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Foreign ownership and corporate debt policy in developing countries: evidence from Cameroon

Marius Ayou Bene[1], Romuald Kenmoe Siyou[2], Michel Bertrand Cyrille Onomo[3]

[12 3] *University of Douala, Cameroon*

Abstract

The objective of this paper is to build upon the evidences about the relationship between foreign ownership and corporate debt policy in the Cameroonian context. The study uses a simultaneous equations model on 238 companies observed in the period 2014-2018, and the three-stages least square (3SLS) estimation method to take into consideration the endogeneity problem. The results show that foreign ownership and total debt have a two-way non linear but concave relationship. That is, companies use more debt as foreign share increases. But, at higher levels of foreign participation, they reduce the level of their overall indebtness. The findings also show a scarce evidence about a convexe relationship between debt maturity and foreign share. At at low levels of foreign participation the relationship is negative, becoming positive at high levels. So, firms use more short-term debt as foreign share increases. However, at higher levels of foreign ownership, they switch their preferences to debts with longer maturity.

Keywords: Foreign Ownership, Debt, Debt maturity
JEL : G32; L25

Introduction

Firms debt policy is a widely investigated subject in corporate finance research. Most of the works has focused on analysing the relationship between debt and the value of the company. The Modigliani-Miller propositions (Modigliani and Miller, 1958), the trade off theory (Myers, 2001), pecking order theory (Myers and Majluf, 1984)… explain the debt policy and lead to controversial conclusions on the link between capital structure and firm value. Moreover, under the lens of agency theory, corporate debt improves the managerial efficiency of financial resources (Jensen and Meckling, 1976).

However, depending on either corporate debt refers to financial leverage or debt maturity, several works highlight the factors that determine corporate debt financing (Ramjee and Gwatidzo, 2012; Hovakimian et al., 2001). Some of these studies focus on the ownership structure. The links of managerial ownership (Bokpin and Arko, 2009; Garcia-Teruel and Martinew-Solano, 2009), family ownership (King and Santor, 2008), and ownership concentration (Céspedes et al, 2010; Muñoz-Mendoza et al., 2019; Gupta et al, 2020) with debt are widely studied. Moreover, some of these studies raise problems related to the endogeneity (Pindado and De La Torre, 2011; Rossi and Cebula, 2016), the multicollinearity (Bokpin and Arko, 2009), in the relation between corporate debt and ownership structure.

A small number of studies examine the links between the origin of ownership and debt, particularly in developing and emerging countries (Ezeoha and Okafor, 2010). Still, explaining debt by the origin of ownership may be one way of solving the problem of difficult access to credit for firms in developing countries. In these countries, enterprises do not provide much informations on their activities (Seca Assaba, 1998), and do not often offer collaterals to lenders. This seems to explain the strong credit rationing they are undergoing (AFDB, 2011). As for Cameroon, difficult access to credit is a major obstacle to the development of entrepreneurship (INS, 2009). This situation is more persistent in the field of small and medium-sized enterprises (Beck and Cull, 2014).

As a matter of facts, some statistics from the Cameroonian banking sector reveal that, over the period 2010-2021, long-term debts represent 0.66% of outstandind amount of bank loans granted to public firms, and 1.78% in the case of private companies.[1] Yet, some works in this context establishs a positive relationship between long-term debt and firms profitability (Yota, 2016). Moreover, stylized facts show that 71.42% and 67% of the most performant enterprises in Cameroon, in 2013 and 2014 respectively, are highly controlled by foreign investors (Jeune Afrique Economique, 2013 and 2014, cited in Onomo et al. 2018). In this environment, it is check if the latters can be decisive in stimulating business financing, on one hand. On the other it could be useful to verify if some aspects of

[1] Data from the Cameroonian National Council of Credit (NCC)

corporate debt policy may enhance the flow of foreign direct investment.

The objective of this paper is to examines the two-way relationship between foreign participation and corporate debt policy in Cameroon. Specifically, the aim is to describe the debt policy and the ownership structure of these entities, and to analyse the link between the origin of ownership and the debt policy. Using accounting information on Cameroonian firms between 2014 and 2017, we estimate a system of simultaneous equations model using the three stage least square (3SLS) methodology, which is suitable when it comes to deal with endogeneity problems, to establish the effect of foreign ownership on debt policy and vice-versa. To our knowledge, there is no previous study establishing a reverse casualty in the relationship between debt policy and foreign ownership in the Sub-Saharian Africa context.

The rest of the paper is organized as follows. First, we conduct a review of the literature on the two-way relationship between the origin of ownership and corporate debt. Next, we present data and specify the model of the study. Finally, we discuss the results and identify managerial implications.

1. Foreign Ownership and Corporate Debt: A Review of the Literature

Corporate debt policy can be viewed as the optimal level of debt a company can afford to hold without incuring the risk of financial distress. It also refers to some characteristics of the debt, such as its maturity structure. In the literature, the explanation of corporate debt is given by a large theoretical corpus (Harris and Raviv, 1991). In this contribution, we retain the theories of agency, resource dependency and asymetry of information to explain the two-way relation between foreign ownership and debt (Le, 2015; Egger et al, 2014; Koo and Maeng, 2006).

Debt defines an agency relationship between the firm and the lender (Jensen and Meckling, 1976). This relationship is plagued by adverse selection and moral hazard, which are detrimental to debt repayment (Sharpe, 1990). Foreign ownership can be a solution to these problems by promoting effective management control (Hideaki and Takaaki, 2015), and by giving a signal of the financial health of the firm (Ahmed and Iwasaki, 2015). Furthermore, debt reduces the amount of cash flows available to the manager, thereby limiting his discretionary latitude (Jensen, 1986). However, agency problems between the manager and foreign shareholders seem to be more exacerbated (Bürker et al., 2013). Thus, foreign shareholders may encourage the company's use of debt to mitigate these problems and protect their own interests. In the same vein, foreign shareholders practise close controling actions on firm managers. As a result, the managers discipline is likely to become effective and efficient. Well performing management is one of the necessary condition to easily acces to long-term debt at reduced costs (Muňoz-Mendoza et al. 2019).

From another perspective, greater firm management efficiency resulting from an acute control of managers by foreign owners (Mian and Nagata, 2015; Guner, 2015; Aitken and Harrison, 1999) can encourage companies to highly rely on self-financing and use little debt, in accordance with the recommendations of the pecking order theory (Myers and Majluf, 1984). Moreover, although short-term debt increases liquidity risk, it enables the reduction of agency costs since the frequence of management monitoring is aligned with debt renewal (Garcia-Teruel and Martinez-Solano, 2009). Since the participation of foreigners in firms equity is aslo knowned to enforce the monitoring of managers' opportunistic behavior, foreign ownership may affect short-term debt.

Another explanation of the relation between foreign ownership and debt, can be found in resource dependency theory. A firm's environment presents both opportunities and threats to its survival. In order to control these threats, the firm mobilizes critical resources by resorting to actors who facilitate access to them (Pfeffer and Salancik, 2003). In developing countries, where the banking sector is the main source of financing and imposes a strong rationing of credit to businesses (Beck and Cull, 2014; Calice et al, 2012), credit is a critical resource. Foreign ownership can then facilitate corporate access to bank financing. Also, multinational corporations that join local companies foster access to international capital markets (Blalock et al, 2005). Foreign ownership thus contribute to ease off the credit market constraints (Wang and Wang, 2014).

In a context of information asymmetries such as that of developing countries, financing constraints are stronger because the perceived risk of firms is very high (Ndjanyou, 2001), and their debt is either reduced (Psillaki, 1995) or mainly short-term oriented/prevalent. Foreign ownership can reduce information asymmetries (Aggarwal et al., 2011, Ferreira and Matos, 2008), by promoting good governance and financial transparency in the firm (King and Santor, 2008, Ahmed and Iwasaki, 2015). Moreover, high foreign ownership is accompanied by good quality reporting of financial information (Guedhami et al, 2009) and low-cost debt (Koo and Maeng, 2006). Furthermore, the pecking order theory confers to the capital srtucture a signalling role on the firm quality in the presence of information asymetries; high-quality firms usualy borrow more as compared to low-quality ones (Leland and Pyle, 1977; Ross, 1977; Myers and Majluf, 1984 ; Mateja et al., 2016). Accordingly, debt level can be a signal for capital markets, especially for foreign capitalists seeking new investments opportunities. Thus, there may be a reverse casualty in the relationship between corporate debt and foreign shareholders (Epure and Guash, 2020).

Empirical evidence of the influence of foreign ownership on corporate debt in developed countries is provided by several studies. Using Japanese firms, Kang and Stulz (1997) find that foreigners own a large share in firms with low levels of debt. Using panel regression in the Chinese context, Zou and Xiao (2006) find a negative relationship

between foreign ownership and firm debt. In the same context, Li et al (2009) use the same analytical technique to find negative links between foreign ownership and total debt, short-term debt and long-term debt ratios. For firms in the same country, Anwar and Sun (2014) use a Tobit regression to reach a similar conclusion. Analysing spanish and italian firms, Bamiatzi et al (2017) find that foreign acquisition leads to a reduction of debt ratios in target firms. In Turkey, Gurunlu and Gursoy (2010) define a negative relationship between foreign ownership and firm debt. In India, Gupta et al (2020) use the generalized method of moments (GMM), and find that foreign ownership is negatively related to leverage.

Do et al (2019) analyse listed firms in Taiwan and find that firm with high foreign ownership are less likely to borrow. Conversely, in an analysis of Australian firms, Mishra (2014) finds a positive correlation between foreign ownership and debt. On data from European firms, Egger et al (2010) use the propensity score matching (PSM) approach and show that foreign firms have on average a higher debt ratio than local firms. Thus, in developed countries, the findings of work on the relationship between foreign ownership and corporate debt are controversial.

In developing countries, Le (2015) uses regression in panel data and finds a negative relationship between foreign ownership and firm debt in Vietnam. From other studies on firms in Vietnam, Phung and Mishra (2015), Trinh and Vy (2015) find a negative correlation between foreign ownership and debt. In the same context, Thai (2017) find that the proportion of foreign investment is negatively related to the measurements of debt. Yet, this link is robust with the size of firm. An analysis of Malaysian firms by Jusoh (2015) finds a negative correlation between foreign ownership and debt. Khasawneh and Staytieh (2017) find a negative relationship between foreign ownership and measurements of debt in Anman stock exchange listed firms. Conversely, in the latter country, Ting et al (2016) find a positive correlation between the share of capital held by foreigners and the firm's debt.

Looking at Egyptian firms, Azzam et al (2013) find a positive relationship between foreign ownership and debt. Ben Naceur et al (2007), study the changes observed in firms in Egypt, Morocco, Tunisia and Turkey after privatization. They show that firms in which ownership has been heavily transferred to foreigners experience an increase in debt. In a study of Nigerian firms between 1990 and 2009, Ezeoha and Okafor (2010) use panel regression to define a negative relationship between foreign ownership and debt. Thus, like in developed countries, the research literature on the link between foreign ownership and firm debt lead to highly controversial results in developing countries.

In Cameroon, just like in a large number of low income countries, private enterprise is a central player in economic recovery policy. These enterprises encounter obstacles to their development, and difficult access to financing is one of the most significant (INS, 2009). However, banks are reluctant to finance companies, especially SMEs. Moreover, when these credits are granted, they are mostly short-term credits (Ayuk et al, 2016; Bekolo and Beyina, 2009). Compared to large companies, SME rely heavily on internal financing (Mandiefe and Bafon, 2015). With the creation of the Douala Stock Exchange in 2001, changes in Cameroon's corporate finance policy were expected. However, after more than a decade, these changes are not perceptible. Listed companies have not issued new shares or bonds. All companies mainly look for bank credits. Yet , the structure of the banking system and the absence of rating agencies make it difficult for them to access credit (Enow, 2010).

In this context, no studies on the relationship between the origin of ownership and the corporate debt have not yet been conducted. Moreover, empirical work shows that the relationship between foreign ownership and corporate debt is not unequivocal. However, the pronounced asymmetries of information that characterise the credit relationship in developing countries, and particularly in Cameroon, seem to strongly determine access to debt. Foreign ownership, which can help to reduce these information asymmetries between companies and banks, solving a agency problem based on principal-principal conflicts (Hernandez-Canovas et al., 2016), would play a crucial role in access to debt. In addition, still based on information asymmetry and given the requierement of firm accountability and governance, corporate debt can plays a signalling role for outside equity investors (Epure and Guash, 2020). Indeed, these authors found that outside investors can rely on the gorvernance role of corporate debt. On the other hand, Gupta et al. (2020) find evidence of the reverse relationship between debt and foreign awnership in the indian context. We then hypothesize that:

***H1*: corporate debt and foreign ownership have a two-way concave relationship.**

Finally, we account for the controversial results from studies on the relationship between foreign ownership and corporate debt. We consider the stylized fact that foreigners mainly hold controlling share, which in most case reflects ownership concentration in the cameroonian context. That can result in an acute control by foreign owners, and be an incentive for firms to highly rely on self-financing and use little long-term debt in the Cameroonian context. Moreover, we also consider the short-term dominance in bank-credit contracts, and the fact that short-term debt enables the reduction of agency costs via the high frequency of management monitoring which is aligned with the debt renewal. Thus, following Garcia-Teruel and Martinez-Solano (2009), we make the hypothesis that:

***H2*: The relationship between debt maturity and foreign share is non-linear but concave: it is positive when foreigners hold marginal levels of firm equity capital, and becomes negative when foreign ownership is high.**

2. Data and model specification

Data

To test our hypotheses, we use accounting data from the National Institute of Statistics of Cameroon (INS), which consists of the end-year reporting of financial statements of 1,500[2] Cameroonian companies, observed over the period 2014-2017. The final sub-sample[3] contains 238 entities, from all sector of the cameroonian economy, for which there are data about foreign ownership. Among these firms, only 16 (6.72%) have less than 25%[4] of total shares held by foreign shareholders, 38 (15.97%) have a total number of foreign shares comprised between 25 an 70%, and 184 (77.31%) are hihly controlled by foreign investors. Thus, it was unnecessary to split the sub-sample by the level of foreign control, since when foreign owners participate in a firm equity capital in the Cameroonian context, this participation refers almost always to a share ownership concentration. Furthermore, the sub-sample includes 17 (7.14%) companies in the primary sector, 71 (29.83%) in the secondary sector, and 150 (63.03%) in the tertiary sector.

Also, over the fourth years, the heterogeneous sample is composed of 164 (68.91%) small and medium enterprises (SME) and 74 (31.09%) large companies (LC). Lastly, the final sample contains 152 (63.87%) highly leveraged firms, as compared to 86 (36.13%) with book-value of debt lower than 75% of book-value of total assets. Table 2 summarizes the characteristics of the final sample.

As for the variables of the study, the information contained in the financial statements allows for their operationalization. debt is the dependent variable. It refers to the financial resources available to the company, which has an obligation to repay. However, corporate debt is heterogeneous and includes both short-term and long-term debt. Thus, this paper considers two dimensions of firm's indebtness, each referring to one specific variable. The first variable is the debt ratio (Anwar and Sun, 2014; Egger et al, 2010; Kang and Stulz, 1998) defined as the total debt per unit of asset book-value. The second dimension of corporate indebtness refers to the debt maturity, and it is captured by the long-term to total debt ratio, in line with the work of Li et al (2009), Garcia-Teruel and Martinez-Solano (2009), Ezeoha and Okafor (2010) et Gupta et al (2020).

Foreign ownership is the main independent variable. To measure it, this paper refers to most studies on the link between foreign ownership and debt, foreign ownership and performance, where foreign ownership is captured by the percentage of capital held by foreign shareholders (Le, 2015; Onomo et al., 2018; Ezeoha and Okafor, 2010; Li et al, 2009; Zou and Xiao, 2006). It is useful to note that the participation of foreigners in firms' capital is almost time-invariant over the period of observation. Other financial ratios from the literature are considered as control variables in the relationship between foreign ownership and corporate debt. The entire set of variables used in this study is presented in table 1 below.

Code	Definition	Source
foreign_share	Denotes the fraction of shares owned by foreign investors in 2017. This fraction of share is time-invariant over the period of observation (2014-2017)	Le, 2015; Ezeoha and Okafor, 2010; Li et al, 2009; Zou and Xiao, 2006
f_share_square	Denotes the square of foreign shares variable. It's used to test the non-linearity of the relationship between foreign ownership and corporate debt	Diamond, 1991; Garcia-Teruel and Martinez-Solano, 2009
avg_tot_lev	Average corporate debt ratio (total debt to total asset). The average is of annual observations for the 4 years 2014-2017	Demsetz and Villalonga, 2001;Cèspedes et al., 2010; Liu and Gang-Tian, 2011; Hayat et al., 2016; Gutpa et al., 2020
tot_lev_square	Denotes the square of debt ratio	
avg_debt_maturity	Average corporate long-term debt ratio (total debt to total asset). The average is of annual observations for the 4 years 2014-2017	Garcia-Teruel and Martinez-Solano, 2009; Liu and Gang-Tian, 2011; 2009; Hayat et al., 2016
avg_growth_opp	Firm's growth opportunities ratio, computed as sales growth from year t to year t-1. The average is of annual observations for the 4 years 2014-2017	Garcia-Teruel and Martinez-Solano, 2009
growth_square	Denotes the square of growth opportunities	Munoz-Mendoza et al. 2019
avg_perf_npm	Average net profit margin ratio (net profit to sales). The average is of annual observations for the 4 years 2014-2017. It denotes the average firm's performance	Datta et al., 2005; Gutpa et al., 2020

[2] According to the National Institute of Statistics, the referred sample of firms represents about 80% of the Cameroonian gross domestic product (GDP).

[3] Obtained after a process of removing invalid and extreme values data from the original dataset.

[4] when foreigners hold less than 25% of the company equity capital, foreign share can be considered as marginal. In the contrary, foreign owners exert effective corporate control and monitoring when they hold a participation >= 25%. This level of share ownership grants them at least the power to block some of the most important decisions a compagny might plan to take (…).

avg_rd_inv	Average R&D ratio (intangible assets to total assets)	
avg_tang_ratio	Average collateral ratio (fixed assets to total assets)	Cèspedes et al., 2010; Hayat et al., 2016; Gutpa et al., 2020
Size	Logarithm of total assets in 2017	Gupta et al., 2020
avg_rd_sales	Average R&D expenditures to sales ratio	Demsetz and Villalonga, 2001; Astvansh and Jindal, 2021
avg_turnover	Sales to total assets ratio.	Onomo et al., 2018
avg_liquidity	Reduced liquidity ratio computed as (current assets minus inventories) to current liabilities	Terra, 2009; Mateja et al., 2016; Onomo et al., 2018
avg_taxes_ebt	Average taxes expenses to earnings before taxes ratio	Korner, 2007; Bopkin and Arko, 2009; Gupta et al., 2020
avg_asset_maturity	This variable is measured following Garcia-Tuerel and Martinez-Solano (2009). The average is of annual observations for the 4 years 2014-2017	Garcia-Teruel and Martinez-Solano, 2009
avg_fin_strenght	Average firm's financial strength. It measures the financial capacity and degree of solvency of the firm. This ratio has been constructed following Garcia et al. (1997)	

Table 1 : variables of the study

The average percentage of foreign ownership in firms on the sample is 85.33%. This average percentage is 88.14% in SMEs, and 79.08% in large companies. Foreigners seem to invest more in small and medium-size companies. In any case, these results reveal a high level of foreign ownership concentration whenever foreign investors participate in cameroonian firms equity capital. The average of corporate debt ratio of the companies surveyed is 77.18%. This ratio is 79.57% in SMEs, 71.89% in large companies. Therefore, although the level of corporate debt is high in cameroon, the weight of indebtness is even heavier in SMEs. Moreover, the average long-term debt is 11%. This ratio is 9% in SME, and 17% in large enterprises. On the other hand, the average short-term debt leverage in the sampled companies is 89%. This ratio is 91% in SMEs and 83% in large companies. Thus, the corporate debt maturity in Cameroon is mostly short-term oriented as defined in the studies by Enow (2010) and Ayuk et al (2016).

The average net profit margin is negative for all firm, even though it looks worst for small and medium-size (around a negative 20%). In addition, the return on asset is negative on average, either when all the firms in the sample are considered or in SMEs, although it's postive for large companies and firms with low debt ratio. However, the average return on equity is positive for all firms in the sample; also, large companies appear to be more profitable (around 25%).

The companies in the study have an average tangibility ratio of 24.22%. In SMEs, this ratio, which value often denotes the value of a firm's collateral, represents on average 22.5% of total assets. In large firms, they account for 28.10% of assets. Consequently, this weak level of the collateral value in firms operating in Cameroon may justify the inclination of the banking sector to credit rationing. This phenomena is verify with acuteness in small and medium-size enterprises.

The average growth opportunities rate for all enterprises surveyed is 17.04%. This ratio is 22% in SME and 6.05% in large enterprises. Consequently, in the Cameroonian context, SMEs present greater growth opportunities. Indeed, they represent almost 99% of the economy, and constitute the highest proportion of firms in each sector and branch of activity, even those with strong growth potential. Companies are also characterized by a high level of short-term liquidity in the Cameroonian economy, 72% on average, although SMEs are less liquid (65%), while large companies present a very high liquidity level (86.46%). Thus, large firms dimly resort to short-term debt, since they can self-finance their operations in the short run. Also, large companies support greater effective tax rate than SMEs; 42.6% versus 22%. This suggests that large companies do not benefit of tax reductions when they debt-finance their investment; they are then expected to borrow less when tax increase. The innovations represent 0.9% of the total assets in large firms, while they almost do not exist in small and medium enterprises (0.17%). This can explain the weak competittiveness of firms which is reflected by their weak level of profitability, but also by negative or weakly positve cash-flow in SMEs (-3.79%) and large companies respectively (about 8%).

Variables	*Entire sample*				*SMEs*				*LC*			
	Mean	**Std. Dev.**	**Min**	**Max**	**Mean**	**Std. Dev.**	**Min**	**Max**	**Mean**	**Std. Dev.**	**Min**	**Max**
foreign_share	0.8533	0.2691	0.0005	1	0.8814	0.257	0.0005	1	0.7908	0.2863	0.0007	1
f_share_square	0.8002	0.3329	0	1	0.8426	0.3128	0	1	0.7063	0.3584	0	1
avg_debt_maturity	0.1141	0.1692	0	0.8535	0.0892	0.1662	0	0.8535	0.1695	0.1637	0	0.721
avg_tot_lev	0.7718	0.2111	0.0213	0.9995	0.7957	0.1969	0.0213	0.9995	0.7189	0.2322	0.0531	0.989
tot_lev_square	0.6401	0.2657	0.0005	0.9989	0.6717	0.249	0.0005	0.9989	0.57	0.2892	0.0028	0.978
avg_perf_npm	-0.144	0.4247	-3.114	0.4277	-0.201	0.4885	-3.114	0.4277	-0.019	0.172	-1.201	0.283
avg_tang_ratio	0.2422	0.2496	0	0.96	0.2247	0.2714	0	0.96	0.281	0.1884	0.0323	0.809
tang_square	0.1207	0.2054	0	0.9215	0.1237	0.2319	0	0.9215	0.114	0.1297	0.001	0.654
avg_growth_opp	0.1704	0.4797	-0.592	3.1853	0.2201	0.5589	-0.592	3.1853	0.0605	0.1783	-0.495	0.766
growth_square	0.2582	0.9807	0	10.146	0.3589	1.1666	0	10.146	0.035	0.1036	0	0.587
avg_liquidity	0.7205	0.5942	0.0005	3.2573	0.6554	0.5991	0.0005	3.2573	0.8646	0.5606	0.0736	2.925
avg_taxes_ebt	0.2843	0.5556	-1.45	3.1243	0.2203	0.5436	-1.255	3.1243	0.426	0.5593	-1.45	2.095
avg_asset_maturity	2.2603	1.3535	0.4299	7.7832	2.2465	1.4278	0.4299	7.7832	2.2907	1.1807	0.7277	6.858
avg_fin_strenght	1.0312	1.621	-4.206	5.5541	0.9469	1.7175	-4.206	5.5541	1.218	1.3758	-2.004	4.883
avg_turnover	1.0723	0.9457	0.0145	6.1296	1.0729	0.9336	0.0145	5.2682	1.071	0.9785	0.0793	6.13
avg_rd_inv	0.004	0.0215	0	0.2087	0.0017	0.0115	0	0.1385	0.009	0.0341	0	0.209
avg_cash_flow	-0.002	0.4377	-5.787	1.0022	-0.038	0.5193	-5.787	1.0022	0.0789	0.1023	-0.138	0.403
Observations	238				164 (*68.91%*)				74 (*31.09%*)			
	Primary sector				**Manufacturing**				**Tertiary sector**			
	17 (*7.14%*)				71 (*29.83%*)				150 (*63.03%*)			
	Foreign_share < 25%				**25% <= Foreign_share < 70%**				**Foreign_share > 70%**			
	16 (*6.72%*)				38 (*15.97%*)				184 (*77.31%*)			

Table 1 : Characteristics of the sample and descriptive statistics

Empirical model specification

To test our hypotheses, we use a system of two simultaneous equations. Indeed, if many studies have explored the impact of ownership structure on corporate debt, where ownership is considered as a exogeneous variable, some others check the impact of firms financial variables, such as leverage, on the ownership structure (Gupta et al. 2020). By the way, empirical evidences of ownership structure as endegeneous variable in explaining financing decisions have been shown in some works (Wintoki et al., 2012). To check the possibility of a non-linear relationship between foreign ownership and corporate debt, we introduce the square of the foreign shares variable (Diamond, 1991). Thus, our model is specified as follows:

$$avg\_corporate\_debt_{t1} = \gamma_{21} foreign\_share_{t2} + \beta_{11} f\_share\_square_{t1} + \beta_{21} Ratio_{t2} + \cdots + \beta_{K1} Ratio_{tK} + \varepsilon_{t1} \quad eq1$$

$$foreign\_share_{t2} = \gamma_{12} avg\_corporate\_debt_{t1} + \beta_{12} Ratio_{t1} + \cdots + \beta_{K2} Ratio_{tK} + \varepsilon_{t2} \quad eq2$$

In total, we have two systems of two simultaneous equations, according to the type of corporate debt we consider as dependent variable. Therefore, we first consider the total debt ratio, then we look at debt maturity variable. Moreover, following Demsetz and Villalonga (2001), we consider the average value of each variable, except for the foreign share variable which is time-invariant, over the 4-years of observation. We fit each system of equations firstly on the entire sample of firms under scrutiny, then on the sub-samples composed of SMEs and large companies respectively. We use the three-stages least square (3SLS) estimation method to estimate the parameters of the model under the STATA software framework.

3. Results

Tables 3 and 4 reports the empirical results of the investigation on the relationship between corporate debt and foreign ownership. First, we test the link between foreign shares and leverage, measured as the percentage of total debt per unit of total assets. The findings show a positive relationship between corporate total debt and foreign share when the entire sample is considerated. Although the positive relationship also hold for large companies, it is more important in small and medium size ones. Indeed, a 1% increase in the part of equity held by foreigners leads to a 3.22% (5.03% and 2.17% in SMEs and large companies respectively) increase in the corporate total leverage. This result reveals the desire of foreign participants in firms equity to protect their interest by encouraging the use of debt as a mechanism to mitigate agency problems that can emerge due to the opportunistic behaviors of managers. It also reveals that the presence of foreigners in SMEs capital improves the access of these entities to the cameroonian credit market, which is ruled over by the banking system. In any case, foreign ownership and corporate debt seem to be two complementary control mechanisms of firms' management in the cameroonian context. This result is consistent with the findings of Ting et al. (2016), Azzam et al. (2013) and Ben Naceur et al. (2017). It is different from the results of

Ezeoha and Okafor (2010).

The empirical evidences also show the existence of a positve reverse casualty in the relationship between total debt and foreign ownership, in both the whole sample and the two sub-samples. This result is in accordance with the pecking order theory (Leland and Pyle, 1977; Myers and Majluf, 1984), and the works by Epure and Guash (2020). Indeed, in the cameroonian context characterized by a high level of information asymetries, the debt plays a signaling role on the high quality of the firm. However, this result is different from those of Gupta (2020) who found a negative reverse casualty.

Furthermore, the total leverage is negatively determined by the square of foreign share. The other way around, the foreign share is negatively affected by the square of total leverage. This is to suggest on the one hand that the relationship between leverage and foreign ownership is non-linear but concave. That is, at low levels of foreign participation in firms equity capital, the relationship is positive; it becomes negative at high levels. Thus, companies in Cameroon use more debt when foreigners increase their percentage of share. Conversely, the relationship between foreign share and leverage is concave too, suggesting that low levels of leverage do not give enough signal to foreigners on the opportunity to invest in firms' equity. However, as leverage increases, the signal becomes obvious. Our first hypothesis is validated

These results are supplemented by the relationship between debt maturity and foreign share. In that relationship both coefficients for foreign share and its square are significant. Their signs, negative for foreign_share and positive for f_share_square indicate a convexe relationship between debt maturity and foreign ownership. That is, at low levels of foreign participation the relationship is negative, becoming positive at high levels. This shows that firms in the context of the study use more short-term debts when foreign involvement in their equity capital increases. However, at higher levels of foreign share, they prefer debts with longer maturity. These results are different from those of García-Teruel and Martínez-Solano (2009) who found a concave relationship between long-term debt and large shareholder, which has similar characteristics with foreign owner of cameroonian companies when it comes to ownership concentration. Nevertheless, this result is consistent to those of Mendoza et al. (2019) who found a U-shape relationship, suggesting that when foreign ownership is high, the use of long-term debt is promoted. Consequently, our second hypothesis is rejected. It worth noting that, as for firm's leverage, there is a positive and concave relationship between foreign share and debt maturity. Firms with longer then maturity attract more foreign equity capital investments. In other words, firms are granted with a clear attractiveness signal for foreign shareholders as its debt maturity progresses.

In relation to the control variables, the results report that the total leverage (debt maturity) is negatively (positively) and significantly determined by firm's profitability. A percent positive change in the total leverage leads to a 0.29% decrease in the net profit margin. The negative change in the profitability intensify in large companies (0.9%), while it is less important in SMEs. It stands the reason that firms in the sample resort mostly to short-term debt, which renewal may occur at worst market conditions. Thus, they may support high financing costs, from both interest rate payments and transaction costs, that could significantly reduce the profit margin. Also, the debt maturity is positively determined by the net profit margin attesting that, when firms use more long-term debts to finance their operations, the financing costs burden is less important. As an example, the debt maturity is not even explained by the net profit margin in small and medium size enterprises where long-term debts account only for 9% on average. Moreover, when long-term debt and foreign ownership are simultaneously determined, the net profit margin ratio is negatively and significantly related to foreign share. It stands to reason that more profitable companies predominently use retained earnings, and weakly rely on external equity capital, to finance their operations. This result is consistent with the findings of Bokpin and Arko (2009).

The variables growth opportunities is not significantly related to neither total leverage, nor debt maturity for both the whole sample and SMEs sub-sample. However, it has a negative and significant relationship with debt maturity in large companies. Thus, the latters are expected to use less (more) long-term (short-term) debt, when the growth opportunities rise up, in order to strenghthen the control mechanisms on the managers opportunistic behavior. This result is in line with several empirical studies (Myers, 1977; Munoz-Mendoza et al., 2019; Garcia and Martinez, 2010. Nevertheless, there is no evidence of non-linearity on the above mentioned relationship. This latter aspect differ to the finding of Munoz-Mendoza et al. (2019).

There is no relationship between asset tangibility and total leverage on the one hand, and between asset tangibility and debt maturity in large companies on the other. However, the debt maturity is positively and significantly related to asset tangibility in SMEs. This finding suggests that the maturity of the debt increases with the value of the collateral in these companies. Thus, in Cameroon, small and medium-size enterprises can easily acces to long-term financing whenever they present a highly-valued collateral. Also, looking at the positive relationship between debt maturity and liquidity, all firms with high levels of liquidity use more long-term debt and less to short-term one, since they resort to self-financing to cover the expenses related to their operations. Conversely, the total leverage in negatively determined by firm's liquidity. As a whole, in Cameroon, the firms request less debt when their liquidity increases.

The tax ratio negatively and significantly explains the corporate leverage. Firms paying high taxes solicit less debts per unit of asset. It stands to reason that firms in Cameroon do not take advantage of tax deduction form debt financing; this differ with the main assumption from Modigliani and Miller (1963). In the opposite, asset maturity appears to positively and significantly affect total leverage, except in the SMEs. The longer the maturity of assets, the higher the level on firm's indebtness.

Finally, apart from being endogenous in the relationship between corporate debt and foreign ownership, evidences show that foreign participation in firms equity capital is also related positively asset turnover and credit quality. In the Cameroonian context, foreign investors are attracted by companies with good credit quality and a high level of sales per unit of asset.

Independent variables	*Entire sample*		*SMEs*		*Large companies*	
	total leverage	**foreign share**	**total leverage**	**foreign_share**	**total leverage**	**foreign_share**
avg_tot_lev		1.4219 (0.1071) ***		1.4533 (0.1213) ***		1.1901 (0.2759) ***
tot_lev_square		-0.4721 (0.0577) ***		-0.5158 (0.0632) ***		-0.3435 (0.2122) ***
foreign_share	3.2219 (0.4593) ***		5.0285 (0.6906) ***		2.1753 (0.4323) ***	
f_share_square	-2.2128 (0.4247) ***		-3.9743 (0.6514) ***		-1.3450 (0.3813) ***	
avg_perf_npm	-0.2896 (0.0726) ***	-0.0339 (0.0555)	-0.1925 (0.0849) **	-0.0291 (0.0597)	-0.9002 (0.1841) ***	-0.2507 (0.3324)
avg_tang_ratio	-0.1906 (0.3405)		0.0886 (0.4610)		0.1659 (0.5265)	
tang_square	-0.1423 (0.4052)		-0.4148 (0.5321)		-0.9393 (0.7269)	
avg_growth_opp	0.1225 (0.1040)		0.0355 (0.1241)		0.3085 (0.2319)	
growth_square	-0.0749 (0.0511)		-0.0351 (0.0601)		0.0601 (0.3850)	
avg_liquidity	-0.2177 (0.0476) ***		-0.2948 (0.0651) ***		-0.1038 (0.0504) **	
avg_taxes_ebt	-0.1286 (0.0497) ***	0.0775 (0.0361) **	-0.0554 (0.0665)	0.0651 (0.0455)	-0.1525 (0.0576) ***	0.1127 (0.0565) **
avg_asset_maturity	0.0617 (0.0225) ***	-0.0374 (0.0150) **	0.0410 (0.0293)	-0.0303 (0.0175) *	0.0761 (0.0278) ***	-0.0332 (0.0283)
avg_turnover		0.0217 (0.0210)		0.0378 (0.0272)		0.0078 (0.0311)
avg_rd_inv		0.2118 (0.8718)		1.3603 (2.0325)		-0.0157 (0.9242)
avg_fin_strenght		0.0578 (0.0140) ***		0.0463 (0.0172) ***		0.0670 (0.0264) **
avg_cash_flow		-0.0139 (0.0474)		-0.0177 (0.0511)		0.6486 (0.3883)
Obs	*238*	*238*	*164*	*164*	*74*	*74*
Parms	*10*	*9*	*10*	*9*	*10*	*9*
RMSE	*0.3837*	*0.2957*	*0.4238*	*0.2989*	*0.2409*	*0.2594*
R-sq	*0.8498*	*0.8907*	*0.8384*	*0.8939*	*0.9157*	*0.9048*
chi2	*1251.52*	*2023.75*	*808.01*	*1413.72*	*794.61*	*733.09*
P	*0.0000*	*0.0000*	*0.0000*	*0.0000*	*0.0000*	*0.0000*

Table 4 : Relationship between firms' total leverage and foreign ownership

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Independent variables	*Entire sample*		*SMEs*		*Large companies*	
	avg_debt_maturity	foreign_share	avg_debt_maturity	foreign_share	avg_debt_maturity	foreign_share
avg_debt_maturity		5.0862 (1.0231) ***		6.9005 (1.4246) ***		8.6758 (2.2853) ***
debt_mat_square		-6.9104 (1.6385) ***		-9.4120 (2.2405) ***		-11.9556 (3.6175) ***
foreign_share	-0.4929 (0.1998) **		-0.3724 (0.2937)		-0.5611 (0.2734) **	
f_share_square	0.4625 (0.1746) ***		0.3515 (0.2618)		0.5437 (0.2239) **	
avg_tot_lev	0.0346 (0.0273)		0.0314 (0.0328)		0.0986 (0.0685)	
avg_perf_npm	0.0637 (0.0266) **	-0.3534 (0.0869) ***	0.0401 (0.0279)	-0.1895 (0.1069) *	0.2431 (0.1107) **	-1.2391 (0.3984) ***
avg_tang_ratio	0.5208 (0.1213) ***		0.3789 (0.1477) ***		0.0954 (0.2593)	
tang_square	-0.2138 (0.1438)		-0.0905 (0.1707)		0.5059 (0.3714)	
avg_growth_opp	-0.0013 (0.0367)		0.0206 (0.0393)		-0.2326 (0.1162) **	
growth_square	-0.0002 (0.0181)		-0.0071 (0.0190)		0.1919 (0.3080)	
avg_liquidity	0.0877 (0.0181) ***		0.0810 (0.0233) ***		0.0735 (0.0252) ***	
avg_taxes_ebt	-0.0217 (0.0176)	0.1084 (0.0600) *	-0.0227 (0.0215)	0.1597 (0.0844) *	-0.0385 (0.0294)	0.2021 (0.1116) *
avg_asset_maturity	-0.0049 (0.0080)	0.0662 (0.0220) ***	-0.0099 (0.0095)	0.0846 (0.0253) ***	0.0158 (0.0142)	-0.1116 (0.0661) *
avg_turnover		0.1523 (0.0322) ***		0.1793 (0.0445) ***		0.0679 (0.0581)
avg_rd_inv		-1.2096 (0.8831)		2.3767 (3.6657)		-2.0975 (2.0537)
avg_fin_strenght		0.0947 (0.0225) ***		0.0679 (0.0514) **		0.1417 (0.0514) ***
avg_cash_flow		-0.0572 (0.0801)		-0.0502 (0.5900)		-1.4503 (0.9248)
Obs	*238*	*238*	*164*	*164*	*74*	*74*
Parms	*11*	*9*	*11*	*9*	*11*	*9*
RMSE	*0.1445*	*0.4819*	*0.1466*	*0.5488*	*0.1194*	*0.4978*
R-sq	*0.4973*	*0.7098*	*0.3926*	*0.6426*	*0.7414*	*0.6492*
chi2	*255.25*	*661*	*111.95*	*387.12*	*217.02*	*193.13*
P	*0.0000*	*0.0000*	*0.0000*	*0.0000*	*0.0000*	*0.0000*

Table 5 : Relationship between debt maturity and foreign share

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0

Conclusion

Debt policy is one of the major economic problems in the countries of the South, which considerably hinders the development of enterprises. In these countries, foreign ownership can be decisive in solving problems of corporate financing. The objective of this paper was to build upon the evidence about the relationship between foreign ownership and corporate debt policy in sub-Saharan Africa, using the particular case of the Cameroonian environment. To achieve this goal, corporate debt policy is operationalized as total leverage to capture the debt level per unit of assets, and debt maturity in turns.

The results show that foreign ownership and total debt have a two-way nonlinear but concave relationship. That is, companies use more debt as foreign share increases. But, at higher levels of foreign participation, they reduce the level of their overall indebtness. The findings also show scarce evidence about a convex relationship between debt maturity and foreign share. At low levels of foreign participation the relationship is negative, becoming positive at high levels. So, firms use more short-term debt as foreign share increases. However, at higher levels of foreign ownership, they switch their preferences to debts with longer maturity. This latter result does not hold in small and medium-size enterprises; indeed, debt maturity is not significantly related to foreign share, although there is a greater foreign ownership concentration in these firms.

Moreover, when firms in the sample resort mostly to short-term debt, which renewal may occur at worst market conditions, they may support high financing costs, from both interest rate payments and transaction costs, that could significantly reduce the profit margin. In the opposite, when firms use more long-term debts to finance their operations, the financing costs burden is less important. As an example, in small and medium size enterprises, where long-term debts account only for 9% on average, the net profit margin is even weaker. In addition, more profitable companies predominantly use retained earnings, and weakly rely on external equity capital, to finance their operations.

Furthermore, the negative relationship growth opportunities and debt maturity in large companies suggests that these firms are expected to use more short-term debt when the growth opportunities rise up, in order to strengthen the control mechanisms on the managers opportunistic behavior. Also, small and medium-size enterprises can easily access to long-term financing whenever they present either highly-valued collateral or a high level of liquidity.

As a whole, these evidences suggest that Cameroonian public policies should encourage a stronger presence of foreign ownership in the firm’s equity capital to facilitate the easing of the financing constraint in these structures. This promotion of foreign investment must nevertheless be accompanied by an institutional framework aiming at protecting the interests of foreigners and avoiding the misappropriation of the economic fabric by the latter.

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