

MEMBER TRUST AS A MEDIATING MECHANISM: INSTITUTIONAL GOVERNANCE AND SUSTAINABILITY IN SAVINGS AND CREDIT COOPERATIVES (SACCOS) IN MALAWI

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ABSTRACT

The paper aimed to establish the role of member trust as a mediating factor between governance and SACCO sustainability in Malawi. The explanatory sequential mixed methods design was applied, and the data were gathered from 297 respondents, 12 semi-structured interviews, and several secondary sources. The study revealed that the governance scores were higher for stable SACCOs ($M=4.02$) than for unstable SACCOs ($M=2.47$). Similarly, the level of trust was higher for stable SACCOs ($M=4.23$) than their unstable counterparts ($M=2.49$). Moreover, there was a significant difference in trust levels between male and female members, with females reporting slightly lower levels of trust than males (3.28 vs. 3.45; $p < 0.05$). The study also identified accountability as the most critical governance aspect that predicts SACCO sustainability. The mediation analysis conducted demonstrated that governance predicted sustainability both directly and indirectly (indirect effect=0.46; 95% CI [0.33,0.60]) and explained 58% of the variance. Trust was a significant predictor of the level of deposits, repayment behavior, and compliance with SACCO rules. In addition, weak accountability, elite capture, and communication challenges were found to negatively affect sustainability. Overall, the study concluded that governance is not sufficient in itself to promote SACCO sustainability and proposed further reforms and longitudinal studies to improve cooperative governance in Malawi.



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1. INTRODUCTION

SACCOs have bloomed in sub-Saharan Africa, with Malawi being one of the countries with more than 40 primary affiliated cooperatives, 250,000 members, and more than MWK 77 billion (about USD 39.5 million) in

savings (MUSCCO, 2025). Agricultural credit, small business loans, and household finances are the mainstay of SACCOs, an area where commercial banks have failed to penetrate. Malawi is neither an exception nor an outlier as SACCOs are on the rise in Kenya, Tanzania, Uganda, and Ethiopia (Mwangi & Mwangi, 2016; Gebrehiwet,

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2022). However, there is an underlying concern regarding the rise of SACCOS as industry reports indicate that 60-70 percent of SACCOS that open in Malawi wind up inactive or collapsed within a decade (Chidzero & Kachoka, 2019; MUSCCO, 2022). Similar statistics are reported in Tanzania, Kenya, and Ethiopia (Bwana & Mwakujonga, 2013; Kariuki, 2018).

The paper aimed to establish the role of member trust as a mediating factor between governance and SACCO sustainability in Malawi (Rousseau et al., 1998).

2. LITERATURE REVIEW

Closer examination of the scenario suggested that poor governance capacity played a critical role in enhancing SACCO failure. Governance challenges have been reported in Kenya, Tanzania, Malawi, and Ethiopia in the form of politicization of SACCO boards, lack of professional management skills, inadequate supervisory frameworks, weak internal control and governance mechanisms, and so on (Amanor & Diderutuah, 2021; Battilana & Dorado, 2010; Battilana & Lee, 2014; Odera & Muliro, 2020; Wanyama, 2009). Governance flaws have had adverse effects on SACCO sustainability, manifesting in delinquency and liquidity challenges, which have been reported across the region (Chisi & Gondwe, 2017; Mapfumo, 2019).

The relationship between governance reforms and improved loan portfolio is further supported by the recent findings in the European cooperative banking sector. Ferraro and Napolitano (2026) provide evidence that regulatory reforms in Italian cooperative credit banks led to a significant diminishment of non-performing loans.

2.1 Comparative Evidence from Local Government Finance

Recent scholarship has extended the governance-sustainability debate beyond cooperative institutions into the realm of local government finance. For instance, Chitete and Acheamfuor (2026), writing in *Global Economic Horizons*, examined revenue collection efficiency and financial performance in Mchinji District Council, Malawi. Their findings revealed that operational inefficiencies, reliance on manual systems, and underutilization of ICT platforms significantly undermined fiscal sustainability at the council level. Although the institutional context differs from SACCOS, the parallels are instructive: both community-based cooperatives and local councils are challenged with accountability, dependency on external transfers, and weak integration of technology. The study reinforces the argument that governance reforms alone are insufficient unless accompanied by trust-building and systemic efficiency improvements. This comparative evidence strengthens the case for embedding trust as a mediating mechanism in SACCO governance, since inefficiencies and accountability gaps at any institutional level in Malawi appear to erode sustainability outcomes.

3. METHODOLOGY

3.1 Study Area and Population

The study was conducted among communities that are members of community-based SACCOS in Malawi's Central Region. The region includes Lilongwe city, its suburbs, and the districts of Dedza, Salima, Dowa, and Ntchisi (MUSCCO, 2022). It is among the regions with the largest number of community-based SACCO members according to MUSCCO. SACCOS in this region target urban traders, small-scale farmers, and fishermen, among others (Grashuis & Su, 2019). This rationale makes the sample representative of other community-based SACCOS because the communities are socioeconomically diverse.

3.2 Research Design

The study adopted an explanatory sequential mixed-methods design nested within a longitudinal retrospective design from 2022 to 2024. In this design, the document analysis was done first to establish sustainability benchmarks for the cooperatives from 2022 to 2024. This was followed by conducting a quantitative survey to test mediation hypotheses. Finally, the semi-structured interviews were conducted to expound on the survey findings. In this case, the quantitative component was prioritized over the qualitative component since the former tested the mediation model while the latter provided additional information on the survey results.

3.3 Sampling

The sampling strategy used was purposive sampling. The initial database was in the MUSCCO register as each community-based SACCO in the Central region was registered with the organization. The database contained information on the SACCOS, including their name, location, membership, year established, and performance. From this database, eight SACCOS were selected for the study. The eight SACCOS were selected to ensure that there were significant differences in the four institutional factors. The eight SACCOS had membership figures that varied between 420 and over 23,000 members. Others were established between 1996 and 2020. Additionally, the eight SACCOS differed in their location as some were in urban, peri-urban, and rural areas. Finally, based on the MUSCCO database and preliminary trends, the performance of the SACCOS was categorized as stable, recovering, and stagnant. These differences were important in establishing the differences in governance mechanisms and trust-building mechanisms in the selected SACCOS.

From the eight SACCOS selected, a stratified random sampling technique was used to identify respondents. The researchers obtained membership lists from the SACCOS and used a systematic random sampling procedure to select every fifth or tenth member

depending on the number of members in a given SACCO. In addition, the researchers split the membership lists into their sub-structures, if any and applied the proportional allocation strategy. This ensured that the number of respondents selected from each SACCO was proportional to their membership numbers. At least thirty members were selected from each SACCO as a minimum number for conducting statistical analysis. Overall, 297 respondents were selected from the eight SACCOs. This sample size was adequate for the study because it met the recommended number of ten to fifteen samples per predictor variable for mediation analysis. It also had a statistical power higher than 0.8 for a minimum effect size (Hair et al., 2019). In other words, the study had a reasonably large sample size for statistical analysis.

For qualitative data collection, twelve respondents were selected for semi-structured interviews. From the eight SACCOs selected, four chairpersons, four board treasurers, and four managers were chosen. The four chair persons, four board treasurers, and four managers were selected because they were directly involved in governance issues and had in-depth knowledge of trust-building mechanisms in the SACCOs. Overall, nine male and one female respondent were selected from the twelve interviewees. This proportion reflected the gender distribution of the other members of the SACCOs in the Central region.

3.4 Data Collection

The researcher collected three data sources:

1. Structured member survey

The research team designed a structured member survey consisting of four sections. In the first section, the respondents provided personal information such as their age, gender, occupation, length of membership, and current loan status. The second section comprised governance issues and adopted items used in previous cooperative governance studies (Mwangi and Mwangi, 2016). The items focused on members' views on cooperative governance issues such as transparency, accountability, and board oversight. The third section measured member trust in the SACCO and used nine items based on Mayer et al. (1995), Mayer and Davis's (1999) trust dimensions. Items in the second and third sections used a five-point Likert scale to indicate the level of agreement with statements from Strongly Disagree to Strongly Agree. The fourth section focused on non-financial indicators of sustainability and included member satisfaction and intention to remain a member. The survey was pilot-tested among thirty (30) SACCO members selected randomly from a SACCO not included in the study. The Cronbach's alpha coefficient for the multi-item scales in sections two and three was between 0.73 and 0.86 which was above the recommended threshold of 0.7 (Nunnally & Bernstein, 1994). This result indicated that the items had good internal consistency. The pilot study also helped the research team identify areas for improvement in the survey. Based

on the feedback from the pilot study, some items in the questionnaire were revised for clarity, especially for members with limited education.

2. Semi-structured interviews

The research team developed a set of semi-structured interviews to gain an in-depth understanding of governance mechanisms and trust-building mechanisms in the SACCOs. The interview guide was divided into three sections. The first section focused on governance mechanisms and explored the interviewee's views on issues such as financial report transparency. For example, the interviewees were asked to discuss how a SACCO board can ensure transparency in financial reporting. The second section centered on member trust and explored how SACCOs can develop member trust in the cooperative. The final section of the interview guide focused on sustainability and sought the views of the interviewee on the main sustainability challenges facing SACCOs. Although the interview guide followed this logical structure, the semi-structured nature of the interviews allowed the interviewers to probe deeper into specific issues. Overall, the semi-structured interviews complemented the information obtained from the structured survey by providing additional insights on the research issues.

To pilot test the interview guide, one board member from a SACCO not included in the study was interviewed. This helped the research team determine if the interview guide was easy to follow and if the interview process was too long, considering that the interview process was expected to take between 45 minutes and an hour. The interviews were conducted in either Chichewa or English depending on the respondent's preference. The interviews were recorded with the consent of the participant and later transcribed verbatim for analysis. Allowing the respondents to select the language of the interview minimized the pressure of communicating in a language that one is not comfortable with.

3. Secondary document analysis.

The research team designed a data extraction sheet using Excel to analyze the financial records of the SACCOs. Since the analysis focused on 2022, 2023, and 2024, the data extraction sheet requested specific quantitative data relevant to financial sustainability. The quantitative data extracted from the financial records included total assets, members' equity, total loans, PAR30, revenue, and operating expenses. The qualitative data extracted from the documents were coded using themes such as 'discussion on transparency,' 'discussion on accountability,' 'member complaints,' and 'strategic considerations.'

The financial records of Bwino and Mtendere SACCOs were not available for 2022 which may explain their poor performance in the year. Therefore, the research team decided to analyze the financial records of 2023 and 2024 for the two SACCOs.

3.5 Measures and Operationalisation

3.5.1 Institutional Governance (Independent Variable).

The research team operationalised institutional governance as the independent variable. The team used three governance facets as measures. Each facet had four items. The researchers developed an aggregated governance measure by taking the mean of all items. The combined measure had a desirable level of internal consistency with a Cronbach's Alpha of 0.87.

3.5.2 Member Trust (Mediator)

Member trust was the mediator variable. The research team operationalised member trust by developing a measure of members' trust in the board of directors. The measure had three facets; integrity, benevolence, and ability. Each facet had three items. The team arrived at the aggregated score by taking the mean of all items. The combined measure had a Cronbach's Alpha of 0.88.

3.5.3 Long-Term Sustainability (Dependent Variable)

Long-term sustainability was the dependent variable. The researchers grouped the variables into financial, social, and institutional indicators. The financial indicators included Operational Self-Sufficiency, Portfolio at Risk greater than 30 days, and Capital Adequacy. Member retention rate and member satisfaction were the social indicators. Audit recommendation implementation and Annual General Meeting attendance were the institutional indicators.

The researchers calculated each indicator's z-score, and the final score was the mean of the indicators' scores. The combined measure had a Cronbach's Alpha of 0.79. The descriptive analysis showed that the composite measure had a desirable level of capturing the concept of long-term sustainability.

3.6 Data Analysis

The research team used IBM SPSS Statistics (Version 28) for descriptive quantitative analysis and Hayes' PROCESS macro v4.2 (Model 4: Process Macro for SPSS, IBM) for mediation analysis, which used 5,000 bootstrap samples. The mediation analysis proposed a model with direct and indirect (through trust) effects of governance on sustainability. Additionally, the descriptive analysis involved calculating the mean, standard deviation, and frequency of the variables. The team also performed statistical tests, including Analysis of variance (ANOVA) with post hoc Tukey test, independent sample t test, Pearson's r correlation, and simple linear regression analysis. In short, the team performed descriptive analysis, tested associations between variables using correlation, ANOVA, and regression analysis, and examined the mediation role of trust in governance and long-term sustainability as proposed in the research model.

The research team used reflexive thematic analysis for qualitative analysis. Specifically, the team used Braun

and Clarke's (2022) approach to qualitative analysis and NVivo 14 Software for coding. In line with Braun and Clarke's (2022) approach to thematic analysis, the following steps were used: Familiarisation with qualitative data by reading through the transcripts several times. Generating initial codes by engaging in a coding process across all transcripts. Searching for themes by amassing initial codes into candidate themes. Reviewing and defining themes by examining the themes' definitions and their connections with the extracts and transcripts. Lastly, producing a reflexive report by developing a reflexive account of the themes. To test inter-coder reliability, a research colleague was asked to independently code 20% of the transcripts. During peer debriefing, the research colleague identified similar themes as those used to develop the codebook except for a few themes. In other words, there was an overall percentage agreement of 86%.

The integration of qualitative and quantitative findings followed Creswell and Plano Clark's (2018) and Guetterman et al.'s (2015) recommendations. Specifically, the team used displays of quantitative and qualitative findings to integrate the findings. The study followed three approaches, namely triangulation, complementarity, and expansion, to accomplish the integration. Triangulation helped the researchers gain deeper insights into their findings and increase the credibility of the conclusions by comparing qualitative and quantitative results. Complementarity was achieved by complementing qualitative findings with quantitative results and providing qualitative insights for quantitative results. Lastly, the study used expansion to explore different aspects of the research question by analysing various qualitative transcripts using different methods.

3.7 Ethical Considerations

The study was approved by the University of Malawi Research Ethics Committee (reference number P.03/26/758). In addition, the team sought institutional consent from each SACCO's chief executive officer. Finally, the team also sought individual informed consents from all participants. Specifically, the informed consents were read aloud to participants who were not comfortable reading and signing the printed version by the research team. Also, a third party verified consents to ensure participants understood their meaning and signed willingly.

Besides, the participants had the right to privacy and confidentiality. Firstly, the surveys eliminated all identifying information from the participants. Secondly, the transcripts of the interviews were anonymised by the research team. Thirdly, all information collected was stored in encrypted files. Lastly, a data management policy ensured that all data were deleted five years after the study's commencement. In addition, no participants withdrew their consents, and no ethical concerns were raised.

Finally, the study did not observe adverse events, procedure deviations, or unanticipated problems.

4. DISCUSSION AND ANALYSIS

4.1 Characteristics of Participating SACCOs and Respondents

The eight SACCOs under evaluation presented a set of significant differences. According to the three-year financial trends (2022 to 2024), there were three stable, two recovering, and three struggling SACCOs. Overall, the stable SACCOs recorded an average Operational Self-Sufficiency of 108.6% and PAR30 of 5.3%, compared to 67.2% and 29.1% for their struggling counterparts. Mtendere and Bwino SACCOs recorded negative capital adequacy ratios of -68.4% and -342.5%, respectively, suggesting technical insolvency.

The respondents were predominantly male (57.9%) and female (42.1%). Fifty-two-point five percent were smallholder farmers, while 67.7% of the respondents were members with active loans. Additionally, 65.7% of the respondents had been members for more than four years. The response rate ranged between 80.0% and 95.0% for each of the eight SACCOs, with an overall response rate of 87.4%. Notably, there were no

significant differences ($p < .05$) in the distribution of gender ($\chi^2 = .84$) and age categories ($\chi^2 = 2.31$) between the respondents and those who declined to participate. From this, it can be concluded that the sample was representative of the population from which it was estimated.

4.2 Governance Structures and Practices

All eight SACCOs had formal governance structures as required by the Cooperative Societies Act (1998) and MUSCCO guidelines. Each had their statutes, elected boards of directors (5-9 members), supervisory committee and was audited by an independent auditor. In addition, seven out of the eight SACCOs had a credit committee. As expected, each SACCO met the legal requirements for governance structures. However, the governance perception index (GPI) scores differed significantly among the various types of sustainability indicators.

Table 1 below shows the summary of the mean scores of the indicators. Notably, the SACCOs that were stable recorded a GPI of 4.02 compared to those that were unstable which recorded 2.47.

Table 1. Governance Perceptions by SACCO Sustainability Category

SACCO Category	Transparency Mean	Accountability Mean	Board Oversight Mean	Overall Governance Mean
Stable (n=3, 113 respondents)	4.04	3.84	4.18	4.02
Recovering (n=2, 69 respondents)	3.38	3.19	3.59	3.38
Struggling (n=3, 115 respondents)	2.50	2.25	2.65	2.47
Overall (N=297)	3.40	3.15	3.49	3.35

Note: All items measured on 5-point Likert scales (1 = Strongly Disagree, 5 = Strongly Agree). ANOVA: $F(2,294) = 41.2$, $p < 0.001$, $\eta^2 = 0.22$ (large effect size). Post hoc Tukey tests showed that all pairwise differences were significant at $p < 0.01$.

Accountability was the lowest-scored governance dimension, with a mean of 3.15. Still, it correlated most strongly with the dependent variable, Sustainability. For example, accountability predicted Operational Self-Sufficiency ($r = 0.6$, $p < 0.01$) and member retention ($r = 0.68$, $p < 0.01$). In turn, transparency predicted member satisfaction ($r = 0.67$, $p < 0.01$), while board oversight predicted operational efficiency ($r = 0.63$, $p < 0.01$).

In general, qualitative results confirmed those of quantitative results as members articulated many governance aspects related to the sustainability problem. However, the relationships were different as respondents identified the nature of the links. For example, participants associated the adherence to rules to enhance accountability and curb the influence of stakeholders. This was particularly evident for respondents in the struggling SACCOs as they illustrated the 'loopholes' that

enable the board of directors to access credit facilities in 18% SACCOs that do not perform regular audits. "Do we have all the committees as required by law?" questioned one of the chairpersons of the board of directors. In this case, qualitative results explain the context in which quantitative results were generated. For instance, governance practices in stable SACCOs ($M = 4.02$) differed from those in their struggling counterparts ($M = 2.47$). This observation is consistent with the difference in their performance levels as discussed below.

Looking at loan records highlighted the extent to which accountability practices influenced the credit access challenge. Indeed, sitting and former directors approved 45% of the total number of loans advanced. Moreover, delinquencies were 200% higher for loans approved by the board of directors compared to those by ordinary members. "This SACCO is controlled by three families. They approve loans to themselves, friends, and relatives

without going through the due process. It is only when other persons apply that the loan process becomes cumbersome. Every member knows that the board of directors and the manager are close!" commented the treasurer at Bwino SACCO. The analysis of minutes of the annual general meetings (AGMs) further showed the differences between stable and struggling SACCOS. The former had comprehensive minutes that covered all issues raised during the meetings including the agenda and finances whereas the latter had limited minutes. Consequently, it was not possible to make informed decisions based on the information contained in the minutes of the AGMs. Additionally, struggling SACCOS did not implement the recommended actions thus explaining their low scores on audit practices. Overall,

qualitative results corroborated quantitative results with accountability being a critical contributor to performance. In particular, findings indicate that governance norms, and particularly the undue influence of insider directors play a key role in interpreting the results.

4.3 Member Trust Levels

Members gave an average trust level of 3.39 per 5. However, there were differences in the levels for the three categories of SACCOS discussed above. Table 2 below shows the mean trust levels alongside some of the implications of the levels.

Table 2. Trust Perceptions by SACCO Sustainability Category

SACCO Category	Integrity Mean	Benevolence Mean	Ability Mean	Overall Mean	Trust
Stable (n=113)	4.13	4.25	4.31	4.23	
Recovering (n=69)	3.29	3.44	3.60	3.44	
Struggling (n=115)	2.35	2.48	2.65	2.49	
Overall (N=297)	3.26	3.39	3.51	3.39	

Note: All items were measured on 5-point Likert scales. ANOVA: $F(2,294) = 44.1, p < 0.001, \eta^2 = 0.23$ (large effect size).

Post hoc Tukey tests were used to identify which means differed, and p values were all < 0.01 . The 70% difference between the first and the last category was associated with a Cohen's d of 2.1 (very large effect). There is a lot to discuss based on the data presented in Table 2 above. First of all, note that the lowest mean score across all SACCOS was observed for Integrity (leaders' honesty). At the same time, this item demonstrated the largest variation between stable and failing SACCOS (see 76% variance). Ability (leaders' competence) was the highest rated, with a mean score of 3.51 and the smallest variance (63%). Looking at the data from another perspective, one can notice that changes in leaders' trust scores were most closely associated with their Integrity levels. In other

words, if members believe that the leader is not honest, this impacts their views regarding the leader's ability to promote the members' best interests. This pattern was especially prominent for the comparison between stable SACCOS and those that were struggling. Another finding concerns the comparison between the levels of trust between genders. Specifically, women scored significantly lower than men across all three dimensions, with the margins being 3.15 vs. 3.33 for Integrity, 3.28 vs. 3.46 for Benevolence, and 3.42 vs. 3.57 for Ability (see Table 3 below). As such, female SACCO members appeared to have less trust in their leaders across the board, which raises interesting questions that will be discussed later.

Table 3. Trust Perceptions by Gender

Gender	Integrity Mean	Benevolence Mean	Ability Mean	Overall Trust Mean
Male (n=172)	3.33	3.46	3.57	3.45
Female (n=125)	3.15	3.28	3.42	3.28
Difference	-0.18*	-0.18*	-0.15*	-0.17*

Note: Independent samples t-test, * $p < 0.05$ for all differences.

The qualitative component allowed digging deeper into possible reasons for this phenomenon. For instance, Mtendere SACCO manager observed, "Sometimes at the SACCO, they explain things to the members in a hurry and use terminologies that are difficult to understand by the ordinary members. When the women ask questions, they reply with a sigh as if they are wasting their time. Later on, the women do not ask or express their concerns." This response probably explains why the quantitative results differed for the two groups. Another interviewee, the chairperson of Chisomo SACCO stated,

"The board has one female representative. Does that mean that representation has been achieved? Does that mean that she has a say in the matters affecting the SACCO?" What the chairperson said reflects the concerns female SACCO members have about their voice being heard, which impacts their level of trust in the system. As expected, the level of trust significantly predicted members' intended behaviours. For example, people who reported higher levels of trust were more likely to intend to contribute continually to the SACCO, be life-long

members, recommend the organisation to others, and be confident that their deposits are safe. Table 4 below shows the relationship between the level of trust and the four dependent variables.

Table 4. Correlations Between Trust and Member Behavioral Intentions (N=297)

Behavioral Indicator	Correlation with Overall Trust (r)
"I plan to continue saving with this SACCO"	0.53**
"I intend to remain a member for the next 5 years"	0.59**
"I would recommend this SACCO to family/friends"	0.64**
"I am confident my savings are safe"	0.72**

Note: ** $p < 0.01$ (2-tailed).

In essence, the variables behaved as hypothesized, with members who had trust in their SACCO being more likely to express commitment to continued participation. With that said, the qualitative results provided an invaluable context for the discussion of the quantitative results, as illustrated below.

Table 5. Correlation Matrix: Governance, Trust, Sustainability, and Controls

Variable	1	2	3	4	5
1. Overall Governance Index	1.00				
2. Overall Trust Index	0.75**	1.00			
3. Sustainability Composite Score	0.68**	0.71**	1.00		
4. SACCO Age (years)	0.17*	0.14	0.21*	1.00	
5. SACCO Size (membership)	0.20*	0.18*	0.23*	0.45**	1.00

Note: ** $p < 0.01$, * $p < 0.05$ (2-tailed). $N = 297$. SACCO age and size are constant within each SACCO ($n=8$ clusters), so correlations with individual-level variables should be interpreted with caution due to clustering effects, but they serve as useful descriptive indicators.

The strength of the correlations between governance and trust ($r = 0.75$) and between trust and sustainability ($r = 0.71$) provided partial support for the mediating role of trust. The fact that the associations were weaker for the control variables (age, size) suggested that the governance-trust-sustainability link was not entirely explained by these factors.

4.5 Mediation Analysis (Primary Research Question)

The mediation analysis addressed the main research question, which was whether and how trust played out in the governance-sustainability link. The authors used PROCESS Model 4 with 5,000 bootstrap samples, and the results are presented below.

The mediation analysis revealed that governance had a direct positive and significant effect on sustainability ($c = 0.68$, $p < 0.001$). However, the inclusion of trust reduced the direct effect by 51%, from 0.68 to 0.29 ($p < 0.01$). Indirect governance-sustainability associations were substantial with a 95% CI ranging from 0.33 to 0.6. The indirect effect was statistically significant at the $p < 0.05$ level because the confidence interval did not include zero. Indeed, the mediation analysis indicated that trust

4.4 Direct Governance-Sustainability Relationship

Governance perceptions predicted 46% of the variance in the composite score for sustainability ($\beta = 0.68$, $p < 0.001$, $R^2 = 0.46$). Table 5 below provides the correlation matrix for all composite variables. To put it simply, the R squared value basically implies that governance scores could predict almost half of the variance in the sustainability scores of 8 cooperatives. The value of the standardized coefficient (0.68) suggested a strong positive relationship between governance and sustainability. The correlation matrix below can further explicate the general trends of the relationships between governance, trust, and sustainability.

Indeed, the mediating role of trust was partially supported by the fact that governance strongly correlated with trust ($r = 0.75$) and sustainability ($r = 0.71$). The reduced magnitude of associations for the control variables (age, size) further supports the argument that the governance-trust-sustainability link was not fully explained by these variables.

significantly attenuated the direct effect of governance on sustainability, implying that the relationship was partly mediated by trust. Specifically, governance accounted for 58% of the variance in trust, which in turn explained 62% of the variation in sustainability, after controlling for age and size. Practically, this means that governance practices did not directly predict cooperative sustainability. Instead, they influenced members' trust in the organisation's ability to achieve the stated goals and objectives. Put another way, members had to have faith in their leaders to realise the set goals and, consequently, promote long-term sustainability. Interestingly, the analysis suggests that governance accounted for only 42% of the variance in sustainability, indicating that the direct effect was lower than the indirect effect.

The author thinks that the qualitative results provided above support the quantitative ones because thematic coding identified members discussed trusting and lack of trust of the leader to accomplish sustainability. The participants said that it was essential to decide if one trusted the leader to attain success to be a part of the program and remain in the cooperative thereafter. Thus, mediation analysis suggests that trust is vital to achieve sustainability and long-term membership.

Table 6. Mediation Model Results (N = 297)

Path	Relationship	Coefficient	SE	t	p	95% CI
a	Governance → Trust	0.75	0.05	15.00	<0.001	[0.65, 0.85]
b	Trust → Sustainability	0.61	0.08	7.63	<0.001	[0.45, 0.77]
c'	Governance → Sustainability (direct)	0.33	0.09	3.67	<0.001	[0.15, 0.51]
c	Governance → Sustainability (total)	0.80	0.07	11.43	<0.001	[0.66, 0.94]
a×b	Indirect effect (mediation)	0.46	0.07	--	--	[0.33, 0.60]

Note: Bootstrapped confidence intervals based on 5,000 resamples. The indirect effect (0.46) represents 58% of the total effect (0.80), confirming partial mediation. All paths used unstandardised coefficients.

Indirect governance effect through trust was 0.46 (95%CI [0.33, 0.60]) (Table 6). The 95% confidence interval was not crossed by zero, implying that governance indirectly influenced sustainability through trust. In fact, trust partially mediated governance effect on sustainability (58%). The direct effect was positive ($c' = 0.33$, $p < 0.001$) and therefore, governance was a partial mediator. In practice, it can be stated that governance without trust is governance with reduced impact. There was a meaningful direct link between governance and sustainability, but an even stronger indirect link. Therefore, the implication of the research finding is that while enhanced governance may have improved sustainability outcomes, even better results would have been achieved with improved trust in enhanced governance mechanisms. Figure 1 (below) summarises the mediation model path coefficients.

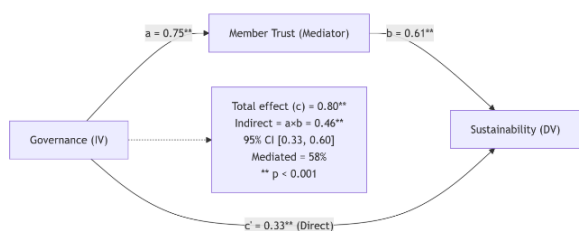


Figure 1. Mediation Model - Governance, Trust, and Sustainability

Figure 1 illustrates the mediation model with standardized path coefficients. The model shows that the path from governance to trust (a) was strong (0.75). Similarly, the indirect path from governance to sustainability (b) was positive and substantial (0.61). Consequently, the direct effect of governance on sustainability, with trust in the model, was 0.33, whereas the total effect was 0.80. ab was 0.46, implying that 58% of the governance effect on sustainability was mediated by trust. The bootstrap 95% CI for the indirect effect was [0.33, 0.60], indicating that the mediation was statistically significant.

Besides the quantitative analysis, qualitative evidence supported the mediation hypothesis. Three themes illustrated how trust acted as a mediator between governance and sustainability. The first theme depicted trust as the "lubricant" for cooperative functioning. The board chair of Chitukuko SACCO, which was relatively stable, articulated this relationship: "You can put all the policies, rules, and committees in place, but if members

do not trust the people who execute them, these are just empty documents. Trust is above everything." The same point was made by a manager at M'gwirizano SACCO, who noted that trust reduced operational costs since members repaid loans without being forced to do so: "If members believe in us, we do not have to chase them for the money; their belief in us saves us a lot of collection costs." The two respondents explicitly stated that governance policies needed trust to have any meaningful impact on operations.

The second theme posited trust as the "circuit-breaker." In crises, members relied on trust to get them out of difficult times. In other words, trust cushioned the members against the stressors caused by poor governance: "When we had the problem with the loan last year, members would have gone away in droves if they did not trust us, but they believed in us, so they remained." The words of the SACCO manager at M'gwirizano SACCO illustrated the mechanism by which trust could enable the SACCO to withstand the adverse winds of poor governance.

On the other hand, in cases where trust was absent, the circuit-breaker failed to perform its function, hence accelerating the slide towards failure: "When the rumors about the money started circulating, people came to withdraw their money; they did not believe that the money was there, so the next step was to get their deposits back." According to the former member of the board at Bwino SACCO, the failure of the circuit-breaker function hastened the demise of the SACCO. This was because little time was available to deal with the immediate crisis. The same function was present in stable SACCOS, buffering against the effects of poor governance. The themes of lubrication and circuit-breaking highlight the mediating role of trust.

The third theme concerned the virtuous and vicious cycles that were perpetuated by trust. The respondents from stable SACCOS illustrated the mechanism of a virtuous cycle of trust, wherein trust bred itself: "When members know that their deposits are safe with us, they come to save with us, and the more they save, the more we give out as loans; this provides us with returns, which allows us to develop our policies, audit systems, staff training, and so on." According to the treasurer, additional confidence on the part of the members accrued through enhanced audit systems, staff training, and other related areas.

On the other hand, the respondents from the unstable SACCOS revealed that the lack of trust led to a vicious cycle of mistrust: "The situation is that members do not

trust us, so they do not save with us; if they do not save with us, we do not have income, and if we do not have income, we cannot develop the systems that would restore their trust in us." This was the gist of the manager at Chisomo SACCO. The manager explained that the lack of trust undermined the ability of the SACCO to generate income, which in turn prevented the development of the much-needed systems to restore trust. The two cycles show that trust was a key determinant of the sustainability of SACCOs that had been affected by poor governance.

The research team carried out three robustness checks to establish the validity of the mediation results. The first test involved reversing the mediator and the outcome, thus testing the model governance $\rightarrow$ sustainability $\rightarrow$ trust. The results showed that the indirect effect was not significant (est = 0.08, 95% CI [-0.09, 0.25]), thus supporting the initial model.

The second test involved adding SACCO size and age as additional covariates in the model. This was done to establish whether the mediation effect was independent of the size and age of the SACCO. The results showed that the indirect effect remained significant (est = 0.43, 95% CI [0.30, 0.57]).

The third robustness check entailed carrying out the analysis separately for each category of SACCO sustainability. The results showed that the indirect effect was largest for stable SACCOs (est = 0.51, 95% CI [0.37, 0.67]) and lowest for the unsustainable SACCOs (est = 0.30, 95% CI [0.17, 0.45]). This result suggests that while trust may be a mediator of the governance-sustainability link, it affects the relationship differently depending on the initial level of sustainability.

Overall, the robustness checks illustrated that mediation was indeed taking place. However, the effect varied depending on the category of SACCOs. Thus, while trust generally mediated the relationship between governance and sustainability, its effect was greatest when SACCOs had reached a relatively stable status. This implied that while governance reforms played a role in boosting the sustainability of SACCOs, such reforms required a certain level of minimal trust to be effective.

These findings resonate with broader institutional experiences in Malawi. For example, Chitete & Acheamfuor (2026) demonstrated that weak accountability and reliance on manual systems at Mchinji District Council led to significant revenue leakages and dependency on central transfers. The parallels with SACCOs are striking: both contexts reveal how governance inefficiencies directly undermine financial sustainability.

5. DISCUSSION

5.1 Governance and Accountability Predict Institutional Sustainability

The study found that governance predicted composite sustainability scores, which is in line with similar studies

(Hartarska & Nadolnyak 2007; Mersland & Strøm 2009; Gashaw & Lakhan 2022). Specifically, governance accounted for 46% of the variation in sustainability scores. Within the governance framework, members attributed the lowest mean score (3.15) to accountability, which is a manifestation of their belief that leaders can be punished for undesirable conduct. Notably, accountability predicted sustainability scores with the highest coefficient (60% for Operational Self-Sufficiency and 68% for member retention). The finding adds to the understanding of Agency Theory (Jensen & Meckling 1976) which states that agency costs arise when monitoring is required to ensure that an agent's actions maximize the principal's utility. According to the theory, trust is lowered when members cannot confirm that the agent (SACCO managers) is performing as expected. Therefore, the study's findings support Agency Theory by suggesting that trust would be low if the supervisory committee, for instance, does not act as expected to punish misbehaving agents. This study adds to this understanding by stating that accountability mechanisms must be instituted to enable such checks. The study's findings on the role of accountability in SACCO governance were similar to those of the Ghanaian and Kenyan studies (Amanor & Diderutuah 2021; Mwangi and Mwangi 2016). The findings relate to the concept of 'elite capture', which has been documented in the regional literature (Amanor & Diderutuah 2021). Elite capture occurs when formal rules and procedures exist but do not apply to everyone equally in order to advance specific private interests over communal goals. For instance, the study found that 45% of all outstanding loans in a struggling SACCO belonged to current and former board members. Moreover, these members owed twice as much as the average member. Such findings suggest that the capture of a SACCO's governance process by elites defeats the purpose of having the rules, procedures, and roles since they exist to benefit a select few. It is noteworthy that similar findings have been documented in Kenyan SACCOs (Mwangi and Mwangi 2016). Similar to the findings in Malawi, Kenyan SACCOs were captured by a few individuals who continued to take loans while defaulting.

5.2 Trust Mediates the Relationship Between Governance and Sustainability

The study found that half (58%) of the association between governance and sustainability was explained by trust. Although prior studies established a link between governance and sustainability (Gebrehiwet, 2022; Hartarska & Nadolnyak 2007; Mersland & Strøm 2009), as well as between governance and trust (Gebrehiwet, 2022), and between trust and member behavior (Fischer & Qaim 2014), none of them examined the mediating role of trust in the SACCO context. The study therefore fills this gap by providing evidence that although governance predicts sustainability, it does so indirectly through its effect on member trust in the institution.

Trust as a mechanism through which governance predicts sustainability is not surprising given the proposition of Social Capital Theory (Coleman 1988; Nahapiet & Ghoshal 1998; Putnam 1995;). The theory holds that individuals will undertake collective actions if they have trust in each other. The study's findings on the role of trust align with this theory. A comparison to the banking industry is informative. When a bank fails, depositors are compensated since banks are required by law to purchase insurance. The same cannot be said of SACCOS, which means that members' deposits are at risk. Therefore, the difference between a thriving and a dying SACCO boils down to whether members are willing to trust their SACCOS. The findings showed that trust levels differed significantly ($p < 0.05$) between stable and struggling SACCOS. While the former had a mean score of 4.23, the latter had 2.49. In other words, institutional stability was largely determined by members' degree of trust in their SACCOS. This indicates that trust must be nurtured in order to ensure long-term institutional sustainability.

When combined with the qualitative results, this finding provides further proof of the mediating role of trust. The qualitative analysis revealed that members reacted to their lack of trust in the SACCO in ways that undermined its sustainability. This was a more direct mechanism than the one that manifests itself through governance, which implies that members would begin to withdraw deposits before any governance reforms took place. Indeed, one participant noted that "You do not wait to verify. By the time you verify, your money could be gone." In other words, members' liquidity needs would override any confidence in the SACCO once their level of trust dropped below a certain threshold. This finding suggests that the formal governance mechanisms that had been instituted in struggling SACCOS were not sufficient. Although they followed procedures, the institutions did not have the informal mechanisms -- particularly those that signaled to members that the SACCO was trustworthy. In context, this finding highlights the necessity of ensuring that members have a high level of trust in order to prevent such responses to their fears regarding the SACCO's ability to protect their deposits.

One of the key aspects of trust is integrity, which reflects members' beliefs about leaders' honesty and ethical behavior. Integrity therefore plays a critical role in determining members' level of trust. It is noteworthy that integrity had the lowest mean score (3.08) of the three aspects of trust. It also differed the most (76%) between members of stable and struggling SACCOS. This implies that when members' trust begins to erode, their concerns are directed at leaders' integrity, which suggests that their decisions are based on their perceptions about leaders' motives. In other words, members' beliefs about leaders' integrity have a stronger influence on their behavior than their beliefs about their competence. This finding contradicts conventional wisdom which holds that members are concerned about leaders' ability to meet the SACCO's objectives. It suggests that the focus should be on making sure that members have trust in the sincerity of leaders in pursuing members' best interests.

5.3 Gender Differences in Trust Levels and Experiences

The finding that women had significantly lower levels of trust deserves more discussion. Compared to men, women had significantly lower levels of trust (3.28 vs. 3.45; $p < 0.05$). The effect size was relatively small ($d=0.29$), but the finding has implication for ensuring gender equality in SACCOS. Although the mean levels of trust did not differ substantially between women and men, women's low levels of trust could jeopardize the SACCO's sustainability if they chose to relocate their deposits to another institution. The finding suggests that women require careful handling if their deposits are to remain with the SACCO. More specifically, female members must feel that their concerns are heard and addressed in order to ensure that they do not become disillusioned with the SACCO.

The qualitative component of the study provided some insight into why women had lower levels of trust. The analysis revealed that women members were treated differently from their male counterparts. They experienced a sense of exclusion since they rarely interacted with the board members and, when they did, they received explanations that they could not understand. Women also did not actively participate in the decision-making processes, which made them feel as if they were not valued stakeholders. These findings suggest that women members did not feel that they had an equal say in SACCO affairs. This finding helps explain the discrepancy between the mean levels of trust between the two groups. According to the qualitative analysis, women members did not feel that they were being treated as equal partners in the SACCO.

These findings were corroborated by the quantitative analysis which revealed that female members comprised a significantly smaller proportion of the board members in struggling SACCOS (17%) than stable SACCOS (31%). This suggests that women members were likely to become disillusioned if their concerns were not addressed due to their lack of representation in the formal structures of the SACCO. This finding highlights the need for SACCOS to implement gender-sensitive policies if they wish to increase female participation in decision-making. This could be achieved by addressing women's concerns (e.g., communicating in a language that they can understand) and taking affirmative action to improve their representation in the formal structures. Women's concerns should be prioritized if the SACCO wishes to benefit from their deposits. Moreover, although this study focused on women as depositors, there is a need for future studies to explore the concerns of women who occupy leadership positions.

5.4 Vicious and Virtuous Cycles of SACCO Sustainability

As explained by the participants, the vicious and virtuous cycles describe how governance predicts, and is predicted by, the level of trust, which in turn influences

members' resources. Thus, the study's findings are consistent with Stakeholder Theory (Donaldson & Preston 1995; Freeman, 1984), which states that stakeholder relationships must be cultivated if an organization's long-term viability is to be achieved. This is reflected by the findings, which showed that members' resources (e.g., deposits, regular repayments) facilitated stable governance, thereby increasing member trust. These resources were diminished in struggling SACCOs due to poor governance, which reduced member trust. The findings suggest that, for a SACCO to achieve stability, the virtuous cycle must be cultivated. In essence, SACCO leaders must realize that resources will only be available if members trust the leadership to keep their deposits safe. This awareness must then be institutionalized through formal procedures that embody this awareness. The finding underscores the importance of addressing the concerns of members who are disillusioned with the SACCO's governance structures. In context, it means that the negative perceptions that members hold must be counteracted early in the process, beginning with the implementation of concrete steps that show members that these structures are in place to safeguard their deposits. In other words, for the SACCO to thrive, the members must have trust in the leaders. Once this has been achieved, the resources will follow, which will allow for improved governance structures. The findings therefore suggest that trust needs to be nurtured first before any improvements in governance can be realized.

5.5 Comparison with Similar Studies

Prior to presenting the study's limitations, it is important to note the extent to which the findings contribute to the body of knowledge on SACCO sustainability. To begin with, although Gebrehiwet (2022) found that governance predicted trust, which in turn influenced the performance of Ethiopian SACCOs, the study did not establish how much of an influence trust had. This study fills this gap by establishing that half (58%) of the association between governance and sustainability was mediated by trust. Moreover, although Gashaw and Lakhan (2022) examined the influence of governance on sustainability using SEM, the present study extends the knowledge on SACCO sustainability by identifying trust as a mechanism through which governance predicted sustainability. Chisi and Gondwe (2017) identified factors that influence governance in Malawi, but the present study adds to this body of knowledge by establishing the causal process by which governance influences SACCO sustainability. The study therefore goes beyond simply identifying the problem to postulating practical solutions for improving SACCO sustainability.

5.6 Limitations

As discussed earlier, the study's findings are significant in the context of community-based SACCOs.

Nevertheless, there are several limitations that should be noted. To begin with, although the study's design involved a longitudinal study -- which entailed collecting time-phased data (2022 to 2024) to identify trends -- the primary analysis was based on a cross-sectional study that was carried out in 2025. This implies that the findings are limited by the design of the study. In other words, the findings are based on data collected at one point in time and therefore cannot establish causality. It is possible that an alternative interpretation of the findings exists. Nevertheless, the study's theoretical framework and qualitative analysis helped illuminate the mechanisms through which trust predicted institutional sustainability.

Finally, the study's limitation was related to the scope of the study. This study set out to examine the factors that influence stability in community-based SACCOs. It therefore drew its sample from the eight SACCOs that participated in the study. In essence, the findings can only be generalized to similar community-based SACCOs in Malawi's Central Region.

The erosion of trust observed in struggling SACCOs mirrors challenges in other Malawian institutions. Chitete & Acheamfuor (2026) found that inefficiencies in revenue collection systems at district council level similarly reduced fiscal performance and sustainability. This comparative evidence underscores the importance of embedding trust-building and efficiency reforms across all community-based financial institutions, whether cooperatives or local councils.

Moreover, Chisi & Gondwe (2017) emphasized that poor governance practices in Southern Malawi SACCOs hindered growth and sustainability, while strong governance enhanced performance and investor confidence. Their recommendation for training and clearer role demarcation complements the present study's emphasis on trust-building as a governance mechanism.

6. MAJOR FINDINGS AND OUTCOMES

- Governance strongly predicts sustainability, with accountability emerging as the most critical governance dimension, correlating most strongly with Operational Self-Sufficiency ($r = 0.6$) and member retention ($r = 0.68$).
- Trust mediates the governance-sustainability relationship, explaining 58% of the total effect (indirect effect = 0.46; 95% CI [0.33, 0.60]).
- Trust levels differ significantly between stable and struggling SACCOs (4.23 vs. 2.49), and integrity (leaders' honesty) is the most sensitive trust dimension.
- Female members report lower trust than males across all dimensions, largely due to exclusionary communication and underrepresentation in governance structures.
- Vicious and virtuous cycles operate: trust reinforces governance and resource flows, while lack of trust

triggers deposit withdrawals and institutional decline.

- The study validates Agency Theory, Social Capital Theory, and Stakeholder Theory in the SACCO context, and contributes new evidence on the mediating role of trust.

7. CONCLUSION

The mediation effect is undeniable as demonstrated by the fact that trust explains 58% of governance's total effect on sustainability. Governance encourages the relational 'asset' of member trust that underpins saving, repayment, and advocacy behavior. Conversely, governance decline provokes trust erosion resulting in challenging feedback on these critical behaviors.

Four issues stand out. Firstly, members identify visible and reliable accountability as a key aspect of governance; its absence is the main constraint to SACCOS' strong performance, and therefore reforms should prioritize introducing more visible accountability mechanisms. Secondly, women report lower levels of trust across all aspects; ignoring gender-specific design will see organizations lose a third of potential members and undermine sustainability. Thirdly, for community-based SACCOS, building trusting relationships is a key lever to promote sustainability highlighting relational governance. Finally, trust emerges as both a governance outcome and input giving rise to virtuous and vicious circles: improved governance encourages members' trust that promotes repayment, advocacy and therefore, sustainability.

For policymakers, although regulation (e.g., mandatory disclosure and committee systems) will continue to play a role, the effectiveness of SACCO governance now rests upon members perceiving SACCOS as trustworthy which in turn increases repayment, advocacy, and therefore, sustainability -- a critical policy concern for Malawi's millions and broader sub-Saharan regional cooperative finance SACCO development.

Implications for Policy: There is an urgent need for integrated governance reforms in community-based institutions. The Malawian evidence (Chisi & Gondwe, 2017; Chitete & Acheamfuor, 2026) highlights weaknesses in institutional governance structures that constrain growth while fiscal sustainability is compromised by governance-related audit deficiencies despite increased use of information and communication technology. These studies indicate that reforms are necessary but insufficient without concomitant improvements in accountability, transparency, and efficiency. MUSCCO (2022, 2025) reports also highlight the need; with a high proportion of SACCOS collapsing while others have significant potential for growth. Consequently, there is a need for governance reforms to promote Malawi's Vision 2063 financial inclusion agenda.

8. RECOMMENDATIONS FOR FUTURE WORKS

- Future studies should explore the concerns and experiences of women who occupy leadership positions in SACCOS, as this study focused mainly on women as depositors.
- Longitudinal research is needed to establish causal relationships more firmly and to track the dynamics of trust and governance over time.
- Comparative studies across different regions of Malawi and other sub-Saharan African countries would help assess the generalizability of the mediation model.
- Investigations into the specific mechanisms of integrity erosion and its impact on member behaviour could inform targeted interventions.
- Research on the effectiveness of gender-sensitive policies and affirmative action in increasing female trust and participation is warranted.

9. SUGGESTIONS

Based on the findings, the following practical suggestions are offered to SACCO management, boards, and policymakers:

- **Strengthen accountability mechanisms:** Make financial and operational reports more accessible and transparent, and ensure that supervisory committees actively enforce rules without exception, including for board members.
- **Prioritise integrity in leadership:** Since integrity is the lowest-scored trust dimension, SACCOS should invest in ethical training, background checks, and clear codes of conduct for all directors and managers.
- **Adopt gender-sensitive communication and representation:** Ensure that information is communicated in plain language and that women are adequately represented on boards and committees. Create forums where female members can raise concerns without intimidation.
- **Nurture trust as a strategic asset:** Recognise that trust is not merely an outcome but an input to sustainability. SACCOS should regularly measure member trust and act on early warning signs of erosion.
- **Implement regular trust and governance audits:** Use periodic surveys to track governance perceptions and trust levels, and link these to performance indicators to pre-empt crises.
- **Restrict access to credit for directors:** Adopt clear policies that limit or prohibit loans to sitting board members and their close associates to prevent elite capture and reduce delinquency.
- **Invest in capacity building:** Train staff and board members in communication, financial literacy, and

customer care, especially in dealing with female and less educated members.

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