

## **Assessing the Effect of the Cameroon's Investment Charters on Private Investment**

**Vukenkeng A. Wujung<sup>1\*</sup> and Dobdinga C. Fonchamnyo<sup>1</sup>**

<sup>1</sup>Department of Economics and Management, University of Buea, Cameroon

\*Correspondence: Vukenkeng A. Wujung, Department of Economics and Management, University of Buea, Cameroon. E-mail: [vukenkengwujung@yahoo.com](mailto:vukenkengwujung@yahoo.com)

**Abstract:** The Cameroon government has implemented a series of investment legislations, the latest of them being that of 2002 with the aim of boosting investments and stimulating economic growth. This paper while focusing on the latest investment code contends that the various investment legislations have had a positive effect on private investments. Data for the study is collected from the World Bank Development Indicators, covering a period of 31 years from 1980 to 2010. The estimation technique used for this study is the Generalized Methods of Moments (GMM) estimation technique. The analyses (both descriptive and empirical) showed that the institution of the investment charter between 1991 and 2002 did not improve the level of private investment. However, we did obtain results indicating that the introduction of the investment charter in April 2002 resulted to an improvement in the level of private investment. Other results obtained showed that domestic credit to the private sector, GDP growth and electricity production play a positive and statistical significant influence on the level of private investment in the country. An important conclusion is that the policy structures of the 2002 investment charter should be fully implemented so as to encourage and enhanced private investment in the country.

**JEL Classifications:** C22, K40, O20

**Keywords:** Investment Charters, Private Investment, GMM, Cameroon

### **1. Introduction**

By mid 1980, Cameroon like other developing countries in Sub-Saharan Africa found itself in crisis – a declining economic performance that was accompanied by increasing unemployment, falling investments, large stock of external debts, and a fall in growth rate. In fact between 1980 and 1981, the Cameroonian economy experienced a high growth rate of about 8% due principally to the development of the oil sector, growth of investments (7%), increase exports (16%) and increase consumption (3.3%). This trend followed the period of the first two development decades during which intense development efforts were put in place and the country's credibility and credit worthiness were maintained abroad.

However, after 1985 the economy contracted considerably. For example, between 1985 and 1993, the GDP fell by 35% vis-à-vis the franc CFA (World Bank, 1995). Before this, the state had increased its presence in the economy in the 1970s by nationalizing enterprises and financial institutions. This resulted to a fall in GDP by 9% annually during the 1987/88 and 1988/89 fiscal years. This was accompanied by a fall in investments and exports of 50% and 40% respectively. The fall in the export earnings coupled with the internationally uncompetitive domestic interest rates encouraged capital flight which was accompanied by a dramatic fall in Cameroon's net foreign

assets from FCFA 128 billion in June 1986 to negative FCFA 147 billion in June 1988 (MINFI, 1990). The stagnation and decline of African economies in general and Cameroon in particular was attributed to poor policies – both macroeconomic and sectoral emanating from a development paradigm that gave the state a prominent role in production and in regulating economic activities. Protectionist trade policies and government monopolies reduced the competition so vital for increasing productivity. This put the domestic banking system in liquidity crisis and further retarded economic activities.

In fact, during this period the drop in the dollar prices of Cameroon's major exports and the depreciation in the dollar exposed the structural weaknesses of Cameroon, plunging the country into a deep crisis (Memfih, 2008). Moreover, deficits recorded by public enterprises and para-statals because of poor management were financed with substantial assistance from resources comprising various subsidies, in addition to capital obtained from the investment budgets and loan guarantees.

As a solution to the crisis, besides stabilizing and restructuring the economy the government resorted to the revision of the investment legislation. In this respect, the 1960 investment code intended to create investment in centers which could attract the required domestic and foreign private investment was revised in 1984. The aim of the revision of the 1960 investment code was to enable the government achieve its industrialization policy of promoting indigenous entrepreneurship. More specifically, Cameroon's industrial policy at this time focused on accelerating the transformation of local raw materials, establishment of heavy industries, rational organization and development of national industries, development of basic infrastructure and the intervention of the state in strategic industries.

By 1990, the Cameroon economy was deep in crisis and the investment legislation was again reviewed on November 8<sup>th</sup>, 1990 to encourage and promote productive investment in Cameroon. In fact, this revision set out to encourage the creation and development of economic activities geared towards the valorization of the country's natural resources as a priority, creation of new jobs, production of competitive goods and services for the domestic and foreign markets, increase in exports of manufactured goods, transfer and adoption of appropriate technology, protection of the environment and the improvement of the quality of life in urban and rural areas.

Government's determination to continue to pursue its policy of growth necessitated the enactment of law N<sup>o</sup> 2002/004 of 19<sup>th</sup> April 2002 putting in place the new investment charter. The passing of this law was in line with government's determination to build a competitive and prosperous economy by boosting investments and savings so as to attain its social and economic objectives. This law defines the investment promotion framework in accordance with the overall development strategy aimed at increased and sustainable growth, job creation in all sectors of economic activity and the social well being of the people. The law equally applies to investments relating to commencement, extension, renewal, readjustment and/or change of activity.

If the incentives granted by this charter are anything to go by, then we expect the economic situation of the country to have improved since its adoption. That is, we expect increased domestic investments, increased employment of human and other resources and above all an increase in growth rate and living standards of the population. It is therefore our objective in this paper to examine the basic features of the 2002 investment charter of Cameroon. In addition, we aim at assessing the effect of the different investment charters on the level of private investment in the country. To meet these objectives, the paper is organized in to six sections. The first section introduces the paper. The second section reviews both the theoretical and empirical literature linking institutional change to economic performance. The third section examines and assesses the basic features of the Cameroon investment charter, while the fourth provides the estimation methodology and the techniques used in the validation of the results. The techniques used in the validation process include the Augmented Dickey Fuller test for unit root, the Variance Inflation Factor (VIF) and pair-wise correlation test for multicollinearity, and the Durbin Watson test for

autocorrelation. In the fifth section we present the empirical results estimated using a Generalized Methods of Moment (GMM) estimation technique with robust standard errors to control for potential heteroskedasticity. In this section, a descriptive assessment of key factors that can influence the private investment decision is presented. The final section concludes and provides possible implications of the results to policy makers.

## **2. The Economics of Institutions**

Human needs can be satisfied both through market institutions and political institutions. In some instances these needs are provided by voluntary organizations. But what are institutions? What role do they play in the functioning of the economy? In this section we review the theoretical and empirical literature linking institutions, institutional change and economic performance.

### **2.1 Definition and Categorization of Institutions**

The concept of institution is defined differently. Holdgson (2006) considers an institution to be established and existing social rules that structure social interactions. These established rules do not change easily as agents want (Rothstein, 1996). Elsewhere, North (1981) holds that institutions include rules, compliances, procedures and norms made to control the behavior of people so as to maximize wealth or unity of principles. What is important to note is the control or limit of aspects of institutions which are long lasting. Conventions are specific cases of institutional norms. Functionally, institutions put in order expectations, and actions as they ensure truth and consistency in human activities. Closely related to institutions we have rules which impose constraints on human actions.

Meanwhile, North (1990) considers organizations to be specific institutions characterized by clear cut boundaries and membership, clear rules of who is in charged and, clear distribution of duties within the organization. The organizations are made up of a group of individuals united by a common purpose to realize specific objectives.

Analyzing the influence of politics on economic growth, Feng (2003) identifies three schools of thought:

- i. The conflict school which holds that democracy is detrimental to less developed countries as it creates consumption pressures, fuels distributional conflicts and prevents capital accumulation;
- ii. The compatibility school which argues that democracy promotes economic growth through the promotion of civil liberties and political rights which generate conditions conducive to economic development; and
- iii. The skeptical school which argues that there is no clear cut relationship between democracy and economic development.

The skeptical school is supported by the mixed findings of Sirowy and Inkeles (1990), Przeworski and Limongi (1993), Mantzavinos (2001) and Lane and Ersson (2003) which ushered interest in the investigation of the effect of institutions on economic performance .

### **2.2 Empirical Literature on the Role of Institutions**

North and Olson in Knack and Keefer (1995) find a direct relationship between the quality of institutions and governance structures and economic growth. Helpman (2004) observes that a lot of importance has been given to traditional factors of growth such as physical capital, human capital, technology and total factor productivity and international economic integration. This notwithstanding, Dellepiane (2006) holds that politics and institutions through their effects on

incentives to innovate are seen to be important determinants of economic growth. Elsewhere while Kaufmann and Kraay (2002) hold that there is no positive effect of incomes on the quality of institutions, Glasser *et al.* (2004) argue that it is growth that improves the quality of institutions.

Mauro (1995) shows an inverse relationship between corruption and investment and economic growth. Similarly, Alesina (1998) shows that institutional quality in terms of administrative efficiencies, no corruption, enforcement of property rights and fair justice are important determinants of growth. Mijiyawa (2004) observes differences in growth rates of countries over time and finds that economic growth is more durable in some countries than others. He attributes this to fair and good institutions which promote investments. More specifically, good institutions render the economy more competitive increasing its total factor productivity, reduce government failures and increase private investments whose profitability increases through a reduction in cost of production and security of investments.

In addition to good institutions, profitable opportunities in local and international markets, favorable terms of trade and competitive exchange rates are key factors of durable economic growth. These opportunities can only be effectively exploited by economic operators when there are good institutions. To this end, Dellepiane (2006) observes that poor countries can be able to accelerate growth if they put in place workable institutions. From the review it is therefore expected that good policy institutions will result to an improvement in investment and growth. Thus, it is important to assess the effect of the respective investment structures on investment in the Cameroon economy.

### **3. The Basic Features of the Cameroon Investment Charter**

The Cameroon investment Charter clearly states the roles of the state and the private sector in economic growth and development. Our objective in this section is to examine the various sections and/or the basic features of the charter with a view to assess the influence of its provisions on growth and development in the country.

#### **3.1 The Role of the State**

Generally, the Charter works on the premise that the state's role is to administer the nation, to ensure the exercise of justice and guarantee safety of persons and property. This necessitates that state agents are trained and sensitized on their duties so as to ensure a smooth and efficient functioning of the economic system. Another fundamental role of the state is to enact laws and regulations, supervise, facilitate and regulate economic and social activity, develop basic and information infrastructure, provide training and security, and offset market deficiencies.

On the management of markets, the charter requires the state to guarantee each natural person or corporate body duly established or desirous of establishing in Cameroon to observe the specific rules applicable to their economic activity in the domains concerning the right/freedom to undertake any production, to be treated fairly, to repatriate foreign capital invested and profits, to access foreign currency markets and to transfer capital under the rules of the Monetary Union of Central African states (UMAC). The state is equally expected to be party to bilateral and multilateral agreements that guarantee investments. In this connection, the state has signed the New-York convention on the recognition and enforcement of international arbitral awards concluded under the auspices of the United Nations, the Washington convention to set up the International Centre for the Settlement of Investment Disputes (ICSID), the Seoul convention of 11<sup>th</sup> October 1985 to set up the Multilateral Investment Guarantee Agency (MIGA) aimed at safeguarding non commercial risks; and the OHADA treaty in pursuance of which modern and simple legal provisions based on international practice have been drafted to constitute business law. In addition, through the investment charter the state asserts its commitment to set up a national arbitration court with a view

to settling industrial and commercial disputes within the framework of the Chamber of Commerce, Industry and Mines.

Moreover, the state is expected to promote free market policies which allocate resources efficiently in the economy, to establish appropriate regulations as well as to ensure the supervision of contracts other than those awarded by specialized bodies, and set up a national commission for competition with clearly defined duties and jurisdiction. In addition, international transparency standards concerning the production, publication and dissemination of quality information applicable to the public is adopted.

Externally, the state is expected to adhere to the multilateral trade system and in particular the agreements of the World Trade Organization (WTO). It is also expected to assert its commitment to the option of regional integration in particular within the framework of the Central African Economic and Monetary Community (CEMAC) and the Economic Community for Central African States (CEAC).

### **3.2 The Role of the Private Sector**

The private sector is to generate and produce wealth. To this end, the private sector is called upon to observe the rules of competition and conduct business for the interest and health of consumers and users. This sector is equally organized into various sub-sectors with a view to promoting ethics in business and the judicious application of the rules of conduct inherent in every trade. It maintains a loyal co-operation with the state and its organs in order to guarantee the success of the national economic policy.

### **3.3 The Management of Incentives**

The third section of the Investment Charter relates to the management of incentives. Generally three types of incentives are instituted, namely: promotion, facilitation and support. Promotion incentives consist of the organization of events and missions both within and out of the country, contracting of active partnerships, the management of a range of opportunities and the marketing of the country's potential. Facilitation and support incentives consist of assistance and dispatch in the fulfillment of formalities and transparency in clearance at the bureaucratic level.

On specific incentives, three regimes are instituted namely: the autocratic regime, the return regime and the approval regime. The autocratic regime is tacit once the investment is carried out in accordance with the conditions defined by instruments. The returns regime is granted within two consecutive working days in accordance with the conditions fixed by regulation and with effect from the date when the complete file was forwarded to the one-stop service. The one-stop service acknowledges receipt of the file in writing. Sectoral codes are used as incentives instruments adapted to one or more sectors of economic activity and/or covering one or more technical domains of the economy. The duration of the incentives are then fixed within sectoral codes or economic zones according to their activities.

Section 25 of the charter establishes bodies for the promotion and facilitation of investment and exports. These bodies include the regulation and competitiveness board, the investment promotion agency and the export promotion agency. In order to promote private initiative, an entrepreneurship institute, a trade and industry observatory, a quality and standardization board and an intellectual property center have to be created. The management of the organs of these institutions will have to be collective, equal and tripartite (involving the public sector, private sector and civil society).

The provisions on tax and customs incentives required that taxation and customs mechanics be based on equity and moderation as a way to enable the state to play its economic and social role. The state will have to simplify and harmonize the procedures and methods for the assessment and collection of taxes to ensure that they are transparent, smooth and clear to all investors. Rates of

taxes and customs duties will have to be applied in the respect of rules, practices and proportions close or equivalent to international custom, while ensuring that they are adapted to the evolution and specificity of industrial sectors. Taxpayers' rights will also have to be recognized and respected by state authorities while the state guarantees the application of moderate customs duties and adheres to the principles of their reduction within the framework of the policy defined by CEMAC and in conformity with the provisions of the World Trade Organization. As concerns direct and indirect taxes, Value Added Tax (VAT) will be applied as neutral tax levied on investment and the generation of wealth but not applied on exports. VAT collected for investment and the operating expenses of exporting firms will have to be reimbursed so as to continue to be competitive on international markets. A consistent mechanism of using tax credits has to be applied and tailored to promote research and development, vocational training and the protection of the environment in keeping with various codes. With respect to stamp duty and registration, moderate rates have to be applied in the incorporation of companies, the amendment of articles of association, increase of capital, merger and take over operations, and the issue and circulation of securities.

### **3.4 The Organization of the Financial System**

On the organization of the financial system, the Charter expects the state to develop the financial system in consonance with its policy to boost investments and promote competitiveness. The economic independence and flexibility of the financial system is guaranteed as well as all actions that fall within the Bank of Central African states (BEAC) and the Central African Banking Commission (COBAC) for the development of all types and sizes of investment and enterprise and addressing financial crises. The charter is expected to foster the development of a healthy credit and monetary culture; supervise and promote SMEs/SMIs, support the financial market in accordance with international standards, and to set up a voluntary subscription in public securities market.

### **3.5 An Assessment of the Provisions of the Investment Charter**

From the examination of the investment charter, a number of observations and remarks can be made. Firstly, its provisions are very liberal and show the government's recognition of the key role played by entrepreneurs, investors and enterprise as crucial in generating wealth and employment. Secondly, the promotion of entrepreneurship is considered as a prime mover of Cameroon's creative potential which is a pre-condition for setting up viable and competitive enterprises, and a decisive factor in providing lasting solutions to unemployment and poverty. Thirdly, the charter goes as far as considering particular sectors requiring specific measures taking into account the constraints relating to the development and trapping of local natural resources. Fourthly, the charter lays down an appropriate institutional and regulatory framework to guarantee the security of investments, provide support to investors, and ensure fair and prompt settlement of investments disputes as well as commercial and industrial disputes. Also, the charter institutes an attractive tax system with incentives for investors that include specific taxes on production equipment, and addresses the need for export competitiveness requirements. Finally, the comprehensive and liberal nature of the provisions of the charter shows government's commitment to promote real partnership between the state and the private sector and the civil society as a condition for greater overall economic efficiency. To this end, the implementation instruments of the charter are based on an equal and tripartite basis.

## **4. Estimation Methodology and Validation Techniques**

The data for the study was obtained from the World Development Indicators (WDIs) World Bank data. It covers a period of 31 years from 1980 to 2010. In order to be able to assess the impact of the various investment charters on investment in Cameroon, the following regression model is estimated;

$$Inv_t = \alpha_1 + \alpha_2 Pol_{1991t} + \alpha_3 Pol_{2002t} + \sum_{i=1} \beta_{it} X_{it} + \varepsilon_t \tag{1}$$

Where;

- $Inv_t$  captures the investment level at a particular time. The investment level is approximated by the log of private investment.
- $Pol$  is the investment charter that was instituted. And it is defined as follows:

$$Pol_{1991} \Rightarrow \begin{cases} = 1 & \text{if the investment charter between 1991 and 2001 was in place} \\ = 0 & \text{otherwise} \end{cases}$$

$$Pol_{2002} \Rightarrow \begin{cases} = 1 & \text{if the investment charter after 2002 was in place} \\ = 0 & \text{otherwise} \end{cases}$$

To be able to estimate equation (1), the pre 1991 investment charter ( $Pol_{1990}$ ) is excluded from the equation, thus considered as the benchmark or comparison group. The intercept value will thus represent the benchmark value.

- $X_{it}$  represents a set of other variables which are likely to influence the level of private investment in Cameroon. The variables include; Foreign Direct Investment (Net Inflow as a percentage to GDP), level of domestic credit to the private sector (% GDP), the level of revenue collected from indirect tax (% GDP), GDP growth, Electricity production (in KWH), inflation and lending rate.

In order to estimate equation (1), the natural log of the variables were used. Before the estimation was performed, each of the variables was tested for the existence of unit root using the Augmented Dickey Fuller Test for Unit root. The presence of unit root in any of the variables can invalidate the estimates. The results of the unit root are presented in Table 1 below.

**Table 1.** Augmented dickey fuller results for unit root test

Variable	Test statistics	MacKinnon approximate p-value for Z(t)	Remark
Private investment	-6.549	0.0000	Stationary at levels
Foreign Direct investment	-3.346	0.0129	Stationary at levels
Domestic lending to private sector	-4.101	0.0010	Stationary at levels
GDP growth	-2.872	0.0487	Stationary at levels
Inflation	-4.262	0.0050	Stationary at levels
Electricity production	-4.910	0.0000	Stationary at levels
Indirect tax	-6.95	0.0000	Stationary at levels
Lending rate	-2.579	0.0974	Stationary at levels

**Source:** Computed by Authors using data from WDIs

The results from the table above show that all the variables satisfied the stationarity conditions at levels.

In addition to the stationarity test, we also carried out a test to investigate the presence of multicollinearity using both the pair-wise correlation matrix and the Variance Inflation Factor (see Table 2 and 3).

**Table 2.** Pair-wise correlation results

	1	2	3	4	5	6	7	8	9	10
Private investment	1									
FDI (%GDP)	.35**	1								
Domestic credit	.1429	-.038	1							
Tax_gdp	.2825	-.056	.588	1						
GDP growth	.463***	.381**	-.045	.519	1					
Electricity production	.024	-.2323	.249	.62**	.079	1				
Inflation	-.024	.059	.229	-.341	.178	-.085	1			
Lending rate	-.204	-.036	-.77***	-.59***	-.06	-.479**	-.33***	1		
Pol_1991	-.365**	-.226	.517***	-.69***	-.15	-.52	-.012	.72***	1	
Pol_2002	.278	.235	-.408**	.175	.095	.335	-.288	.041	-.47***	1

**Note:**

The numbering from 1 to 10 simply represents private investment, FDI right up to Pol\_2002, respectively  
 \*\*\* \*\* and \* represent 1%, 5% and 10% level of significance, respectively

**Table 3.** Variance Inflation Factor (VIF)

Variable	VIF	1/VIF
Foreign Direct investment	1.58	0.6322
Domestic lending to private sector	1.53	0.6544
Tax_gdp	1.48	0.6735
GDP growth	1.29	0.7755
Electricity production	2.08	0.4819
Inflation	1.45	0.6902
Lending rate	1.94	0.5161
Dummy_1991	2.28	0.4382
Dummy_2002	1.25	0.7997
<b>Mean VIF</b>	<b>1.65</b>	

**Source:** Computed by Authors using data from WDIs

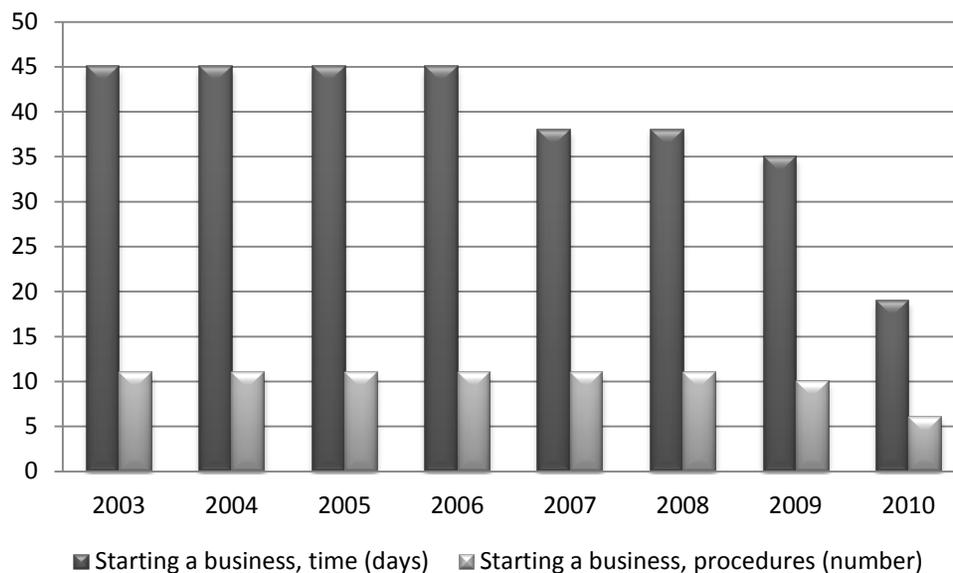
From the results presented in Table 2 and 3 above, there is evidence that multicollinearity is not a problem in the set of variables used in our estimation, since there is no pair-wise correlation which

is greater than 0.8. Moreover, the individual as well as average VIF is less than 2.5. The presence of serial correlation was also investigated using Durbin-Watson test for positive autocorrelation. The result presented in Table 1, shows that it is not possible to draw a definite conclusion on the presence of autocorrelation. Finally to control for any potential heteroskedasticity, the empirical results presented in Table 1, were estimated using robust standard errors.

To estimate equation (1) we simply fitted it using a Generalized Methods of Moment (GMM) estimation technique. The GMM technique allows moment equations of the form  $E\{z_i u_i(b)\} = 0$ , where  $z_i$  is a vector of instruments and  $u_i(b)$  is often an additive regression error term, as well as more general moment conditions of the form  $E\{h_i(z_i; b)\} = 0$ .

## 5. Presentation and Discussion of Results

In order to critically assess the role of the various investment charters, we begin by taking a look at the evolution of some key aspects relating to the setting up of business establishment. It is unfortunate that the data for these variables were not available before 2003 to enable us have a clearer view of the situation in the 80s and 90s. However, as shown in Figure 1 and 2, below there is evidence that things were not the best before the April 2002 investment charter, as the time and procedures used in stating a business was cumbersome and lengthy.

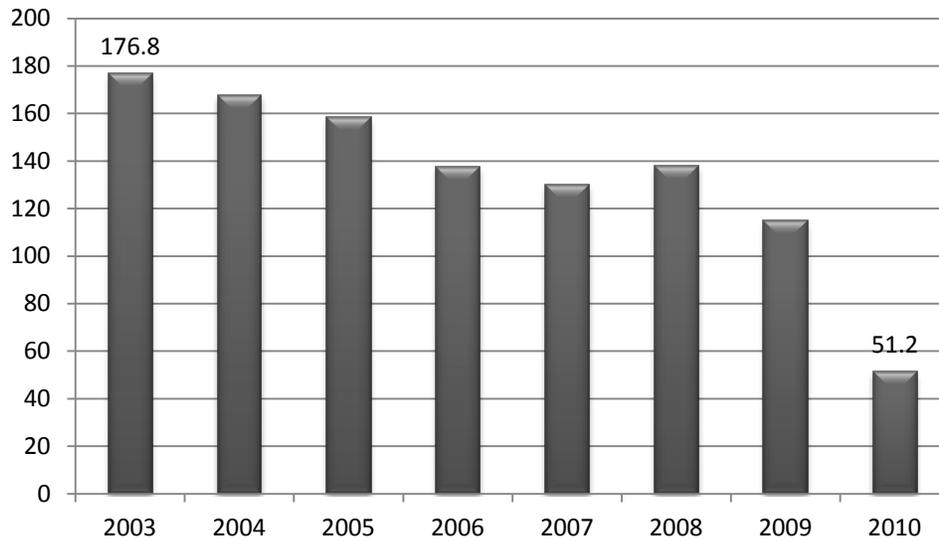


**Figure 1.** Time and procedures of starting a business

**Source:** Computed by authors

As observed from Figure 1 above, after the 2002 investment charter, the number of days and procedures used in starting up a business has improved dramatically. The number of days, for instance has dropped from 45 days in 2003 to less than 20 in 2010, while the number of procedures has also dropped from 11 in 2003 to 6 in 2010. This indicates a fall in the number of days by more than 55 percent, while the number of procedures has declined by about 30 percent.

In terms of the cost of starting a business, Figure 2 shows that the cost has reduced gradually since the introduction of the 2002 investment charter.

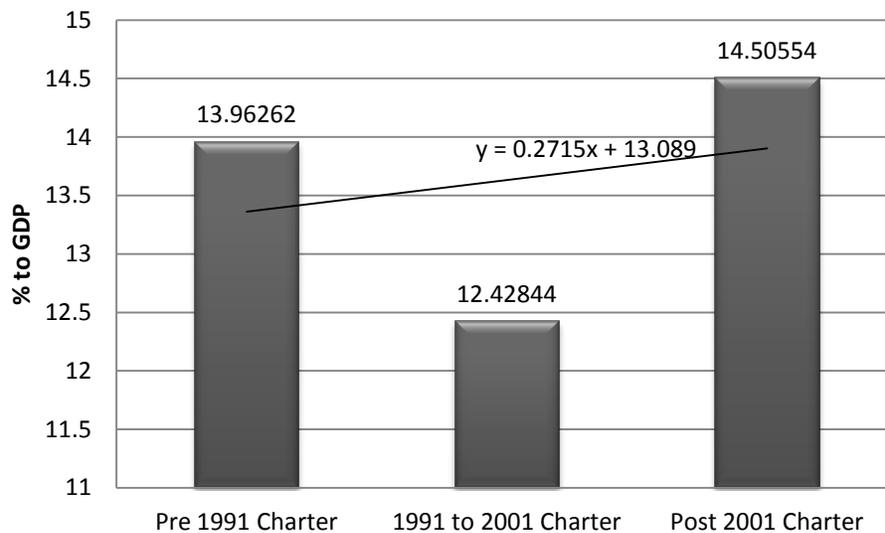


**Figure 2.** Starting a business, cost (% of income per capita)

**Source:** Computed by authors using data from WDIs

As observed the cost has decreased from 176.8% of income per capita in 2003 to 51.2 in 2010. This actually indicates a drop in cost by more than 100 percent of income per capita. This is a clear indication of goodwill in the implementation of the 2002 investment charter in order to improve the level of private investment in particular and gross investment in general in the country.

In terms of the performance of private investment, Figure 3 presents the average private investment as a percentage to GDP during the various investment charters, plus a trend line and equation.



**Figure 3.** Average private investment during the various investment charters

**Source:** Computed by authors using data from WDIs

As observed, the average investment was lowest during the 1991 to 2001 investment charter. This period, worth mentioning corresponded to the most difficult period economically and socially in the country. However, the average investment level has improved after the introduction of the 2002

investment charter. This result is concurrent with the conditions in starting up a business. A possible reason may be the improvement in the conditions of starting up a business, which has made it easier and cost effective to invest one's financial resources.

The empirical result to investigate the effect of the various investment charters on the level of private investment in Cameroon is presented in Table 4, below. The year dummies to capture the various investment charters are represented by Pol\_1991 and Pol\_2002. Pol\_1991 captures the investment charter from 1991 to 2001, while Pol\_2002 captures the investment charter from 2002 till date. The pre 1991 investment charter was considered as the control group or comparative group, thus excluded from the regression. The result shows a negative relationship between private investment and Pol\_1991 and a positive relationship between private investment and Pol\_2002. This simply illustrates that the institution of the investment charter between 1991 and 2002 did not improve the level of private investment as compared to the pre 1991 investment charter. Actually, the results show that the level of private investment to GDP was lower by 0.125 points; however the fall in the level of private investment was not statistically significant at the 10 percent level of significance. On the other hand, the institution of the investment charter in 2002 resulted to an improvement in the level of private investment. The result reveals that following the enactment into law of the April 2002 investment charter, the level of private investment improved by 0.37 points.

**Table 4.** Empirical results of the effect of the various investment charters estimated using Robust Standard Errors

<i>Dependent variable: Log of Private Investment as a % to GDP</i>	
Variable	Coefficient (z-statistics)
Pol_1991	-0.1255 (-1.40)
Pol_2002	0.3699*** (2.90)
Foreign Direct investment	-0.0102 (0.35)
Domestic credit to private sector	0.2021** (1.96)
Tax_gdp	0.3138 (1.17)
GDP growth	0.0189*** (5.08)
Electricity production	0.6317** (2.02)
Inflation	-0.0016 (-0.47)
Lending rate	-0.0437 (-0.19)
Constant	4.3981** (2.34)
Durbin-Watson d-statistic( 9, 28)	= 1.2005

**Note:**

\*\*\*, \*\* & \* represents 1%, 5% and 10% level of statistical significance

Pol\_1990 which captures the pre 1991 investment charter is the based or controlled group

That is, the average investment after the 2002 investment charter is 0.37 points higher than the level of private investment before the 1991 investment charter. This difference is statistically significant at the 1 percent level of significance. This result therefore indicates that the April 2002 investment charter has been capable of attracting more private investment than the pre 1991 investment charter.

The results show a positive relationship between Domestic credit to the private sector and the level of private investment. This indicates a direct relationship between lending to the private sector and the level of private investment, i.e. as the level of domestic credit offered the private sector increases, the level of private investment will also increase. The result actually indicates that a one percent increase in the level of domestic credit to private sector will lead to a 0.201 percent increase in the volume of private investment. This effect is statistically significant at the 5 percent level of significance.

The effect of Gross Domestic Product Growth on private investment is positive, indicating that as GDP growth increases, the level of private investment will also increase. The result actually shows that a 1 percent increase in GDP growth will result to a 0.02 percent increase in the level of private investment as a ratio to GDP. This effect is statistically significant at one percent level of significance.

The coefficient of electricity production is positive, indicating a positive relationship between electricity production and the level of private investment. Energy is very important for the setting up of small and medium size enterprises especially those that rely much on energy. The result indicates that as electricity production increases the level of private investment will increase and vice versa. Precisely, the implication of the result is that a percentage increase in Kwh of electricity production from hydroelectric sources will lead to a 0.63 percent increase in the level of private investment. This influence is statistically significant at the 5 percent level of significance.

Other results presented in Table 1, show that there exist a negative, but statistically insignificant relationship between Foreign Direct Investment (FDI), inflation, lending rate and private investment. Thus, changes in these variables do not influence changes in the level of private investment. However, the results may point to the fact that instability in the macro economy (captured by inflation) may result to a fall in investment. The results in Table 1 also showed that indirect taxes have a positive relationship with the level of private investment. Though, the effect is not statistically significant, it may point to the fact that indirect tax is not a major detrimental factor that influences the level of private investment in the Cameroon economy. This apparently can be the case, because it is always possible to shift the burden of indirect taxes to the buyers.

## 5. Conclusion and Policy Implications

This study aimed at investigating the effect of the various investment charters on the performance of private investment in Cameroon. Data for the study was collected from the World Development Indicators (WDIs) databank covering the period from 1980 to 2010. The descriptive results assessing the evolution of business start up conditions show that since enactment into law of the October 2002 investment charter, the country has witnessed improvement in number of days as well as the number of procedures required to start up a business. There is evidence that the number of days have dropped by more than 55 percent between 2003 and 2010, while the number of procedures has declined by about 30 percent within the same period. In terms of the cost of starting up a business, the data from the WDIs also showed a decline in the cost by more than 71 percent. All these put together shows an improvement, though gradual in the investment climate in the country.

From an empirical perspective, the effect of the investment charters was assessed by estimating a multivariable regression model using a Generalized Methods of Moments, which produces robust

standard errors to control for potential heteroskedasticity. In addition, characteristics of the variables such as stationarity, multicollinearity and autocorrelation were also investigated. The empirical results show that domestic credit to the private sector, GDP growth, and electricity production has a positive and statistically significant effect on the level of private investment in the country. We also obtained results indicating that Foreign Direct Investment, inflation and lending rate have a negative influence on private investment, albeit statistically insignificant.

To capture the various investment charters, we created dummy variables, for the various investment charters. However, the pre 1991 investment charter was controlled for during the estimation process, thus it acted as a group for comparison. The result showed that the investment charter that existed between 1991 and 2002 did not lead to an improvement in the level of private investment. We actually found out that the level of private investment during this period (as compared to the period prior to the 1991 investment charter) dropped by about 0.12 points, although statistically the decline was not significant at the 10 percent level of significance. Contrary to this, the results show that the introduction of the investment charter in April 2002 improved the level of private investment by about 0.37 points. These results are in line with the descriptive assessment presented on Figure 3, which indicated that between 1980 and 1990, the average level of private investment was 13.96; while during the 1991 investment charter that lasted till 2002, the average private investment dropped to 12.428 before increasing to 14.505 during the April 2002 investment charter.

From a policy perspective, an important conclusion is that implementation of workable institutions such as investment legislations which incorporate strategies, policies and measures which reduce uncertainty, increase economic and financial openness, promote investments and render conducive the macroeconomic policy environment are key to sustained economic performance in an economy.

The above results is a clear indication to the Cameroon government that the nature of the investment legislation is an important factor that influences private investment directly and indirectly through the improvement of ease of starting business and reduction of bottlenecks involved in the procedures of setting up business enterprises. The April 2002 investment charter attracted more private investment than previous investment charters, because of the more liberal nature of its clauses. Thus, there is need that the Cameroon government should continuously monitor the changing business climate with aim to always adapt/revise its investment legislation accordingly. Such a revision exercise should involve actors from the public sector, private sector and civil society in order to adequately address their aspirations.

## References

- [1] Alesina, A. (1997). *The political Economy of High and Low Growth*. Washington DC: World Bank.
- [2] Dellepiane S. A. (2006). *Good Governance, Institutions and Economic Development: Beyond the Conventional Wisdom*. presented at the Forum de Recerca, Departament de Ciències Politiques i Socials, Universitat Pompeu Fabra, Barcelona.
- [3] Feng, Y. (2003). *Democracy, Governance and Economic Performance: Theory and Evidence*. Cambridge: MA, MIT Press.
- [4] Helpman, E. (2004). *The Mystery of Economic Growth*. Cambridge, MA: Harvard University Press.
- [5] Holdgson, G. M. (2006). What Are institutions? *Journal of Economic Issues*, 40(1), 1-25.
- [6] Kaufmann, D., & Kraay, A. (2002). *Growth without governance*. Policy Research Working Paper Series 2928, The World Bank.

- [7] Knack, S., & Keefer, P. (1995). Institutions and Economic Performance: Cross country tests Using Alternative Institutional Measures. *Economics and Politics*, 7(3), 207-228.
- [8] Lane, J., & Ersson, S. (2003). *Democracy: A comparative approach*. London and New York: Routledge.
- [9] Mantzavinos, C. (2001). *Individual markets and Institutions*. Cambridge: Cambridge University Press.
- [10] Mauro, P. (1995). Corruption and Growth. *Quarterly Journal of Economics*, 110(3), 681-712.
- [11] Memfih, N. M. (2008). A Balance sheet of Economic Development Experience since Independence. In E. V. Yenshu (Ed.), *Civil Society and the search for Development Alternatives in Cameroon* (pp.35-45). Dakar, CODESRIA.
- [12] Ministry of Finance (1990). *Finance Info*.
- [13] Mijiyawa, A. G. (2008). Sustained Economic Growth: Do institutions Matter and Which One Prevails? *Cato Journal*, 28(3), 385-420.
- [14] Ndongko, W. A. (1988). L'évolution de l'économie Camerounaise (1960-1986) : Politique, Performace et perspectives. In W. A. Ndongko & Hans Peter Herdlitschika (Eds.), *Politique Economique du Libéralisme Communautaire au Cameroun et L'économie sociale de marché en République Fédérale d'Allemagne*. JAF, Douala.
- [15] Ndongko, W. A. (1985). *Reflections on the Economic policies and Development of Cameroon*. Yaoundé, CRESS.
- [16] Ndongko, W. A. (1980). The Political Economy of Regional Economic Development in Cameroon. In Ndiva Kofele-Kale (Ed.), *An African Experiment in Nation Building: the Bilingual Cameroon Republic since Reunification*. West View Press.
- [17] North, D. C. (1981). *Structure and Change in Economic History*. W.W. Norton, New York.
- [18] North, D. (1990). *Institutions, Institutional change and Economic Performance*. Cambridge, Cambridge University Press.
- [19] Przeworski, A., & Limongi, F. (1993). Political Regimes and Economic Growth. *Journal of Economic Perspectives*, 7(3), 51-69.
- [20] Rothstein, B. (1996). Political institutions: An overview. In R. Goodin & Klingemann (Eds.), *A New Handbook of political science* (pp. 133-160).
- [21] Sirowy, L., & InKeles, A. (1990). The Effects of Democracy on Economic Growth and inequality: A review. *Studies in Comparative International Development*, 25(1), 126-157.
- [22] World Bank (1994). *Cameroon: Diversity, Growth and Poverty Reduction*. Working drafts, Human Resources and Poverty Division, African Region.
- [23] World Bank (2005). *African Development Indicators*, Washington DC, World Bank.
- [24] World Bank (1992). *African development*, UNDP, Washington DC, World Bank
- [25] World Bank (1992). *Adjustment in Africa, Reforms, Results and the Road Ahead*, World Bank Research Report, Washington DC, World Bank.
- [26] World Bank (1995): Trends in Developing Economies in Sub-Saharan Africa. *World Bank Policy Research*, 3.