



The Effect of governance practices on the performance of saving and credit cooperatives: Evidence from Central Zone Tigray of Ethiopia

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Abstract

The overarching objective of the research was to investigate the effect of governance practices on the performance of Savings and Credit Cooperatives (SACCOs) in Adwa Woreda. The study looks into the effective practice of governance and analysis of internal issues that impede SACCO's performance to obtain a competitive lead and enhance SACCO's capacity and alter member demand. Random sampling techniques were applied to obtain 334 respondents from the sample population. Data were collected from primary and secondary sources and analyzed using SPSS software. The data obtained from the questionnaire were subjected to descriptive analysis techniques. Moreover, the correlation and regression matrix were used to examine the effect of governance practice on SACCOs' performance. The study admitted that the general assembly meetings and decision-making were deemed to be highly attained signifying that members own and are in the power of their business institutions. The research found that SACCOs were unable to expand and embrace the variety of investment options, limited their ability to improve and generate income, and seriously affect their performance. The study also ascertained that there was a significant positive and negative relationship between the governance factors and SACCOs' performance. This revealed that member participation, members' cooperative education, and board competency predictors have a strong positive relationship and highly affect SACCO's performance. However, government intervention has a negative regression coefficient and influences negatively SACCO's performance. The possible recommendations are SACCOs should diversify and expand their business options. Continuous cooperative education should be given to members that enhance their capacity.

Keywords: Governance; Cooperatives; SACCOs; Members Participation; Performance

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1. Introduction

Cooperatives have experienced enormous growth in the past two hundred years. Regardless of their socio-economic development level, they are becoming more important to the economy and society of all parts of the world (Altman, 2010). Cooperative is the inception of civilization and the interaction of mutuality and interdependence among human beings has been the foundation of social life. People cannot successfully live alone, and he is reliant upon others. The sprites of the association are crucial to the progress of mankind. Working together has long been valued in human civilization. Men have collaborated in foraging, hunting, agriculture, and manufacturing since the beginning of human society (Veerakumaran, 2007). Cooperatives can be agricultural, non-agricultural, unions, and savings and credit cooperatives (SACCOs). They run a variety of economic sectors, such as agriculture, handicrafts, housing, consumer services, banking, insurance, etc. (Meniga, 2015). SACCOs are financial institutions with the core objective of mobilizing savings to lend to members thereby improving people's livelihoods (Miriti, 2014). SACCOs have a big role in financial intermediation, they facilitate and make it easier for poor people to turn a small amount of money into "beneficial Lump sums", permitting them to easy intake and mitigate the effect of economic shocks (Abamagal and Abamagal, 2019).

SACCO societies are member-owned, democratically administered by their members, and operated with the sole purpose of promoting their members' economic success by providing financial services (WOCCU, 2019). SACCOs also known as credit unions, are managed by their members and offer their members low-interest credit and financial services (Alio et al., 2017). SACCOs are cooperatives that collect member capital savings for lending to members who subsequently need capital assistance (Sahade, 2020). SACCOs are the primary source of finance for those with low-income levels. They were created to address a basic human need to find a way of saving and borrowing money without having risks or giving too much power to money lenders (Galor, 2016).

SACCOs enable and motivate members to expand their businesses activities and investments through loans, and they persuade them to purchase shares in suitable amounts by leveraging their savings; rating some profit from interest earned on the lending operation to pay a dividend to the members based on the shares owned; redistributed profits to the members (Ogal, 2019). SACCOs are crucial for a nation's economic growth and the reduction of poverty. They have inherent advantages in addressing the issues of reducing poverty, ensuring food security, and creating jobs (Dayanandan and Huka, 2019). SACCOs can boost the welfare of their members by reducing the cost of investment. This could be attained by borrowing money at lower interest rates and building up savings, which allows members with larger savings to access higher amounts of credit (Ngure et al., 2017). SACCO societies have experienced tremendous growth, and as a result, they are in the vision plan being one of the mobilizers of saving and investment (Kadagi et al., 2015). The credit union members surpass 373 million and offer financial assistance to the people globally and total savings and shares held to \$ 2.69 trillion. Moreover, the total asset base at the time of the report aggregated to \$ 3 trillion (WOCCU, 2021). However, World Bank (2018) notes that 2.4 billion people worldwide live in appalling conditions and make less than US\$ 1.90 per day. These needy people cannot invest in any meaningful way due to inadequate and affordable credit and financial support.

The SACCOs movement in Africa has changed from being an employee-based organization where members' contributions were taken from employees' salaries on a check-off basis to non-wage-based organizations like

farmers. Most Africa's rural small-scale agricultural communities are SACCOs societies (Chepkwei, 2018). Over 60 million people depend their lives on SACCOs in Africa and there are 40,570 SACCOs across Africa. Most of the SACCOs in this continent are found in Ethiopia (22,416), Kenya (8,966), and Tanzania (6,178) respectively (WOCCU, 2021). SACCOs in Africa have over 40.4 million members, \$17.58 billion in savings and shares, and have offered their members loans of \$ 12.6 billion. For instance, 81% of Kenyans depend on SACCO societies for access to financial services. The SACCO sub-sector is responsible for about 45 % of Kenya's GDP, and it is believed that a majority of Kenyans depend on this kind of cooperative for their livelihood (Chepkwei, 2018).

1.1. Governance practice of SACCOs

SACCOs are often governed by a volunteer board of directors appointed by the members. SACCOs should engage in governance practices to enhance their efficiency. Some of the vital factors that could assist SACCOs in performing better are participating in various business activities, carrying out general assembly meetings, taking advantage of investment opportunities, and joining voluntary memberships. Governance is considered by various researchers as the key element to several organizational effectiveness, but many organizations have failed because of a lack of strong governance. The governance and management issues at SCCO have attracted the attention of various scholars, as a result. governance must now take precedence in cooperative administration (Hezron and Muturi, 2015). The governance of cooperatives must be robust if it hopes to survive. The governance system serves as the basis for managing SACCOs and holding them responsible to its members. It serves as an indication of how the organization's leaders applied its bylaws, values, and principles to manage its assets and other resources in meeting the demands of its members (Eticha and Abebe, 2020).

According to Yitayaw and Kumlachew (2021), SACCO's failure is typically attributed to weak governance and a lack of availability of a competent board. SACCOs in developing nations including Ethiopia are frequently hindered by a lack of effective regulation, adequate supervision, and independence from government interference. Insufficient member involvement in deciding issues is another governance challenge facing credit unions in developing nations. Regular business activities can be enhanced by using governance practices. It results in the efficient use of resources, including the extent to which the management committee of SACCOs deploys its members to strengthen their credit and savings activities thereby enhancing performance (Bagorogoza et al., 2011). Furthermore, Ogal (2019) reinforces this assertion, that the application of governance practices enables increased profitability, loan portfolio size, and membership expansion, all of which are determinants of an organization's performance in SACCO societies. Despite SCCOs' significance for societal well-being having increased significantly over the past decades, they are now increasingly confronted with several difficulties that are accompanied by their organizational and governance issues. The SCCO's governance emphasizes the linkages between cooperative boards, management, and other stakeholders. It offers the structure, by which the organization's objectives are established, & decides the methods for achieving those objectives. It is deciding & an important factor of competitiveness (Hezron and Muturi, 2015).

1.2. Ethiopia SACCOs performance

SACCOs are crucial to global economic development. The African cooperative movement is widely acknowledged to have contributed significantly to sustainable development, an achievement that has been maintained, despite several shortcomings. Eticha and Abebe (2020) state that Ethiopia's SACCOs have been progressively expanding in terms of number, membership, and capital raised over the years and have been

making a 4.29 % contribution to the country's domestic savings. In Ethiopia, there are 22,416 primary SACCOs with a total membership of 6,464,817. These SACCOs have 30.31 billion ETB (\$ 571,861,791) in savings and shares. Additionally, they provided 9.8 billion ETB to their members for various investment purposes (FCA, 2022). The table below summarizes the status of SACCOs in Ethiopia regarding membership, savings mobilization, capital, and loan portfolio.

Table 1. Performance of SACCO cooperatives in Ethiopian across regions as of June 2022

No	Regions	No. of primary SACCOs	Members			Capital (Birr)	Saving mobilization (Birr)	Loans distributed (Birr)
			Male	Female	Total			
1	Oromia	8923	1,596,452	1,516,402	3,112,854	1,912,081,685	5,479,326,975.00	1,958,442,340
2	Amhara	3,704	748,205	452,948	1,201,153	920,571,051	4,003,737,455	3,104,177,127
3	Tigray	1017	276,378	204,920	481,298	366,482,071	1,896,684,093	1,103,993,963
4	SNNPR	5387	650,218	484,641	1,134,859	296,603,163	1,507,897,045	586,022,286
5	AddisAbaba	1,915	151,791	220,147	371,938	2,289,397,745	7,877,060,743.50	1,678,134,495
6	B/gumuz	163	7415	7959	15374	10,191,529	25,869,458	11,137,526
7	Somale	744	6850	31411	38261	17,155,177	62,477,347	456,231
8	Afar	239	6,840	9185	16,025	4,124,236.70	14,619,507.29	4,080,300.00
9	D/Dawa	194	12,042	17,223	29,265	11,657,599	87,578,413	100,267,784
10	Harari	78	2,914	3,364	6,356	36,480,417.00	36,318,997.00	1,795,700.00
11	Gambela	49	893	2577	3470	1,002,720	868,330	655,000
12	Federal	3	32043	21921	53964	747,238,826.43	2,703,250,335.71	1,334,794,731
	Total	22,416	3,492,041	2,972,698	6,464,817	6,612,986,220	23,695,688,699.50	9,883,957,483

Source: Compiled from Federal Cooperative Agency, 2022

Furthermore, the performance improvement for the number of SACCOs' engagement and mobilization in Ethiopia for the last five years, from 2018 to 2022, has gradually grown. The figure below reveals how SACCOs are widespread in Ethiopia but have low membership participation, limited member access to loan portfolios, limited ability to save, weak governance as well as inadequate infrastructure to fully utilize their huge potential.

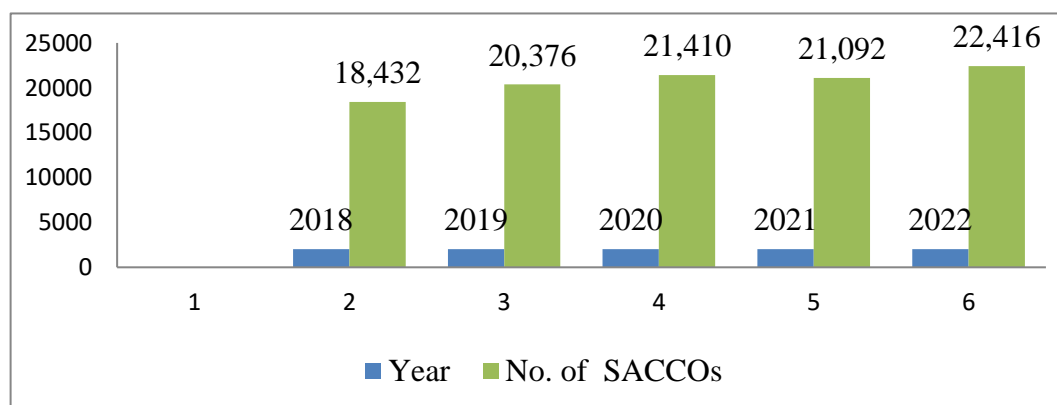


Figure 1. Performance development of primary SACCOs in Ethiopia (Source: Compiled from Federal Cooperative Agency, 2022)

Despite the mushrooming of SACCOs and their contribution to the poverty reduction of the poor rural people, Ethiopia SACCOs for many districts blamed management committees for electing unskilled management and poor in managing SACCOs' performance and employing incompetent employees with lower qualifications resulting in poor governance of SACCOs in handling issues properly. Although SACCOs are proliferating and helping to lift poor rural residents out of poverty, their performance potential, functionality, and strength are severely restricted. Additionally, some issues prevent SACCOs from operating at a higher level on both an internal and external level (FCA, 2022).

This inspires the researcher to conduct this study to investigate the governance constituents that influence the SACCO performance and, as a result, provide suggestions to overcome the issues.

1.3. Statement of the problem

Ethiopia's SACCOs performances have grown dramatically in the last three decades. Despite an increase in membership, the majority of SACCOs experience internal and external issues that impede their development. The issues in SACCOs include the fact that members did not join voluntarily, and that the government imposes forced membership, which leads to member withdrawal and interruption of savings. The success of SACCO is typically hampered by inadequate financial resources for loan provision, poor managerial abilities, a dearth of service delivery, and poor governance systems (Abamagal and Abamagal, 2019). Nkuru (2015) investigated the variables influencing SACCO growth in Kenya's agricultural sector but did not prove how governance affects SACCO performance; rather, it is considered in this study that influences SACCO performance. Kinyuira (2017) examined further factors determining SACCO performance in Kenya, focusing on capital adequacy, corporate governance, competition, and liquidity management; however, he left out the governance-related factors such as participation, members' cooperative education, board competency, and government interventions of SACCO, which comprise in this study's variables.

The SACCO societies in Ethiopia and Tigray confront intense competition from reliable financial institutions and are surrounded by a great deal of governance uncertainty. Many SACCO members in the Central Zone of Adwa Woreda have vowed to protest what they perceived as unfair treatment and lacking governance by SACCO management and the executives, including the fact that the performance of business operations, conducting business like meetings, and loans are not advanced to them promptly and saving withdrawals, are not allowed to them whenever they request due to lack of governance and proper management of the SACCO society (FCA, 2022). Therefore, these call for the effective practice of sound governance and analysis of internal issues that impede the organization's performance to obtain a competitive lead and enhance SACCO's capacity to alter member demands and preferences.

Moreover, various researchers, such as Nkurunzia (2019) and Girma (2021) have studied and used variables including financial and human resource management, board size, board diversity, and internal control respectively as the determinant of SACCO performance. Eticha and Abebe (2020) also researched SACCOs, taking into account variables such as the management committee's independence and the organizations' financial viability. However, unlike previous studies, in this research variables such as members' participation, board competency, members' cooperative education, and government interventions are utilized

to measure SACCO's performance. Therefore, this study looked into how governance affected SACCOs' performance in the research area of Woreda Adwa.

1.4. Objectives

To investigate the effect of governance practices on the performance of SACCOs in Adwa Woreda, Tigray, Ethiopia, and come up with recommendations on how to manage them.

- To analyze the practice of SACCOs governance regarding general assembly meetings, business operations, investments, and voluntary membership in the research area.
- To examine how governance practice affects SACCOs' performance when measured in terms of members' participation, members' cooperative education, board competency, and government intervention.

2. Literature Review

2.1. Concepts of SACCOs and governance

2.1.1. SACCO concepts

SACCOs are democratic, self-help, and member-driven financial cooperatives. They are established, possessed, and regulated by their members. Everyone in the group, regardless of ethnicity, religion, color, tribe, gender, or employment status, is eligible to join SACCOs. They agree to have their savings to the SACCO and offer loans to one another at fair interest rates (Muithya and Ombati, 2019). SACCOs are voluntary associations that unite people to encourage saving and give credit to members to improve their lives. Their core aim is to promote their members' social and financial well-being, who may be net savers or net borrowers (Eton et al., 2020). In most cases, SACCOs in Ethiopia are overseen by a general assembly (members), board of directors, and employees. This structural management of SACCO is crucial in the development of SACCO's performance. The SACCOs were created to boost community economic power by mobilizing savings and empowering individuals through the prudent use of savings and loans (Muithya and Ombati, 2019).

2.1.2. Cooperative governance concepts

In recent years, scholars and cooperative developers have paid increased attention to the growing importance of governance issues in SACCOs. The increased interest in governance is linked to various factors, including SACCO's expansion, asset growth, and development into regulated businesses that can collect savings deposits. However, the sector has also had several significant failures, and many have concluded that, among other things, inadequate governance methods were the primary cause of the failure. Therefore, it becomes crucial to grasp the qualities and characteristics of the governing bodies that oversee these institutions. According to Nkurunzia (2019), a crucial factor in cooperatives' ability to work sustainably is governance. Cooperative governance has a big impact on whether they succeed or fail. It greatly depends on the structure of informed cooperative governance. In cooperative businesses, governance denotes that rules are made by the members, reviewed frequently, and known to all members. When the membership is not active in governance issues,

there is a strong chance that a minority would control the resources, make decisions, and exercise illegitimate power (ICA, 2015). Cooperative governance solidly lays the development of a fully empowered general meeting of members, regular board elections, and members' participation in various business operations, along with the cooperative's responsibilities to its members, board members' performance capacity, and members' cooperative knowledge. These characteristics play a crucial role in cooperative organization strategy and establish the cooperative's governance structure. For this study, the governance indicators are discussed here below.

2.1.2.1. Members participation

For a cooperative to succeed in its operations, member involvement in cooperative activities, particularly in governance, is crucial (Aini et al., 2012). Through participation, members can influence the purpose, goals, and daily operations of their cooperatives. Participation is the members' involvement in the economic and decision-making processes. Engaging people in decision-making is the only way to reveal that they are the business's owners. Significant participation in decision-making is an indicator of governance (Motompa, 2016). The voice of the member is protected by the governance architecture. A cooperative's members and various boards or councils must be allowed to understand and participate in decisions made through participatory processes (ICA, 2015).

SACCO governance is mainly depending on the coordination of members (owners), executives, managers, and employees. In this way, the operation of cooperatives as business organizations demands a democratic form of governance. This requires that cooperative members actively participate in issues that have an impact on their cooperative lives (Nkhoma, 2011). A cooperative's success is determined by its members' knowledge of their organization, level of education, participation, degree of dedication, and interactions with the management committees (Elena Garnevska et al., 2011). Participation in SACCOS includes becoming a member, contributing financially through the provision of products and services, participating at meetings and general assemblies to discuss and decide, voting, assisting committees, and standing for election to various councils and boards. Engaging members and staff in decision-making processes, using participatory management and governance procedures, and establishing linkages with the cooperative community are all necessary (ICA, 2015).

2.1.2.2. Members' cooperative education

One of the cooperative principles, member education, has been closely related to the successful growth of cooperatives (Elena Garnevska et al., 2011). To enhance the SACCOS' capacity, intensive education and training are needed for members to manage the SACCOS effectively (Anania and Gikuri, 2015). The way that cooperative concepts are made to work effectively is through education. When it comes to cooperatives, education entails teaching members about the cooperative principles, values, and practices of human cooperation as well as nurturing in them a cooperative feeling and the capability for working together. Therefore, cooperative education is vital to teach the members, to build in them a feeling of ownership and the capacity to make wise decisions and equip them with the information and use their rights and obligations thoughtfully and truthfully. Members must be alerted to participate in their society and be informed of their rights and obligations (Motompa, 2016).

2.1.2.3. Board competency

The level of board member capacity or board competency is the other aspect of governance that needs to be examined in the analysis of the relationship between governance and the performance of SCCO. The board's competence and expertise of SCCO are determined by the number of qualified directors and their level of expertise. Various studies ascertained that most elected SCCO board members lacked the necessary financial knowledge to properly plan, organize, direct, implement, monitor, evaluate, report, and communicate SCCO objectives and activities (Kinyuira, 2017). The argument is that a board with qualified members could perform better for the organization by lowering the costs of monitoring operations and management. More qualified directors are more effective at monitoring operations, networking, reporting, and communicating, which results in a better governance system (Kinyuira, 2017).

However, the standards for identifying the components of competence that emphasize the status of an expert are neither consistent nor clear. A qualified expert is required to have the necessary professional experience (Haat et al., 2008). Directors who have served on many boards are also thought to have the potential to be experts. Effective boards are aware of the priorities and viewpoints of the important stakeholders in the organization. They encourage interactions that develop shared responsibility for the organization's performance, vision, and organizational effectiveness (Carter, 2017).

2.1.2.4. Government intervention

Government interventions in financial institutions were common in many countries. Government interventions can be positive or negative. But the results of the egressing literature emphasize the positive role that financial institutions play in times of crisis and the useful role of the government in the regulation, and construction of financial infrastructure (Arora, 2017). Co-operatives in industrialized nations have historically operated independently of the government, based on the principles of one member, one vote, and self-governance. In contrast, governments primarily form SACCOS in developing nations as a way to restructure conventional economies, but they were run by politicians who put their concerns before that of the members (Simmons and Birchall, 2008). In Ethiopia, SACCOS are legal institutions registered under the cooperative proclamation 147/98 and amended the proclamation 985/2016. Accordingly, the government has a role in organizing cooperatives, promoting people to join cooperatives voluntarily, and providing technical assistance in regulating and oversight of SACCOS (FNG, 2016). The foundations of the member-owned cooperative value should not be undermined by government involvement in cooperative management. Government intervention inhibited member-controlled cooperatives because members depend on the government to protect their interests (Motompa, 2016). Gala (2010) supported the idea in his study and found that government intervention had a detrimental impact on SACCO membership in Gambela, south-western Ethiopia.

Cooperative success or failure is highly influenced by government meddling. Western cooperatives make alternatives relying on the demands of their members and function independently of the government (Nkurunzia, 2019). In developing countries, the scenario is flipped because cooperatives were often established by States, which put their interests ahead of those of cooperative members (Hammond and Luiz, 2016). The governance practices of these states are a reason for the failure of SACCOS in developing nations (Johnson and Shaw, 2014). Government should not hamper the cooperative's autonomy, but it should play a significant role in creating the structure and atmosphere for the cooperative to flourish. The state's province should be to establish regulatory systems (Nkurunzia, 2019).

2.2. Empirical studies of SACCOs

SACCOs should be overseen by volunteer management committees elected by members, but many SACCO leaders are inactive and ineffective in the assigned rules and obligations, and members do not control the elected board of directors' duties (Ahmed and Rugami, 2019). Anania and Gikuri (2015) support the idea in many SACCOs that internal control is affected by the lack of capacity of management committees. The reporting mechanism between members and the board is weak because there is no written evidence of the meeting. SACCOs in Tanzania are characterized by weak governance capabilities due to challenges for instance lack of participation in various investment activities, poor management, and business operations. The lack of competent boards hinders the SACCO's ability to develop effective institutional capacity and promote change toward its intended future. Moreover, Wangui (2019) in a study on cooperatives in Kenya established active participation of members in business operations and organizational structure leads to improved cooperative performance. Franken and Cook (2017) assessed how governance affected American cooperatives and found that organizations with more competent boards and members typically perform better.

According to a study by Garnevska et al. (2011) on cooperatives in China, members' participation at general meetings and training sessions was more active in raising cooperative operations with higher levels of developing cooperation and vision. Girma (2021) conducted research in Addis Ababa, Ethiopia, and found that board competency had a positive impact on the governance of the SACCO outreach.

Additionally, Motompa (2016) found that cooperative education is a crucial instrument for educating members, developing their sense of responsibility and decision-making skills, and empowering them to use their rights and obligations rationally and transparently. SACCOs and banks did not actively promote cooperative education and financial literacy. However, providing financial literacy benefits people and the SACCO itself by increasing the level of savings deposits and stock awareness (Bonga and Mlambo, 2016).

2.3. The study's conceptual framework

The study's conceptual framework is established on the principle that SACCO's performance is influenced by several factors and that if those SACCO governance elements are recognized; they could be employed to enhance SACCO's performance while also benefiting members. Therefore, the following variables are developed for this study. These include members' participation, members' cooperative education, board competency, and government intervention. These variables are chosen based on the light of the ground practice issues and gaps identified in the statement of the problem and discussed in the literature with the previous studies. They are conceptualized graphically in Figure 1. The conceptual framework reflects the basic concept that governance has a tremendous impact on SACCO's success. It assumes that governance affects every aspect of an organization and decides how well a SACCO performs.

3. Research methodology

3.1. Description of the research area

The research area is located in the Tigray region of northern Ethiopia, which extends from latitudes of 128 to 158 north and longitudes of 368 to 418 east (Nugusse et al., 2013). More than 27% of people in Tigray were

food insecure and living in poverty; 80 percent of the population lived in rural areas and depended on agriculture, In Tigray, there are 94 urban and rural Woredas and seven administrative zones. In particular the study area Adwa is one of the nine rural Woredas found in the central zone of Tigray. It is situated by North Woreda Merebleke, South Wreda Wereleke, East Wreda Ahferom, and West Woreda Laelaymaichew (TCSA, 2019). The Woreda has a land size of 66,542 hectares and is about 168.2 kilometers away from Mekelle, the capital of Tigray.

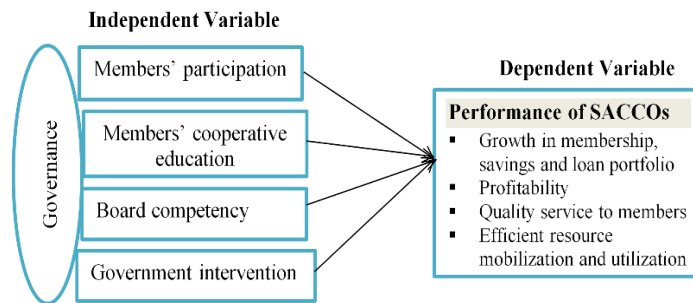


Figure 2. The study's conceptual framework

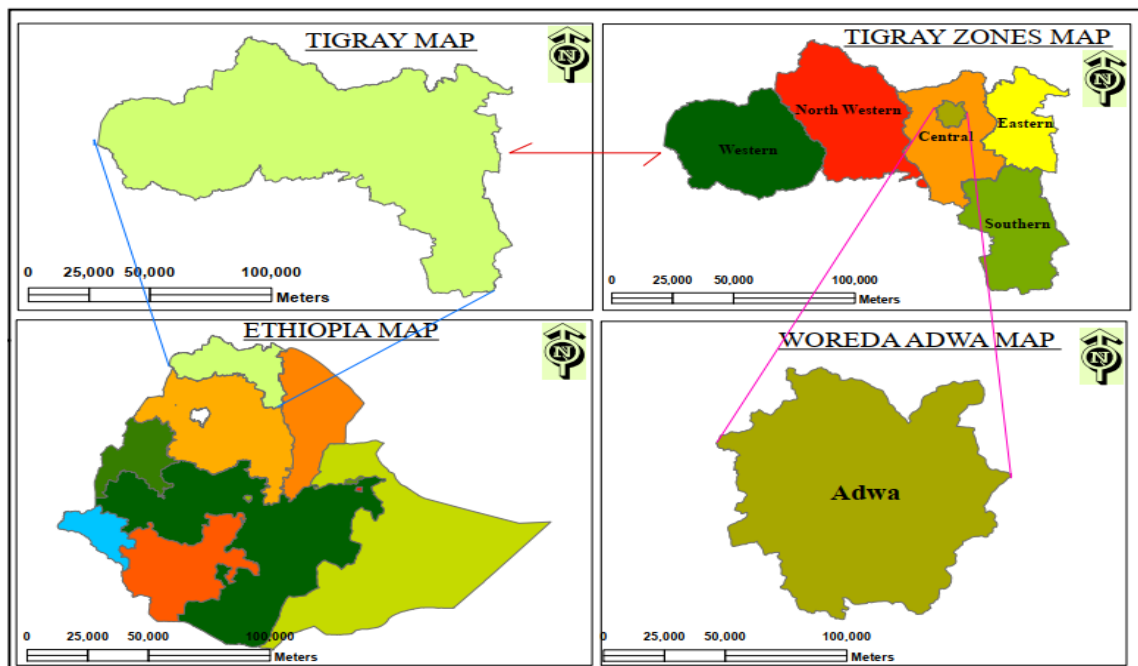


Figure 3. Map of the research area in Tigray of Ethiopia

3.2. Data sources

The study is guided by a descriptive research design, which offers a thorough explanation of an event within its context. Descriptive research design further encourages the use of quantitative aspects of the study that entailed information about the existing situations based on the correct findings (Mugenda and Mugenda, 2003).

Both probability and non-probability sampling techniques were used by the researcher. The questionnaire survey of SACCO members was brought using probability (simple random) sampling. Because it gives each item in the universe an equal chance of appearing in the sample and prevents biases and partiality in taking sample size (Taherdoost, 2016). Initially, among the 27 SACCOs found in the Woreda 26% of them were selected randomly and from these 334 respondents were drawn. Data were gathered from primary and secondary sources. Primary data questionnaire instruments were employed to collect data. The collection of primary data was carried out via a questionnaire and respondents gave data responses through the Likert scale questions where 1 indicates strongly disagree, 2 indicates disagree, 3 indicates neither agree nor disagree, 4 indicates agree, and 5 indicates strongly agree. Likert scaling was widely employed by researchers, and they all concurred that it reduced bias-related issues and simplified data manipulation and analysis (Scherbaum and Shockley, 2015). Secondary data was gathered from the SACCOs' main office. Taking on the entire population for this study is challenging due to time and financial limitations. Hence, the simplified statistical formula devised by Yamane (1967) was adopted for this research to obtain the sample size. This formula assumed a 95% confidence level and the margin of error (e) is 0.05. The sample size of the study is determined as follows.

$$n = \frac{N}{1+N(e)^2}$$

where:

n= Sample size,

N= Total population size and

e= Sampling error at 95% level of confidence

then,

$$n = \frac{2024}{1+2024(0.05)^2} = 333.99 \approx 334$$

thus, the sample size of 334 respondents was sufficient to represent the total population.

Table 2. Proportional sample distribution across SACCOs

Name of Sample SACCOs	Establishment Year	Population size	Own computation	Actual sample size
Adiberak	10/04/1995	312	$(312 \times 334)/2024 = 51$	52
Endabagerima	09/08/1998	600	$(600 \times 334)/2024 = 99$	99
Miebale	28/9/01	478	$(478 \times 334)/2024 = 79$	79
Keren	27/5/02	337	$(337 \times 334)/2024 = 55$	55
Nigistesaba	06/02/2003	102	$(102 \times 334)/2024 = 17$	17
Tintawit Yeha	10/11/2002	109	$(109 \times 334)/2024 = 19$	19
Debregelila	28/8/03	86	$(86 \times 334)/2024 = 14$	14
Total		2024	$(2024 \times 334)/202 = 334$	334

3.3. Methods of data analysis and presentation

Quantitative data were analyzed using the SPSS software version 26 and Microsoft Excel. The data obtained from the questionnaire were subjected to descriptive analysis techniques and results were presented comprising of tables, frequencies, percentages, and graphs, and it was also analyzed using the mean, standard deviation, correlation, and regression matrix.

The researcher followed up on Pearson correlation and multiple regression analysis to determine the relationship between the governance factors and the performance of SACCOs in the research area. Moreover, the researcher used variables including participation, board competency, and members' cooperative education to measure the effect of governance on the operation of SACCOs.

The regression equation:

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + e:$$

where, Y = Dependent variable (Performance of SACCOs), α = constant β_1 , β_2 , β_3 , and β_4 = regression coefficients of independent variables, X_1 = Members participation, X_2 = Members' cooperative education, X_3 = Board competency, X_4 = Government intervention, e = Error term. Significant levels were measured at a 95% level of confidence with significant differences recorded at a p-value < 0.05.

Table 3. Summary of the analytical framework

Objectives of the research	Source of data used	Method of data analysis
Objective1: To analyze the practice of SACCO's governance with regard to general assembly meetings, business operations, investments, and voluntary membership in the research area.	Primary	Descriptive Statistics
Objective2: To examine how governance practice affects SACCOs' performance when measured in terms of members' participation, members' cooperative education, board competency, and government intervention.	Primary	Correlation & Regression

4. Results and discussions

This research investigates the effects of governance on SACCOs' operations. Mainly, the first objective is to analyze the practice of SACCO governance in terms of, general assembly meetings, business operations, and investment engagements. The second objective is to examine how governance affects SACCO operation when measured in terms of members' participation, members' cooperative education, board competency, and government intervention. It is analyzed using four fundamental indicators that are intended to show whether or not these variables have an influence on SACCOs' performance. These include members' participation, members' cooperative education, board competency, and government intervention. From this perspective, SACCOs' performance was examined using the aforementioned variables and come up with a performance analysis of SACCOs.

4.1. Analyzing the practice of SACCO governance

SACCOs governed and operated more effectively and raise their performance to a higher level when members participate actively in general assembly meetings, and decision-making processes, engage in diverse business transactions like making investment options with other cooperatives such as consumer, and multipurpose cooperatives, and others, improve borrowing and saving activities. Therefore, the researcher asked respondents through a questionnaire, and the outcomes are depicted as follows.

4.1.1. Members' general assembly sessions

Members' knowledge of their cooperatives and participation in general meetings and training was vital for cooperatives to successfully grow in developing countries (Elena Garnevska et al., 2011). Hence, the researcher asked the respondents to investigate whether there is "adequate members' participation in general assembly sessions of SACCOs". The findings are exhibited as follows.

Table 4. Descriptive statistics of members' participation in general assembly sessions

Category	Frequency	Percent	Valid Percent	Cumulative Percent	Mean	Std. Deviation
strongly disagree	70	21.0	21.0	21.0	3.25	1.581
disagree	57	17.1	17.1	38.0		
neither disagree nor agree	5	1.5	1.5	39.5		
agree	124	37.1	37.1	76.6		
strongly agree	78	23.4	23.4	100.0		
Total	334	100.0	100.0			

As per the results from Table 4 above, 124 respondents (or 37.1%) indicated they agreed with participation in general assembly sessions, 78 respondents (or 26.9%) strongly agreed, 70 respondents (or 21%) strongly disagreed, 57 respondents (or 17.1%) also disagreed, and 5 respondents (or 1.5%) neither disagreed nor agreed. The mean result for this item is 3.25, which falls within the range of agreed observance and implies that most of the respondents come down under the category of agreement that they actively participate in general assembly sessions, and decision-making, signifying that members own and are in the power of their business institutions.

This finding is consistent with a study on cooperatives in China conducted by (Elena Garnevska et al., 2011), who found that members' involvement in general meetings and sessions increased cooperative operation with higher levels of developing cooperation.

4.1.2. Members' involvement in business operations

Members who are actively involved in business operations can address their financial difficulties, promote savings, and thereby raise SACCO's performance to a higher level.

The researcher requested respondents via questionnaire to get information from respondents about "how well members involve in SACCO's business operations (saving and borrowing) and whether there were any

interruptions in their regular saving and borrowing of money for investments". The outcomes are therefore rendered as follows.

Table 5. Descriptive statistics of members' involvement in business operations

Category	Frequency	Percent	Valid Percent	Cumulative Percent	Mean	Std. Deviation
strongly disagree	99	29.6	29.6	29.6	2.73	1.525
disagree	92	27.5	27.5	57.2		
agree	87	26.0	26.0	83.2		
strongly agree	56	16.8	16.8	100.0		
Total	334	100.0	100.0			

The finding described in Table 5 above exhibited that 99(29.6%) of respondents highly disagreed with members' involvement in business operations including saving and borrowing activities, and 92 (27.5%) also disagreed. In contrast, 87 (26%) of respondents agreed and 56 (16.8%) strongly agreed. The mean value for this item is 2.73 and this comes down under the disagreed observance implying that members' involvement in SACCO's business activities is low. The majority of respondents fall under the category level of strongly disagree and disagree which reveals that there is weak participation of members and interruptions of the regular saving and borrowing of money.

We can infer from the results that members' inactive involvement in business operations and the cessation of regular savings could have a negative impact on members' lives and SACCO performance. This finding contradicts the research by Wangui (2019) on cooperatives in Kenya, who found that members actively participated in the business operations of SACCOs enhancing cooperative success and allowing members to improve their lives through business activities done via the transaction of savings and loans.

4.1.3. SACCO's engagement in investment activities

SACCOs should take advantage of a variety of investment opportunities, such as lending money to consumers and multipurpose cooperatives, and work together with many stakeholders to improve performance and generate income to pay dividends to members. Hence, the researcher requested respondents via the questionnaire "whether SACCOs are involved in investment activities to generate income and a reasonable profit for members and the SACCO itself". The results are depicted below.

Table 6. Descriptive statistics of SACCO engagement in investment activities

Category	Frequency	Percent	Valid Percent	Cumulative Percent	Mean	Std. Deviation
strongly disagree	48	14.4	14.4	14.4	2.42	1.138
disagree	203	60.8	60.8	75.1		
agree	61	18.3	18.3	93.4		
strongly agree	22	6.6	6.6	100.0		
Total	334	100.0	100.0			

Source: Field survey, 2022

As per the findings of Table 6 above, 203 respondents (60.8%) disagreed that SACCOs involve in various investment opportunities to generate income, and 48 respondents (14.8%) strongly disagreed. In contrast, 62 respondents (18.3%) agreed, and 22 respondents (6.6%) disagreed. This finding revealed that the majority 75.8% of respondents highly believed and fall their response under the category of (disagree and strongly disagree). The mean value of this item is 2.42, which puts it in the disagreement category. This finding implies that SACCOs are unable to expand and incorporate a variety of investment alternatives, which could impede their development and integration of their performance to create income and have a negative influence on members' well-being, concurs

This finding agreed with that of Anania and Gikuri (2015), who found that SACCOs in Tanzania are well known for having inadequate governance capabilities due to a lack of involvement in diverse investment activities, inadequate business operations, and other restrictions in their performance.

4.1.4. Voluntary membership practices of SACCOs

The most crucial component of a cooperative is its members. No cooperative can succeed without committed members who voluntarily engage in SACCO business activities. All cooperatives must continue to be voluntary with open membership requirements to attract people to involve in business activities. One of the first and core principles of cooperatives that were approved by ICA in 1995 is enrolling members voluntarily. Therefore the researcher requested respondents to realize "how voluntary membership is practiced in SACCOs and whether there are forced membership practices or not". Results are delivered below.

Table 7. Descriptive statistics of voluntary membership practices

Category	Frequency	Percent	Valid Percent	Cumulative Percent	Mean	Std. Deviation
strongly disagree	32	9.6	9.6	9.6	3.45	1.277
disagree	74	22.2	22.2	31.7		
agree	168	50.3	50.3	82.0		
strongly agree	60	18.0	18.0	100.0		
Total	334	100.0	100.0			

Source: Field survey, 2022

Based on the results from Table 7 above, 168 respondents (or 50.30%) agreed voluntary membership practices have not been accomplished later which leads to a drop in membership.

Whereas 74 (22.2%) of respondents disagreed with the idea that there is no compulsory membership which led to a decline in membership. On the other hand, 60 respondents (18%) highly agreed with the idea, while 32 respondents (9.6%) strongly disagreed. The mean value of this item is 3.45, which is within the range of the agreement and verifies the idea that SACCO members withdrew because they were coerced to join and didn't do so voluntarily.

According to the findings, the majority of respondents stated that they had been pressured into joining SACCOs by government agents. This finding implies that a significant number of membership withdrawals are attributable to forced government intervention. From this, it can be concluded that government interference

in SACCOs affects their autonomy or voluntary membership, which could have a negative influence on SACCO's performance.

4.2. Analysis of Pearson correlation and multiple linear regression

To determine how governance factors affect SACCO performance and how variables are related to one another, the researcher took a regression and correlation analysis. It is preferable to clarify the appropriate interpretations of the statistical values of the Pearson correlation as shown below before the researcher moves on to specific discussions of the regression analysis.

4.2.1. Pearson correlation

Various authors present various interpretations of the Pearson correlation. However, the indicators of Pearson correlation, according to Licht (1995), range from -1 to +1 to 0. Where 0 denotes a no relationship, -1 is a perfect negative relationship, and +1 is a perfect positive relationship. Moreover, according to Cohen, (1983), correlations between .10 and .29 are perceived as weak correlations, .30 to .49 as moderate correlations, and .50 to 1 as big correlation.

Table 8. Description of Pearson correlation

Correlation coefficient values	Interpretation	Sources
-1	perfect negative correlation	(Licht, 1995).
1	perfect positive correlation	
.10 to .29	small correlation	(Cohen, 1983).
.30 to .49	moderate correlation	
.50 to 1.00	big correlation	

Pearson correlation coefficients are used to measure how closely the dependent and independent variables are connected. The study's finding, which is delivered in Table 9, is the correlation between the variables. Positive correlation coefficients exhibit a positive relationship between the two variables, but negative correlation coefficients reflect a negative association. This research finding as shown in the above table's correlation coefficient suggests that the four independent variables—member participation (801), members' cooperative education (740), board competency (778), and government intervention (765)—have a strong positive relationship and substantial effect on savings and credit cooperatives' performance. We can infer from the finding that none of the variables have a P value > 0.05.

Therefore, multi-collinearity is not an issue, and the four governance predictors' model (members' participation, members' cooperative education, board competency, and government intervention) could be utilized to predict SACCO performance.

Table 9. Pearson correlation between the independent and dependent variables

Correlations						
		Members participation	Members cooperative education	Board competency	Government intervention	Performance of SACCOs
Members participation	Pearson Correlation	1	.817**	.897**	.924**	.801**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	334	334	334	334	334
Members cooperative education	Pearson Correlation	.817**	1	.832**	.828**	.740**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	334	334	334	334	334
Board competency	Pearson Correlation	.897**	.832**	1	.956**	.778**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	334	334	334	334	334
Government intervention	Pearson Correlation	.924**	.828**	.956**	1	.765**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	334	334	334	334	334
Performance of SACCOs	Pearson Correlation	.801**	.740**	.778**	.765**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	334	334	334	334	334
**. Correlation is significant at the 0.01 level (2-tailed).						

Source: Questionnaire data computed from SPSS version 26, 2022

4.2.2. Multiple linear regression

For this study, multiple regression analysis is used to appraise the variations and relationships between the predictors (independent) variables and outcome variables (dependent variable). Because it helps to know how the dependent variables change when the independent variables are varied, while other variables are held constant. The summary of the regression analysis model consists of the values of R, R square, Adjusted R square, and Standard Error of the Estimates. It is known as Pearson R. Additionally, the R² indicates a good model fit. The regression analysis of the findings of this study is depicted in Table 10.

Table 10. Model summary for the goodness of fit

Model Summary ^a									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.821 ^b	.674	.670	.31947	.674	169.785	4	329	.000

a. Dependent Variable: Performance of SACCOs

b. Predictors: (Constant), government intervention, members cooperative education, members' participation, board competency

Source: Computed from SPSS version 26, 2022

The study's findings, which are shown in above table 10, revealed the regression outcome. For this study, the regression's outcome, which has an R Square value of 67.4%, confirms the strong relationship between the dependent and independent variables.

The four predictors (members' participation, members' cooperative education, board competency, and government intervention) that were looked at in this study reflect 67.4% of changes (variations) in SACCO performance in the research area as indicated by R². The remaining 32.6 % of the variables could be addressed by other predictors not examined in this study. From this finding, it can be concluded that applying the independent variables such as members' participation, members' cooperative education and board competency could have a strong impact on the development of SACCOs' performance. These predictors were found to be more powerful factors in enhancing SACCO performance.

Table 11. Results of ANOVA of regression of analysis

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	69.311	4	17.328	169.785	.000 ^b
	Residual	33.577	329	.102		
	Total	102.889	333			

a. Dependent Variable: Performance of SACCOs

b. Predictors: (Constant), government intervention, members cooperative education, participation, board competency

Source: Computed from SPSS version 26, 2022

ANOVA is used to find out whether there are significant differences between two or more groups or samples at a specific probability level (Deshmukh, 2012). The above tale reports the significance of the model as the p-value is < 0.05. Accordingly, the result of the p-value (sig) of this study is found to be 0.000 which is < 0.05 and this ascertained that the model is more significant.

Additionally, the significance of the model revealed that the value of members' participation, members' cooperative education, board competency, and government intervention statistically affect SACCOs' performance.

4.2.3. Coefficient of regression model

The established multiple linear regression model for this research is delivered in the table below, along with the independent variable coefficients. Here is a description of them. The finding equation is therefore written as $Y = 1.163 + 0.532x_1 + 0.203x_2 + 0.356x_3 + -0.234x_4 + 0.89$.

Table 12. Coefficient of regression model

Model		Coefficients ^a				
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.163	.089		13.110	.000
	Members participation	.472	.075	.532	6.256	.000
	Members cooperative education	.126	.037	.203	3.412	.000
	Boar competency	.268	.084	.356	3.191	.001
	Government intervention	-.172	.092	-.234	-1.867	.003

a. Dependent Variable: Performance of SACCOs

Source: Computed from SPSS version 26, 2022

In this case, which independent variable is best able to predict the dependent variable can be determined using the regression coefficient. The relationship between them, as shown by the standard coefficient table 12, is reflected in the standardized beta value. Identifying the factor with the greatest influence requires careful observation of the standardized coefficient. The outcomes of multiple linear regression suggest that each of the predicted coefficients for the independent variables was significant; the constant's significance is implied by $\beta_0 = 1.163$'s p-value of .000, which is less than 0.05.

As per findings from the table above, member participation, member cooperative education, and board competency have a positive and significant influence on SACCO performance in the research area with the beta of 0.532; $P < 0.05$, 0.203; $P < 0.05$, and .356; $P < 0.05$ respectively. Government intervention, however, has a negative influence on SACCO performance with a beta of -0.234; $P < 0.05$.

The result exhibited that several strengths were observed in applying the governance factors, such as member participation, member cooperative education, and board competency, which have a positive influence on SACCOs' performance. On the other side, there are problems with how the government interferes with the SACCOs, which negatively harms SACCOs' performance in the research area, where,

- Constant = 1.163 reveals that if the member participation, member cooperative education, board competency, and government intervention variables were all rated as zero, the SACCOs' performance in the research area would be rated as 1.163.
- $\beta_1 = 0.532$, reveals that one unit of increased member participation leads to a 0.532-unit improvement in SACCOs performance when all other factors are kept constant.
- $\beta_2 = 0.203$, indicates that one unit of increase in members' cooperative education leads to a 0.203-unit improvement in SACCOs performance while other factors held constant.
- $\beta_3 = 0.356$, indicates that one unit of increase in board competency results in 0.356; units of improvement in SACCOs performance in the research area while other factors held constant.
- $\beta_4 = -0.234$, reveals that one unit increase in government intervention results in -0.234; units increase in SACCOs performance in the research area while other factors held constant.
- $\epsilon = 0.089$, Error term.

The outcomes are in agreement with those of Gala (2010) and Girma (2021), who found that board competency and government intervention had, respectively, positive and negative effects on the development of SACCOs.

5. Conclusions and recommendations

5.1. Conclusions

In the study area, SACCOs have been playing a pivotal role in assisting people to get finance through saving and borrowing activities. However, due to their limited capacity for governance practice and performance, as well as multiple other factors that had an impact on SACCOs and their members, they are not meeting the demand of their members. Hence, conclusions, recommendations, and areas for further research are extracted from the study's findings and provided as follows.

The study admitted that most of the respondents about general assembly meetings and decision-making were deemed to have highly participated in the research area signifying that members own and are in the power of their business institutions. Based on the findings, regular saving and borrowing of money have been disrupted and there is no such active engagement from the members. The findings revealed that the interruption of regular savings and members' inactive participation in business operations may harm members' welfare and SACCO performance. The research also found that SACCOs were unable to expand and embrace a variety of investment options, which may have limited their ability to improve their capacity to generate income and seriously affected their performance. In SACCOs membership should be open and voluntarily bases this finding implies that a significant number of membership dropouts are attributable to forced membership due to government intervention. From this, it was concluded that government meddling in SACCOs affects their autonomy or voluntary membership, which could have a negative influence on SACCOs' performance.

The effect of governance practice on the performance of SACCOs has been also studied using the correlation and regression matrix. Hence, the study ascertained that there was a significant positive and negative relationship between the governance factors (independent variables) and the performance of SACCOs (dependent variable). The final result also revealed that member participation, members' cooperative

education, and board competency factors have a strong positive relationship and highly affect the performance of SACCOs, and these predictors were powerful factors in improving the SACCOs' performance. in the research area. However, government intervention has a negative regression coefficient and influences negatively SACCO's performance.

5.2. Recommendation

Depending on the findings of the study, the following recommendations are forwarded to advance and boost the SACCOs' performance.

- The study well-advised managers, government officials, and other stakeholders who play a role in cooperatives, to use and apply governance practices such as member participation, member cooperative education, and board competency to boost SACCOs' performance.
- Government intervention should be positive, but it shouldn't impede SACCOs' autonomy or voluntary membership because doing so could impair their performance.
- SACCO should diversify and expand its business options and integrate with various cooperatives such as consumer and multipurpose cooperatives to make financial transactions and generate income.
- Continuous cooperative education should be provided to members that could help them improve their ability to save and prevent the disruption of regular saving.

5.3. Area for further studies

This study is confined to a few governance factors that measure SACCO's performance. Future research should incorporate more indicators that were not examined in this paper, indicators such as business planning, human resources, and managerial competency.

5.4. Limitations of the study

Difficulties were encountered in accessing data and responses from respondents, especially when accessing data from sample SACCOs. However, the researcher obtained the introductory letter from the university to explain to respondents that the data was sought only for academic purposes and gave them assurance in providing the information confidentially. In addition, this study was time limited as it took a long time to meet with respondents. But the researcher overcame the constraints by working overtime to be able to compile all the reports and get all the required information.

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