneurship, Financing requirement, Activity costs, Growth, Innovation, Regulation, Informal financing, Cameroon.

Mots clés : Entrepreneuriat - Capital exigible - Coût d'activité - Croissance - Innovation - Régulation - Financement informel - Cameroun.

1. Introduction

Contemporary developments in of forms production and exchange processes both in the North and the South, at the domestic and international levels, suggest that increased attention should be turned to conditions affecting economic activities, both in businesses that participate in the creation and circulation of wealth, and in the territorial and institutional contexts or environments which condition their operation and performances. The expansion of the “new économie” was favored by the deregulation of the early 1980's which opened up to competition New Information and Communication Technologies (NICT) sectors, with the entry of rival enterprises, the entrepreneurial initiative and the “the financial revolution” (i.e. the financing of start-ups, growth of risk capital etc) thus permitting to study the systemic limits between entrepreneurship, growth, and the sources and modes of financing. Entrepreneurship is usually considered as the set of activities encompassing the identification, evaluation, and exploitation of business opportunities. This broad definition of entrepreneurship implies the taking into account of the following elements for the measurement of entrepreneurial activity: emerging enterprises, new enterprises, innovation, and growth in established and existing enterprises.

Our propose in this study is to investigate the impact of financing sources on the propensity to undertake the creation of business ventures in the context of Cameroon,

through a panel of this country's administrative divisions, which participated in the 2001 CRETES survey. More specifically, our main objective is to measure the divisional level of entrepreneurial propensity to determine whether sources of financing and activity costs have different effects on entrepreneurial activity driven by opportunities, necessity and high growth.

The literature on entrepreneurship studies that focus on the psychological and demographic aspects of value-added creating economic agents is quite abundant. Specht et al. (1993) started with the so-called "features" or "traits" approach, and adopted the approach of "rates", which concentrates on the factors affecting the organizational formation (at a more aggregated industry or regional level) of the industrial fabric at the regional level. This paper proposes to investigate two environmental factors likely to act as barriers to entry, and to influence negatively the rates at which new businesses are created. This has to do with capital requirements and the costs of regulatory effects generally stemming from micro-credits and from the "People's Savings and Loans Associations", which are very widespread in Cameroon. This analysis takes inspiration from the conceptual model which considers financial support and weak market barriers as significant vectors in the explanation of factors conducive to the creation of businesses.

The contribution of this paper is twofold: we compare different forms of financing sources to solve the problem of financing requirements derived from the classical network of modern banks and loans from micro-credit institutions or the local exchange system, and we use a measure of regulatory costs effects to construct a composite index with basic data from the Bank of Central African States (BCAS), CRETES², and from the National Institute of Statistics and Accounting (NISA) of Cameroon. The remainder of the paper is organized as follows: section (2) presents the literature review; section (3) deals with research issues and assumptions; section (4) describes the methodological approach; section (5) presents and discusses the results, and the conclusion of the study is given in section (6).

2. Review of the literature

Preoccupation with questions of correlation between economic growth and business activity are not new in Africa and Cameroon in particular. In fact, entrepreneurship in Cameroon presently faces the crucial issues of financing and regulatory costs effects. The literature is quite abundant on financing sources, regulatory costs effects on business activity in Africa and in the world at large. Differences in the results observed in these countries are mainly due to the structural differences in their economies.

Sources of financing, costs linked to regulatory effects on businesses, and entrepreneurship have witnessed an evolution in recent years for several raisons. An increasing interest is given to the issue of financing sources and the costs of regulation. These are the reasons underlying the proliferation of studies on these questions.

2.1 Financing Sources and Entrepreneurship

² CRETES, op. Cit, P. 2

According to Holtz et al. (1994), seed capital is not only necessary and indispensable for new enterprises. The probability of individuals becoming entrepreneurs is found to increase with the amount their assets. Capital is a determinant of business creation. It is important to the extent that it not only affects the ability of the enterprise to enter into the market, but also its performance after entry. Empirical studies on new enterprises have found that adequate amounts of seed capital ensure the survival capacity of new enterprises (Bruderl et al. 1992) and help them earn high profits (Duchesneau and Eartner, 1990; Bamford et al., 1999).

Koch (1974) asserts that “there may exist financing requirements that discourage entry for new enterprises, which explains the fact that financing requirements undoubtedly constitute potential barriers”. In a study on the decisive factors affecting business entry into markets, Geroski (1995) arrived at the conclusion according to which capital accumulation requirements constitute significant obstacles to entry. In the African or Cameroonian context in particular, this conclusion is a present and permanent reality. Capital requirements constitute a barrier to entry for businessmen because most of them usually have limited liquidity.

In this connection moreover, there is reason to point to the inability of the formal or classical banking system to play its lending role, owing to the numerous restrictions in place, especially as concerns the provision of working capital to the entrepreneurs who need it. Most of the latter are mostly merchants who increasingly resort to informal structures to satisfy their financing requirements (Bloy and Dupuy, 1990). The resources necessary for new enterprise creation are often beyond the means of the individual entrepreneur (Bhave, 1994). The latter therefore seeks external financing sources to overcome barriers to entry through formal and informal networks. Recourse to formal bank credit for economic operators is unusual or exceptional for a significant fraction of traders engaged in activities requiring the immediate financing of the operating cycle owing to: the complexity of the loan file and guarantee requirements (mortgages, land titles etc), in addition to the fact that financial institutions appear to economic agents as of entities of general and not particular interest (Servet, 1994, 1995).

According to theoretical economic literature, the contribution of external financing sources to the creation of businesses has been analyzed by adopting the approach of dependence on the resources of organizations. Dependence on resources theory proposes that organizations depend on the availability of external resources and information. Now, information systems analysis has witnessed numerous developments in the context of the theory of organizations and general theory initiated by the fundamental work of Simon (1958). Concerning SMEs, studies related to their information systems were published from the early 1980s³. One of the characteristics defining an SME is the simplicity of its external information system (Julien, 1990).

The latter is based on informal relations which the manager has and maintains with his environment. The transmission of information is most often direct, oral, and seldom formalized. In Cameroon, the issue of the reliability of the information to be given to the lender remains a question of concern. The inadequacy of information may be analyzed on

³ For a literature review on this subject, see Julien et al. (1994)

two levels: on the environmental or general situation of the enterprise, and on the accounting level.

The degree to which such resources are abundant or scarce are described as an environmental munificence or environmental generosity (Castrogrovani, 1991). By conceptualizing the manner in which resources in an environment influence the survival and growth of the enterprises concerned, Rardoph and Dess (1984) have suggested that environmental resources also affect the capacity of new enterprises to enter into this environment. In the proposed model, from the environmental determinants which explain the rate of business creation, Specht (1993) has retained 5 categories of munificence including economic munificence.

The theoretical research of the economist Aldrich (1990) in the area of organizational ecology, and the organizational theory of Gartner (1985) have also identified the sources of financing as being significant determinants in business creation. These empirical concepts have been tested by Pennings (1982). He analyzes the birth rates of enterprises, and finds that in the areas where financial resources are available, enterprises spring up with higher frequency.

In the context of new businesses, the issue of financing deals with finding alternatives to bank credit financing, which has increasingly become scarce in developing countries and in Cameroon in particular. Poor selection and moral hazard constitute problems which illustrate difficulties encountered by entrepreneurs in obtaining credit through traditional banks and debt financing.

Moreover, economic operators' preference for informal financial structures may be explained by the fact that they readily obtain the liquidity they need. They thus refuse to resort to bank credit due to the slowness and red tape involved in the processing of files. Informal financial institutions offer them the opportunity to get liquidity as readily as on stock markets (Ngongang and Wandji, 2001). To that end, the availability of suitable financing sources would greatly facilitate entry into entrepreneurship.

However, one important aspect of financing new enterprises concerns the increasing role of venture or risk capital (RC), which is very frequent in European or American countries. Thus, Keuscting and Neilson (2003) discovered that risk-capital funds have considerably increased since the 1990's; according to data from the Association for Risk Capital and Private Residual Shares (ARCPRS), Lerner and Gompers (2001) have found an increased role for risk capital at the level of the increasing shares of enterprises using risk capital.

In terms of literature, and still according to Gompers and Lerner (1999, 2001), and Kaplan and Stomberg (2001), risk capital (RC) investment has received a treatment of substitution. Consequently, the availability of RC is proposed and recognized as contributing to the formation of enterprises such as determined by Bruno and Tyebjee (1982) in their work on environmental factors affecting the creation of enterprises. RC businesses are usually considered as having an advantage over the banks as concerns sources of financing for new enterprises, notably for high technology enterprises.

Risk capital businesses are active investors with experience in entrepreneurship and industrial expertise, which both entrepreneurs and the banks may not have. They can participate in, and contribute to, the piloting of portfolio businesses by bringing in not only capital, but also expertise and access to networks and markets, unlike the banks. Risk capital businesses are able to finance high-risk enterprises, insofar as they advise the enterprises to enhance the survival rates of their portfolio enterprises.

However, risk-capital funds in practice involve high transaction costs. According to Gifford (1997), this limits the number of portfolio enterprises which RC businesses can efficiently evaluate, invest in, or monitor. Several studies (Harrison and Mason, 1992; Reynolds et al., 2002; Wong and Ho, 2005) show that total risk-capital investment amounts only to a fraction of total informal investment. Thus, there exists a consensus in the literature that a large number of entrepreneurs use informal sources of financing, mainly family members, friends, tontines etc. Among the new enterprises which accumulated external residual shares, the majority receive them from ad hoc investors, contrary to institutional risk capital (Fenn and Liang, 1998).

In Great Britain, the estimates of Mason and Harrison in a specific study on the Angels of Business (outside family component, family and friends as concerns informal investment) show that total ad hoc investment is equal to that of institutional risk capital (RC). However, enterprises obtain ten times more funds from the Angels than from RC businesses; this type of informal investment has received particular and significant attention in the American context during the 1980's with the work of Wetzel (1982, 1983). Since these initial studies, the importance of the Angels as a source of financing for new enterprises has become well-established in the entrepreneurship literature. The Angels of Business' investment has thus filled the financing gap between friends and family, and the step where the funds of RC businesses become a viable option for new enterprises. The Angels of Business are also likely to possess business experience, and are able to contribute to enterprises in which they invest.

Two studies using GEM⁴ data have found that informal investment increases the level of business activity in different countries. This corroborates with practices in African countries in general, and particularly in Cameroon where informal activities are witnessing exponential growth. Bygrave et al. (2002) discovered that annual informal investment relative to GDP significantly explains business activity due to the availability of opportunities in various regions. Using the proportion of adults who carried out informal investment as a measure of informal investment intensiveness, Autio et al. (2003) found that informal investment has a very significant and positive impact on opportunity-driven entrepreneurship as well as entrepreneurial activities with a high growth potential in the presence of opportunities in the same manner as business activities with high growth rates.

⁴ Global Entrepreneurship Monitor (GEM). The GEM model highlights the key role of entrepreneurship in the economic growth of a region or a country. This model has been tested since 1999. It comprises six main variables: economic growth, economic dynamics, opportunities and enterprising capacities, the national conditions of "planning" and the cultural, social, and political context.

2.2 Costs of Business and Entrepreneurship

The literature on industrial organization and strategic piloting has established that several factors may hinder the creation of potential new enterprises despite the existence of market opportunities (Gilbert, 1989, Wong and Ho, 2005). Empirical studies by Harrigan (1981), and Dean and Meyer (1986) also found that significant barriers to entry impede the creation of new ventures. According to Siegfried and Evans (1984), the use of different approaches and barriers to entry measures in previous empirical studies has raised many disagreements on the kinds of barriers that seriously hinder or increase the risks for business creation. However, there is a consensus that the number of barriers to entry varies inversely with the number of new businesses in formation. But Gilbert (1989) finds that barriers to entry offer an asymmetrical advantage to the businesses concerned in serving the market, and this may act to exclude the new entrants. Gorecki (1975) however observes that this advantage has a more significant impact on the creation of new businesses than on the formation of enterprises undergoing diversification.

The issue of regulatory barriers to entry has been the subject of a less abundant literature on the rate of business creation, with much more interest focused on such barriers to entry as product differentiation, capital requirements and scale economies (Mc Dougall, 2001). However, the regulation to entry as seen by Porter (1985) is itself recognized as a barrier. This author proposes that government regulation may impose obstacles to potential enterprises. Are the business projects rejected by the banks non-viable for all that? It is difficult to answer this question in the affirmative. Beyond the problems involved in carrying out an objective appreciation of an application for credit presented by an entrepreneur, the Cameroonian banker, for instance, more often overestimate the risks involved in the project. There certainly exists a strong information asymmetry⁵, but the banks must begin by understanding the specificity of SMEs.

This passes through the banks and the SMEs coming closer together, and creating proximity relations that will help them better grasp the project to be financed, as well as the personality of the owner. Instead of making of accounting documents the main support for risk analysis, they must be substituted for relationships analysis. It is obvious that the question remains as to who will pay for the transaction costs involved. As they are linked to transaction characteristics, these costs must become specific for this type of enterprises where the idiosyncrasy (family character, the difficulty involved in “predicting”, which is different from “predicting right”) plays an important role.

One contribution by Warneryd (1994) has insisted on the importance of transaction costs in understanding the phenomena linked to uncertainty. By relating them to the concept of Daham (1979) for whom these costs cannot be reduced to only transport and ordinary production costs, it follows that these costs are associated with information search, the negotiating process, and with the implementation of contract resolutions between agents. Regulation and procedures entail costs that the businessman must sustain in financial and

⁵ With regard to information asymmetries and business or SME credit rationing, see Akerlof (1970), Stiglitz and Weiss (1981), Calomiris and Hubbard (1990).

time terms. Restrictive costs may discourage potential entrepreneurs (Association of Small Japanese Trades, 1999) or force them into informal activities (Djankov et al, 2002), thus hindering their capacity for growth, and their contribution to economic growth for lack of access to social and legal infrastructures.

A cross analysis of the link between the costs of regulatory effects and entrepreneurship has been hindered in the past by the lack of consistent measures of the cost of business. De Soto (1990) and Djankov et al. (2003) have developed a methodology for constructing universally comparable measures of the start-up costs of a business. By using this methodology, the World Bank has constructed a business database containing costs of business data for more than 100 countries.

Four measures are used by the World Bank (2004) to capture the various aspects of the incorporation of new enterprises in a country or region, and for measuring the cost involved in starting a new activity. These four measures are the following: the number of procedures, the number of days associated with the procedure, the official cost associated with each procedure, and the minimum capital required before the start-up of the business. The number of procedures describes the number of external stakeholders usually linked to the State or the situation which the entrepreneur meets before his new activity is incorporated. For many small economies such as Cameroon's or other developing countries, a long procedure presents a lot of opportunities for corruption⁶. The indicator of the cost of activity constructed by the World Bank and adapted by the BCAS applies to companies with limited liability (Sarl in French⁷). Generally speaking, it is said that SARLs are the most prevalent and the most desirable activities for economic reasons. SARLs attract the most investors since potential losses are limited to invested capital (Dietsch, 1989).

In its report, the World Bank (2004) analyzes regulatory costs at the beginning of an activity in a general way, but does not correlate it with the rate of business creation. Nevertheless, its reports mention two countries, Vietnam and Austria, in which the business creation rate after the abolition of the costs of incorporation and procedures has witnessed some evolution. The report has also found that rich countries have very low costs of regulation, whereas countries of the OECD group had the least regulations relative to other regional groupings. Moreover, the report showed that a highly regulated activity would have a negative impact on employment growth and private investment in many developed regions. These different results suggest that these regulatory costs have slowed down the formation of enterprises thus entailing a fall in country economic performances.

3. Research Issues and Assumptions

⁶ In Cameroon, this procedure is quite long and has many restrictions.

⁷ Company with limited liability.

In this study, we analyze the impact of financing sources on the divisional propensity for entrepreneurship using panel data from Cameroon's ten administrative divisions which participated in the 2001 CRETES survey. To measure the divisional level of entrepreneurial propensity, we use the internationally comparable measures of entrepreneurship developed by GEM, which is the Entrepreneurial Activity Rate (EAR). More specifically, we seek to establish whether sources of financing and activity costs have different impacts on 3 types of EARs by measuring the different types of entrepreneurial activities: opportunity driven, necessity driven, and high growth potential EAR.

The opportunity-driven EAR and the necessity-driven EAR create a difference between entrepreneurs who are motivated by the pursuit of perceived business opportunities, and those who are driven to become entrepreneurs as the last resort, when other options are lacking or unsatisfactory. A high growth potential EAR identifies the subset of entrepreneurs engaged in activities providing a high growth potential.

The preceding literature on the link between barriers to entry, financing sources and business creation rates has considered entrepreneurship as being the spread effect driven by opportunity. Entrepreneurship springs up from existing business opportunities because of asymptotic creeds (beliefs) about the value of resources (Kirzner, 1997). In trying to construct a model for entrepreneurship, Shane and Venkataraman (2000) have insisted on opportunity in business research, by defining entrepreneurship as the examination of opportunities likely to help produce future goods and services. By observing entrepreneurial propensity driven by necessity, and by crossing the determinants driven by necessity, we hope to capture the essence of the role played by entrepreneurial opportunities at the starting point in the creation of enterprises and their activities.

The high growth potential EARs are notably interesting insofar as research has shown that new enterprises are not the ones contributing the most to economic growth. Some authors such as Kirchoff (1994), Storey (1997), Westhead and Cowling (1995), and Birch et al. (1997), argue that it is rather high growth enterprises that generate most of the new jobs. Using GEM's cross-sectional national data, Wong et al. (2005) have shown that a high EAR growth potential is the only business activity with a highly significant impact on economic growth rates. The task of identifying such high growth potential enterprises is discouraging, since they only represent a small number (less than 4%) of newly created enterprises.

Cameroon's CRETES survey has dealt with questions which may be used to identify individuals included in the high growth potential category.

Instead of analyzing the forms that have already reached high growth category, Auto et al. (2003) in their work explain that, it is important to carry out ex-ante analyses of enterprises with a growth potential. The ambitions and hopes of growth of entrepreneurs are a likely antecedent to achieving future high performance. The high growth potential EAR is achieved by operationalizing these expectations on 4 characteristics: (1) the environmental growth potential, (2) the market impact, (3) the global base of clients, (4) the use of new technologies where all the four criteria must be satisfied.

3.1 The types of financing sources

In this section, we compare the 3 types of financing sources namely, traditional debt financing, classical risk capital, and informal investment, and examine how they contribute to entrepreneurial activity at the divisional level. First, we assume like Specht (1993) that the three sources of financing have a significant impact on the propensity for entrepreneurial activity, according to dependence theory which stipulates that greater environmental munificence (generosity) would entail higher rates of enterprise creation. We posit the following assumptions or hypotheses:

H11: Divisions with a high level of debt financing display a high level of propensity for entrepreneurial activity;

H12: Divisions with a high level of risk capital investment funds show a high level of propensity for entrepreneurial activity;

H13: Divisions with a greater availability of investment in the informal sector have a high level of propensity for entrepreneurial activity.

We expect the different forms of financing to have different levels of propensity for entrepreneurial activity. Some studies (Werner, 1993; Lelart, 1995; Harrison and Mason, 1992, 2000; Reynolds et al., 2002; Wong and Ho, 2005), have found that total informal capital investment was a multiple of risk-capital investment, or that informal capital finances a larger number of new enterprises than formal risk capital. Others studies such as those of Rivaud-Danset (1991, 1995), Guile (1994), Hart and Denison (1987), show that formal financing sources such as the banks and risk-capital enterprises are not important in explaining the rates of enterprise creation. We therefore assume that informal investment contributes more to entrepreneurial activity than risk capital and debt financing. Moreover, risk- capital businesses finance enterprises by taking into account the force of the entrepreneur's idea potential which will be under the banks' needs for collaterals. In this case, we also assume that risk capital would contribute more to entrepreneurial activity than debt financing.

H2: The coefficient estimate for informal investment in the regression is expected to be higher than that for risk-capital investment, which in turn, will also be higher than the coefficient estimate for debt financing.

3.2 Activity Costs

We assume that activity costs have a highly significant impact on the propensity for entrepreneurial activity, but only for enterprises driven by opportunity as shown by Dean and Meyer (1996). These cost barriers are constraints which impede entrepreneurs from taking advantage of new opportunities in a context where enterprises are driven by the determinants of demand. Taking advantage of opportunities requires for the entrepreneur's expectations to be such that his profits will largely compensate for the

opportunity costs of other alternatives (including the loss of leisure and income security), the lack of liquidity, and a premium for sustaining uncertainty (Paular and De Masi, 1996; Shane and Venkataraman, 2000; Kirzner, 1973). Barriers such as regulatory costs of activities increase the income from expected business opportunities.

According to Audretsch (2001), entrepreneurs driven by necessity resort to self-employment for lack of alternative employment, thus creating the “refugee” effect whereas necessity-driven entrepreneurs may well take advantage of opportunities, which is not their main motivation. To that end, the decision making process of necessity-driven entrepreneurs attach little importance to the appreciation of the expected value of business opportunities.

In addition, opportunity costs of alternative employment and income are equal to zero for necessity-driven entrepreneurs, except in the case of regions where some form of social security exists⁸. When entrepreneurial activity is the last resort for lack of alternative means of subsistence, we will expect business activity costs to have no discouraging effect on business activity. Hence the following hypothesis:

H31: Divisions or regions with regulatory costs of activity will have propensity levels for entrepreneurial activity driven by opportunity.

H32: Regulatory activity costs differentials are assumed not to be very large between divisions or regions with high and low levels of the propensity for entrepreneurial activity driven by necessity.

By stratifying necessity-driven entrepreneurship against opportunity-driven entrepreneurship, we have implicitly considered entrepreneurship in the context of professional choice or preference (Schmitz, 1989), with entrepreneurship driven by necessity representing a null external choice. By examining the barriers to entry problem, it is also important to consider the effect of the divisional income level, since the latter imposes the opportunity costs of alternatives to entrepreneurship and affect employment/entrepreneurship decisions.

In countries of the North, the opportunity cost of losing a job is higher, since the level of paid employment is high. Moreover, in many of these countries, social security systems give allowances to the unemployed. In the presence of high opportunity costs, the existence of barriers in these countries has quite a significant discouraging effect on potential entrepreneurs, whether they are driven by necessity or opportunity. Conversely, in developing or poor countries where jobs are scarce and social security embryonic, inadequate or inexistent, opportunity costs are low and the barriers to entry have a weak, if not a null, effect on entrepreneurial propensity.

We therefore assume that the discouragement effect of activity costs on the EAR whether driven by necessity or opportunity depends on the income level of the division or even the province. Hence the following hypothesis:

⁸ Social security is almost inexistent in Africa, and notably in Cameroon.

H41: Regulatory activities costs impact on the opportunity-driven entrepreneurial propensity is expected to be more negative in well-off administrative divisions.

The level of regulatory business activity costs hindering the creation of businesses is inversely related to the expected value of business opportunities. According the studies of Dunne and al. (1988), and Utterback (1994), entrepreneurs are inclined to take advantage of high returns opportunities, as for instance, when margins are high or when the technology's life cycle is still young.

The higher the expected returns from business opportunities, the lower the regulatory costs barriers, as returns are expected to largely compensate for the costs imposed by barriers for activities driven by high-returns business opportunities; thus we expect regulatory business costs not to have a discouraging effect on entrepreneurial propensity. In our study, a high growth potential EAR captures this business opportunity with high expected values.

Thus, we assume that regulatory business costs will not have any significant impact on entrepreneurial propensity in divisions with a high-growth potential.

4. Methodological Framework

In the light of the preceding literature, the above hypotheses are tested using multiple regression analysis on a sample of Cameroon's administrative divisions which participated in the 2001 CRETES survey. There are in total 28 divisions distributed in the 10 Cameroon provinces in the sample.

However, since the data on risk-capital investment and regulatory activity costs, are inconsistent in some divisions, effective sample size for a few estimations is limited to 26 divisions.

4.1 Data Sources

The main data source used in this study is the 2001 CRETES data set gathered at the level of the divisions of the 10 harmonized provinces. These data deal with entrepreneurial propensity in 28 divisions summed up from a survey of a large sample of adult population in the participating divisions. The list of the divisions is presented in table 3 of the Appendix. In addition the CRETES survey also comprises interviews carried out by specialists.

The CRETES data are moreover completed by macroeconomic indicators collected from national statistical sources such as those on the economic situation and the BCAS database..... These sources are harmonized to permit hypothesis testing throughout the divisions.

Data on risk-capital investment were collected by the CRETES survey from various national sources. Divisions participating in the CRETES survey also gave information on risk capital from national sources.

Data on activity costs were obtained from the BCAS (2005) and were constructed following the methodology developed by Djankov and al. (2002). The BCAS database provides details on the measures of start-up regulatory activity costs: i.e. the number of

procedures to start up activity, start up activity costs, minimum capital required to start up activity. Monetary costs data are standardized as percentages of per capita income to facilitate comparisons between divisions.

4.2 Model Estimation

The model used for hypothesis testing is a regression equation given in the following general form:

$$DEP = f(CV, \dots, DF, RC, AC) \quad (1)$$

Where,

DEP = Divisional Entrepreneurial Propensity;

CV = Control variables;

DF = Debt financing;

RC = Risk capital, and *AC* = Activity costs.

From the preceding, we attempt to describe the measures and data sources for each variable in the model. Correlation coefficients between variables are presented in table 1 below.

* Divisional Entrepreneurial propensity is a dependent variable measured by using the entrepreneurial activity rates (EARs) calculated from the 2001 CRETES dataset. High growth potential EARs, opportunity EARs, necessity EARs, and global/total EARs are successively used as dependent variables measuring entrepreneurship.

* The EARs for year 2002 are used to calculate the high-potential EAR index because it has several variables (i.e. 28), and because it is the year the data were collected. There are also two control variables used to control for the different economic conditions in all the divisions of the 10 provinces. As the number of observations is limited, we have been obliged to economize (or save) the choice of our control variables.

Additional variables such as the ratio of research and development (R&D) expenditure to GDP, and trade have also been tested, but they were not statistically significant.

* Control rates of productivity growth for different stages of economic development are measured with GDP growth per head used during 6 years. Growth rates are calculated by taking average annual growth rates between 1996/97 and 2001/02. Average growth during a 6-year period is used to reduce the temporal fluctuations of annual growth rates. Data for the employed is derived from the statistics of the DSCN, CNPS (Caisse Nationale de la Prévoyance Sociale) and GICAM (Groupement Interpatronal du Cameroun).

* The GDP per head used controls the various levels of wealth in the sample of the divisions. GDP per employed person is used and it is computed with data from the DSCN and BEAC. As concerns independent variables linked to the financing sources of new enterprises, they are three in number:

* Debt financing is measured from the techniques used by the 2001 CRETES survey, which attempt to determine “whether there exists enough borrowing funds available for

new enterprises and growing enterprises” in each division. The answers of specialists in each division are summed up and averaged. The average figures in each division are used as a proxy for the amount of debt financing in each division.

* Informal investment is measured as the percentage of the adult population in each division which, in the last 6 years, had individually invested funds into a new enterprise set up by another person, excluding the purchase of shares being sold or mutual funds. Data on informal investors were drawn from the 2001 CRETES survey.

An alternative measure of informal investment intensiveness is the CFAF value of informal investment as a ratio GDP. This measure is tested in the regression equation. However, introducing this measure in the equation raised the problem of multicollinearity.

* Risk capital is measured as the ratio of the value in CFAF of institutional domestic risk capital to GPD in year 2001. The data for variable are gathered by CRETES using divisional source risk-capital data.

* To the above three independent variables must be added activity costs measured by the regulatory incorporation process of new activities.

* The activity cost measure is based on the BCAS composite index of measures, including the number of procedures fulfilled before the activity is started up, the number of days it takes before the activity starts up, the costs involves before the activity begins and the minimum capital required to incorporate the activity.

The index is obtained by standardizing individual measures values to get a mean of zero, and a standard deviation of 1. The composite cost is calculated as a mean equal- weight average to standardized values.

The activity cost data from the BCAS database are benchmarked to year 2001. In order to get a more complete value of regulatory activity costs, we used the 2004 BCAS data, where minimum capital required is included. However, we envisage that this incongruity in the period will have little incidence on the results, for regulatory procedures and incorporation costs have remained unchanged.

4.3 Econometric Model

Risk-capital investment data are only available for 26 divisions. For this reason, degrees of freedom for regression analysis are quite limited. Moreover, two divisions lack data on available debt financing, thus reducing the sample size to 26 observations when all variables are taken into account. Therefore, we estimated the regression equation in two steps.

In the first step, we integrate the three alternative financing sources into the equation to estimate their levels of significance in determining the entrepreneurial propensity. This is done as follows:

$$EAR = a + b_1PG + b_2GDP/t + b_3II + b_4CR/GDP + b_5DF \quad (2)$$

Where,

EAR = Entrepreneurial activity rate;

PG = Productivity growth;

GDP/t = Gross domestic product /worker;

II = Informal investor;

CR/GDP = ratio of risk capital to GDP; and *DF* = debt financing.

In the second step, we add the BCAS activity costs index as an independent variable to equation (2), in addition to those financing sources that were found significant in the first step of estimation. The interaction or interdependence term, and activity costs plus GDP/worker are to determine whether the impact of activity costs on entrepreneurial propensity is contingent. On the divisional income level, the unchanged interaction term is due to high multicollinearity between the interaction term and its variables. To solve this problem, the GDP/worker variable is centred on the mean before the interaction term was computed. The second step regression equation is given as follows:

$$EAR = a + b_1PG + b_2GDP/t + b_3SFV + b_4AC + b_5AC * GDP/t \quad (3)$$

Where,

EAR = Entrepreneurial activity rate;

PG = Productivity growth;

GDP/t = Growth domestic productivity per worker; *SFV* = significant financing variables (from step 1);

AC = activity costs and *AC * GDP/t* = activity costs plus gross domestic product per worker.

In all the estimated equations, diagnostic tests for multicollinearity were applied to detect potential problems, but all the regression results showed no significant multicollinearity between the variables.

5. Regression Results

Regression equations for hypothesis testing were estimated using linear ordinary least squares (OLS) and by alternating 4 different EAR indices as the dependent variable. Note that the results for total EARs comprise both opportunity-driven and necessity-driven EARs. As these two indices diverge considerably from individual analysis, it is difficult to interpret the results of all EARs directly.

The signs and significance of control variables behave as expected. GDP per worker is significant and negative for all opportunity-driven and necessity-driven EARs. This situation is due to the fact that there exists a lot of business opportunities in the developed or well-off regions, as well as high unemployment rates which give rise to the “risk effect” of necessity-driven entrepreneurship. Conversely, GDP/worker has a positive sign, but is insignificant for all EARs with a high-growth potential, thus indicating that the prevalence of business opportunities with high growth potential do not depend on the wealth of the division. Per worker GDP growth is significant and negative only for necessity-driven EARs. We may therefore assert that entrepreneurs driven by necessity

tend to have less human capital potential, new activities and and less entrepreneurial capacity (Lucas, 1978; Seibel, 1996), in addition to being less inclined to undertake and contribute to growth.

5.1 Impact of Financing Sources

The comparative results of the impacts of 3 different financing sources are shown in table 1. Sample size for this first regression is 26 divisions. Standardized coefficients are reported with the aim to compare the relative contribution of each regression to the explanation of the dependent variable. The results only support hypothesis *H11* according to which the prevalence of informal investors entails a higher entrepreneurial propensity. It is positive and significant for all EAR types, except for necessity-driven EAR. Institutional risk-capital investment and debt financing are both insignificant for all types of entrepreneurships.

Table1: Impact of Financing Sources on Entrepreneurial Propensity

	dependent Variables							
	High-growth EAR Potential		opportunity-driven EAR		EAR necessity-driven		Total EAR	
	Value	sign	Value	sign	Value	sign	Value	sign
Ad R Sq	0.181		0.400		0.481		0.934	
F	2.278	0.080	4.980	0.005	7.111	0.001	7.156	0.001
	Std. Bêta	sign	Std. Bêta	sign	Std. Bêta	sign	Std. Bêta	sign
control								
constant	t=-0.310	0.772	t= -0.670	0.500	t=1.998	0.060	t=-0.491	0.670
Average GDP growth per employed person in 1998-2001	0.098	0.600	-0.151	0.348	-0.071	0.649	-0.151	0.322
GDP per person employed in 2001	0.179	0.380	-0.367**	0.040	-0.658**	0.000	-0.560**	0.003
Predictions								
Informal Investment as % of adult population in 2001	0.530**	0.010	0.624**	0.010	0.116	0.410	0.505**	0.003
Classical risk capital as a % GDP in 2001	0.067	0.667	0.198	0.219	0.107	0.492	0.218	0.003
Available debt financing	-0.050	0.778	0.242	0.161	-1.196	0.217	0.065	0.686

5% Significance level

H2 hypothesis suppose that informal investors' impact on entrepreneurial propensity is higher than that of classical risk capital, which in turn is higher than the impact of debt financing. In general, this hypothesis is supported by the 4 types of EARs. We note that the value of the coefficient estimate for informal investment is far larger than the values of coefficients for risk capital and debt financing.

In the case of the opportunity-driven EAR, the coefficient of risk capital is marginally lower than that of debt financing, but both these coefficients are insignificant.

5. 2. The Impact of Regulatory Costs of Activity

In the second step of regression analysis, we introduce BEAC's regulatory activity costs composite index as explanatory variable, and retain the variable of financing, notably the informal investors variable which was significant in the first step of the procedure. By omitting both risk capital and debt financing variables for which data were not available for several divisions, the size of the sample used in the second step regression increases to 28 divisions. The results are presented in Table 2 below.

As postulated in hypothesis H3.1, regulatory activity costs have a negative and significant impact on opportunity driven EAR.

Table2: Impacts of Financing Sources and Regulatory Activity Costs on entrepreneurial Propensity.

	Dependent Variables							
	High-growth EAR Potential		opportunity EAR		EAR necessity		Total EAR	
	Value	sign.	Value	sign.	Value	sign.	Value	sign.
Ad R Sq	0.423		0.524		0.745		0.710	
F	5.204	0.004	8.332	0.000	12.338	0.000	10.228	0.000
	Std. Bêta	sign.	Std. Bêta	sign.	Std. Bêta	sign.	Std. Bêta	sign.
control								
constant	t= 0.560	0.590	t=3.109	0.050	t=3.922	0.009	t=3.987	0.007
Average GDP growth per employed person in 1998-2001	0.220	0.197	-0.210	0.156	-0.305**	0.009	-0.298**	0.024
GDP per person employed in 2001	0.007	0.997	-0.485**	0.009	-0.640**	0.000	-0.597**	0.000
Predictions								
Informal Investment as % of adult population in 2001	0.612**	0.002	0.654**	0.000	0.154	0.157	0.534**	0.000
Classical risk capital as a % GDP in 2001	-0.152	0.534	-0.500**	0.050	0.040	0.832	-0.240	0.220
Available debt financing	0.276	0.178	-0.428**	0.020	-0.514**	0.002	-0.562**	0.005

5% Significance level

As expected, activity costs have no significant discouragement effect on necessity-driven entrepreneurship, thus validating hypothesis H32.

The interaction or interdependence term Cost of Activity GDP per worker (i.e. GDP/worker) was found to be negative and significant both for opportunity-EAR, necessity-EAR. This confirms hypothesis H42. The negative impact of regulatory costs is more pronounced in well-off divisions.

In the case of opportunity-driven EAR, this result implies that the discouragement effect of regulatory activity costs in well-off divisions, just as the activity costs variable itself, was negative and significant. In the necessity-driven EAR case, the significance of the

interaction term (the activity costs term itself being insignificant) implies that regulatory activity costs only affect necessity-driven entrepreneurship in well-off divisions.

In general, the activity cost coefficient is negative but insignificant for high-growth potential EAR. This implies the latter may be obtained after the exploitation of opportunities, which have a sufficiently high expected value to negate the discouragement effect of regulatory activity costs.

In the final analysis, the results obtained in this study are similar to those often arrived at in developed countries, where entrepreneurship essentially boils down to the process of identification, evaluation and exploitation of business opportunities.

6. Conclusion

It clearly emerges from this study that informal investment significantly contributes to entrepreneurial propensity in all divisions. It notably appears as the high growth potential vector and opportunity-driven entrepreneurship. Moreover, this means that the correlation between economic growth and business activity is positive. However, debt financing and traditional risk capital are insignificant for the two categories of entrepreneurships.

As in other empirical studies by Harrison and al. (1992), Reynolds and al. (2002), and Wong and al. (2005), total informal capital investment is far larger than (in our case a multiple of) formal risk capital, especially in countries where the dynamics of the informal sector are based more on confidence (or trust) and proximity as a foundation of finance. This result confirms the importance of informal investment relative to other forms of financing. Being very widespread in Cameroon, the growth of the informal sector derives in large part from the trust and proximity which are the key elements guiding relationships between economic operators. However, risk capital shows little significance in the explanation of the propensity for entrepreneurial activity at the divisional level. For all that, this does not underestimate the importance of risk-capital investment in the financing of new businesses, despite the availability of other sources of finances. Means of financing risk-capital investment is usually concentrated in high-technology firms, and particularly, in the industrial sector. The impact of risk capital on the general level of entrepreneurship is weak.

On the other hand, activity costs have a discouragement effect on business activity driven by opportunity, but have no impact on entrepreneurial propensity driven by necessity. This is in tune with the idea according to which barriers to entry are factors which discourage entrepreneurial activity driven by attraction or demand factors characterized by market opportunities (Porte, 1987; Dean and Meyer 1996, Wong and al., 2005). On the other hand we find that the impact of activity costs depends on the regional income level. In the divisions particularly, the regulatory costs of activity has a more significant negative effect on entrepreneurial propensity driven by opportunity, and turns into a discouraging factor even for enterprises driven by necessity.

In most divisions, regions or provinces, desired forms of business activity include opportunity-driven entrepreneurship and their growth potential. This could be explained by informal investment (i.e. from family, friends, etc), and by a “laissez-faire” policy as concerns the regulation of entry to activities linked to poor economic conditions. The propensities to transform informal investment into a privileged means of financing significantly increase, insofar as individuals...are themselves entrepreneurs who maintain relationships with other entrepreneurs from the business initiative point of view. Barriers to entry caused by regulatory activity costs may, to some extent, hamper new business formation. However, facilitation procedures are possible and available in Cameroon to encourage candidates willing to found new businesses (investment code, financing institutions, simplified procedures, etc), despite the fact that Cameroon requires a minimum capital of about 30% of per capita GDP.

The end of the last century calls for new political economic and technical perspectives as we enter the IIIrd millenium. Entrepreneurship has advanced so much as to become one of

the key factors of changes called for by development, and which seems to have escaped from that purgatory where it was confined by class dialectics and the assimilation of the boss exploiter. Henceforth, the business manager takes on many roles such as (creator of wealth), reducing the number of jobs, and a catalyst of means to respond to needs. A new field of investigation seems to be opening up under these steps, but Africa in general and Cameroon in particular clearly seems not to have really joined this movement even though one can perceive some evolution. The African region has two mayor handicaps: to the intrinsic problems linked to successful enterprise creation must be added the inadequate supply and persistent lack of African entrepreneurial candidates, and the international context whose distribution of investments devotes only 3% to the African continent, thus further, marginalizing more than half a billion individuals to poverty....

The creation of enterprises in the North and in the South constitutes both a method and an appeal: a method because the process of business formation is not the fruit of circumstances or a random event, but a constructive endeavor for survival. It is an appeal because economic development rest on an entrepreneurial social stratum which transfers a few aspirations into a genuine societal fact. On this last point, some studies, willing to disengage from afropessimism have been sending some harbingers of hope. But some of these few reasons to hope for rapid mutations and this feeling of “Africa’s needs” remains but an incantatory declamation. It is quite certain that the facts established in this study are validated, but they are still signs, not a growth swell in the same vein as “one swallow does not make a summer”.

Appendix 1

Table 3: List of Divisions from the 2001 CRETES Survey

Divisions	Entrepreneurial Propensity				financing		Regulatory activity costs			
	X1	X2	X3	X4	PII	ICR/ %GDP	NP	DP	CP (as a % GDP/ph)	MC (as a %GDP per capita)
Mifi	16.2	8.1	6.3	0.23	3.1	0.08	12	29	12.6	5.1
Menoua	9.2	3.6	6.9	2.6	1.9	0.09	2	2	2.2	0.01
Bamboutos	3.8	1.7	3.4	0.71	1.60	0.03	3	30	7.4	10
Haut Nkam	14.2	8.6	4.99	0.23	0.48	0.01	13	102	7.5	0.01
Nde	5.1	0.8	4.2	0.98	2.98	-	7	41	5.2	188.2
Noun	7.98	2.2	6.9	2.60	3.10	0.30	1.5	2	1	0.01
Wouri	15.48	5.9	9.1	3.4	3.97	0.15	8	25	9	0.01
Sanaga Maritime	12.1	6.7	5.4	1.18	5.0	0.01	11	31	12.4	489.1
Moungo	4.6	0.87	3.18	0.67	2.4	0.02	10	29	11.3	21.2
Mfoundi	6.4	0.56	4.98	0.97	4.2	0.15	3	3	0.01	42.8
Nyong - et- Soo	5.2	0.44	5.1	0.76	2.88	0.11	2	11	1	23.9
Haute Sanaga	4.4	2.19	5.0	0.77	2.1	0.08	6	7	1.1	0.01
Lekié	6.3	2.10	4.2	0.72	4.3	0.09	8	42	4.9	39.8
Mbam	10.9	0.89	8.6	3.9	3.36	0.18	4	9	2.8	0.01
Mfoumou	15.7	6.0	11.3	0.06	2.8	0.06	5	47	18.2	64.1
Nyong et kellé	9.12	2.4	7.68	2.5	8.42	0.16	0.01	0.01	0.1	0.01
Diamaré	8.02	2.20	6.23	2.3	2.9	-	9	71	39.2	0.01
Benoué	5.9	0.52	3.33	0.73	4.15	0.09	3	22	7	0.01
Moyo-Louti	2.81	1.52	2.48	0.18	2.3	0.77	4	30	5.0	0.01
	13.6	4.6	9.55	3.13	2.4	0.9	7	12	14	8.1
	3.52	0.56	1.89	0.13	0.99	0.05	10	25	6.6	60.8

Vina	4.4	1.27	2.84	0.18	6.03	0.98	8	17	13	130.5
Mayo-Banyo	4.62	0.50	4.02	0.73	7.06	0.01	4	29	8.3	7.6
Ntem	1.52	0.46	1.4	0.06	5.5	0.06	1	6	0.1	0.01
Ocean	4.63	1.37	3.25	1.45	2.8	0.19	7	10	11	33.9
Dja-et-Lobo	6.2	2.2	3.4	0.01	6.1	0.12	4	12.5	1.4	14.5
Fako	4.44	1.3	2.78	0.20	0.59	0.04	5	15.6	10.3	118.1
Meme	4.1	0.48	3.94	1.12	2.4	0.01	4.5	19	5.1	0.01
Lom-et-Djerem	3.0	0.36	1.33	0.52	4.20	0.37	3.2	4	0.06	0.01
Kadei	7.1	0.9	6.0	1.02	3.32	0.38	5	30.5	6.1	9.5
	6.3	0.8	7.8	2.1	4.1	0.43	6	41	8.0	9.0

X1 = Total EAR ; **X2** = Opportunity EAR ; **X3** = Necessity EAR ; **X4** = High EAR growth potential; **PII** = Predominance informal investor ; **ICR/ %GDP** = risk capital investment to percent GDP ; **NP** = Number of procedures ; **DP** = Duration of procedure ; **CP** (%GGP/ph) = Cost of procedure as a percent of GDP per head; **MC (as a % GDP per capita)** = minimum Capital require as a percent of capita GDP.

Table 4: Pearson's correlation coefficient between the variables of the regression equation

	1) High growth EAR potential	2) Opportunity EAR	3) Necessity EAR	4) Total EAR	5) Average growth composition of GDP per employed person (1998-2001)	6) GDP per employed person in 2001	7) Informal investment as a % of adults population in 2001	8) Classical risk capital as a % of GDP in 2001	9) Available debt financing
1	1.000								
2	0.408**	1.000							
3	0.060	0.446**	1.000						
4	0.356**	0.898**	0.801**	1.000					
5	0.107	0.015	0.030	0.044	1.000				
6	0.148	-0.199	-0.801**	-0.509**	-0.200	1.000			
7	0.598**	0.693**	0.100	0.557**	0.154	0.023	1.000		
8	0.178	0.299	0.129	0.299	-0.035	-0.020	0.211	1.000	
9	-0.018	0.027	-0.488**	-0.207	0.090	0.398**	-0.070	-0.061	1.000
10 EAC's activity costs index	-0.297	0.017	0.702**	0.313	0.268	-0.701**	-0.087	-0.093	-0.407**

List of Abbreviations

BCAS: Bank of Central African State

CRETES: Centre de Recherche en Economie et Sondage installé à Yaoundé Cameroun (Center of Research in Economy and Poll Yaounde Cameroon)

CNDSC: National Direction of Statistic and Accounting

NITC: New Information and Communication Technologies

RC: risk capital

GEM: Global Entrepreneurship Monitor

EAR: Entrepreneurial Activity Rate.

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