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Analysis of the Influence of Governance Quality on the Performance of Savings and Credit Cooperatives in Togo

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ABSTRACT

The objective of this paper is to analyze the influence of governance quality on the performance of savings and credit cooperatives in Togo. To do so, a governance quality index of fifty-five savings and credit cooperatives was calculated over the period from 2013 to 2019. The data was collected from the supervision unit of microfinance institutions and their managers. The results show that governance quality has a significant and positive effect on the financial performance of cooperatives. It positively influences the number of active borrowers and the percentage of female borrowers. However, it has a negative relationship with loan size. This paper presents the synthetic nature of governance quality in the Togolese context with a dynamic panel data model. It shows that improved governance has a positive impact on performance. It constitutes a tool for promoting good governance practices for the various actors involved in the microfinance sector and even a basis for developing a good governance charter for this sector.

Keywords: savings and credit cooperative, governance quality, performance, Togo.

INTRODUCTION

Over the past few decades, microfinance has evolved considerably and has become an integral part of the development policies of many countries around the world. In recognition of the contribution of microcredit to poverty alleviation, the United Nations General Assembly declared 2005 the "International Year of Microcredit". This spotlight is intended to give impetus to microcredit programs around the world. To date, microfinance and its impact go far beyond the simple granting of microcredit to poor people excluded from the traditional banking system. These services include loans, savings mechanisms, insurance, transfers, and even "micro-pensions". The millions of microfinance clients around the world prove that access to financial services enables poor people to increase their household income, acquire assets and reduce their vulnerability to crises. Microfinance also helps reduce the extreme vulnerability that characterizes the daily lives of poor households (Morduch and al., 2003).

Despite the success and popularity of this financial and social inclusion tool, there have also been failures around the world due to bankruptcies and crises that call into question their sustainability. Many of these institutions have failed to reconcile their dual objectives. Mayoukou (2017), notes cases of bankruptcy in several countries including Morocco (2009), Nicaragua (2009), Bosnia-Herzegovina (2008), the state of Andhra Pradesh in India (2010), Zambia (2008), Pakistan (2008). The author highlights spectacular bankruptcies in two countries. In Cameroon, he cites the case of the microfinance savings and credit cooperative (COOPEMIF) in 2010 and the Coopérative financière de l'estuaire SA (COFINEST) in 2011.

Similar facts were also noted in 2013 in Congo-Brazzaville regarding Holy Service, Caisse pour le commerce et le développement (CCD), Congolaise de caution mutuelle (COCAM), Crédit HLM SA, SIDE SA, Mutuelle de crédit d'aide sociale (MUCASO). West Africa was not spared. Some networks went bankrupt, such as UCECB in Burkina, the first network in French-speaking Africa (1969); others were in difficulties, such as FECECAM-Benin, PADME-Benin, and FUCEC-Togo. As of December 31, 2021, 14 microfinance institutions were under provisional administration, distributed as follows: Benin (7), Burkina (2), Côte d'Ivoire (1), Niger (2), Senegal (1), and Togo (1) (BCEAO, 2022). Thirty-four (34) approvals were withdrawn from microfinance institutions in Togo during the period from 2017 to 2019. Honlonkou (2010) showed that the control system of these microfinance institutions has design and implementation problems that explain poor performance results. In another study of the financial sector crisis, Fischer and Desrochers and Fischer (2002) identify agency problems related to the "manager-member" conflict as the main cause of financial cooperative failures. In the case of cooperatives, both the diffusion of membership and the lack of members' skills that can limit control over their activity, managers generally enjoy a large amount of discretionary space are the causes. Acclassoto and Goudjo (2012) point out that the activities of microfinance institutions require a mode of governance that guarantees their sustainability. Unfortunately, these authors note that the modes of governance put in place lead to the accumulation of counter-performances and are at the origin of the crises observed. These governance practices explain the crisis in the microfinance sector today. Governance is one of the primary factors whose quality determines the viability of a microfinance institution. The quality of governance is denounced everywhere. Thus, these studies highlight an interdependence between the quality of governance and the performance of microfinance institutions. In the study by Wele (2009) on the quality of microfinance institutions in Benin, it was found that the quality of the governance system varies significantly depending on the institutional form observed. However, he notes a deterioration in the quality of governance throughout the sector. While direct credit institutions seem to have more effective governance, mutual or cooperative institutions and NGOs or projects with a microfinance component still face significant challenges in improving the quality of their governance. Tlili (2019) undertook a similar study on a sample of 18 MFIs belonging to Arab countries in the MENA region over the period 2007-2012. The analysis of the governance index shows that the governance quality of MFIs is closely related to the observed institutional form. It found a significant and negative effect between the governance index and two aspects of performance (financial and social).

Our study is an extension of this work, taking into consideration the specificities of savings and credit cooperatives. Its objective is to analyze the influence of governance quality on the performance of savings and credit cooperatives in the togolese context through the construction of a governance index. Thus, we briefly present the literature review and hypotheses, the methodological approach, and the results.

LITERATURE REVIEW AND HYPOTHESES

Theoretical framework of corporate governance

Corporate governance has become a generic concept used by political scientists, managers, politicians, international organizations, and many others to describe a mode of management involving a diversity of actors (Ndengutse and al., 2012). Attempting to define a concept as broad and multifaceted as governance presents a definite challenge, a bit of folly perhaps (Lacroix and Pier-Olivier, 2012). It would therefore be simplistic to give a single definition to

show this broad and multifaceted aspect of corporate governance even if the 1992 Cadbury Report definition seems according to Madhar (2016) commonly accepted: "Corporate governance is the system by which companies are directed and controlled. The governance structure organizes the distribution of rights and responsibilities among the various participants in the company, such as the Board, management, shareholders, and other stakeholders. It defines the rules and procedures for making business decisions. In doing so, it establishes the mechanisms through which the company's objectives are set, as well as the means to achieve these objectives and control their achievement. For Gomez (1997), corporate governance "designates the system of rules and measures that orders social actors in the double sense of the term: it puts the order in their actions and it gives them orders". Corporate governance, therefore, covers all the principles relating to the management and supervision of a company. It is about ensuring the balance of power within the company (Benaziz, 2017). Charreaux (1997) notes that these definitions are too focused on the manager. To go beyond the shareholder vision, which is very narrowly focused on the contribution of financial resources alone, to better understand the existing relationships between the governance system and value creation, he defines corporate governance as "the set of organizational mechanisms that have the effect of delimiting the powers and influencing the decisions of managers, in other words, that govern their discretionary space."

These different definitions show that the governance that originated in capitalist firms as a result of conflicts between the principal and the agent has been extended to all stakeholders. Trebucq (2003), points out that agency costs are not the only factors that can explain the impossibility of achieving superior performance. It would certainly be wise to integrate other elements into the analysis, such as the ability of individuals, their level of knowledge, their learning effects, and their level of information. Moving in the same direction, Charreaux (2002a) calls for going beyond the legal-financial vision, by taking into account the managerial and perceptual dimensions of shareholding, leading to a different explanation of ownership structures. Also, savings and credit cooperatives (SACCO) differ from other forms of enterprise and impose particular governance by their principles and values. The main characteristic that distinguishes the governance of the cooperative society from that of the capital stock company lies in the separation between ownership and management, and the mutualist principles of the non-profit type can lead to divergences in the behavior of management concerning the interests of the owner base (Di Salvo, 2002). This characteristic appeals to stewardship theory, whose conceptual richness lies in its explanatory power of sustainable value creation through organizational learning and innovation. Cornforth (2004) states that stewardship theory posits that managers want to do a good job and will act as effective stewards of an organization's resources.

Governance mechanisms in credit unions

Not all corporate governance mechanisms identified in the literature are equally important in the context of microfinance institutions. The heterogeneity within microfinance institutions means that the governance mechanisms used in bank-like commercial companies differ from those used in savings and credit cooperatives. In studying the relationship between governance and performance, many authors focus primarily on the characteristics of the board of directors (Godard, 1998; Adams and Mehran, 2003; Kpapper and Love, 2004). The board of directors is characterized by its composition, size, responsibilities of the board chair and CEO, specialized board committees, and duality. The composition of the board is concerned with skills, age,

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seniority, and the proportions of independent directors or employee directors. The specialized committees include the audit or accounts committee, the executive compensation, and appointment committee, and the ethics and/or governance committee.

In the context of microfinance institutions, several variables are selected for the governance assessment such as internal and external governance mechanisms. The internal governance mechanisms identified in the literature are the characteristics of the board of directors (size, composition, independence or not, length of the term of the president and members, separation of power between the general manager and the president of the board, etc.), the legal status, the credit methodology, the presence of institutional investors, and the membership of a network. External governance mechanisms include supervision and/or regulation, rating by rating agencies, external auditing, and market discipline (Hartarska, 2005; Mersland and Strøm 2009a). In their assessment of microfinance governance in sub-Saharan Africa, Tchakoute-Tchuigoua (2010) and Koudou (2013) chose various variables. They took internal governance mechanisms such as board composition (size and independence), credit methodology, ownership variables (legal status and the existence of institutional), and organizational form (membership or not in a network).

Internal governance mechanisms

For internal governance mechanisms, we have retained the characteristics of the board of directors imposed by the legislator as an internal control mechanism for the proper conduct of business. In addition to the board of directors, other variables are taken into account, such as the characteristics of the manager, and the characteristics of the decentralized financial system (credit methodology, internal control system, quality of information, membership in a network).

Board of Directors and DFS Performance

The board of directors is a preferred mechanism for internal control of management. According to Nam (2004), it is responsible for the effectiveness of governance mechanisms and specifically internal control systems. Zahra and Pearce (1991) propose the following four attributes of the board: composition, characteristics, structure, and process. Composition refers to the size of the board and the type of directors who sit on it. Characteristics refer to the individual profile of directors (age, education, academic background, values, and work experience) and the type of board (level of independence, mode of operation, etc.). Structure describes how the board is organized (number and type of committees, members of these committees, a form of leadership on the board, etc.). Process describes how decisions are made by the board (frequency of meetings, level of consensus, etc.). Similarly, the roles and recognition of the attributes of the board remain quite disparate. The characteristics retained in this study are size, diversity, gender of the chair, number of meetings, attendance, level of education, age, seniority, and expertise.

Characteristics of the leader

Lazonik and O'Sullivan (2000) argue that value creation is no longer limited to disciplining leaders, but involves the managerial capabilities, knowledge, and specific skills of leaders. The leader is usually recruited based on his or her skills, which are linked to professional experience, management practices, and training. Monchatre and Rolle (2003) believe that a

leader's skills, acquired in particular through training, can contribute to the positive transformation of organizations and introduce an increase in economic performance. Singh et al (2008) state that managers have different characteristics, particularly in terms of education and experience.

This competency is valued differently according to several approaches including that through operational skills. Liu and al, (2014) note that women leaders are a good channel of communication to connect with their clients and working women because of their different life experiences and perspectives. Agarwal et al. (2009) add to this literature by analyzing life cycle patterns in financial decisions related to credit behavior, they report that younger people make more mistakes than older people. Charreaux (1994) considers compensation policy as a governance mechanism to sanction or incentivize managers to act in the interest of shareholders or investors. In this regard, Adams and Mehran (2003) note that banks rely little on stock options as a means of compensating executives. The microfinance sector proceeds from the banking sector sharing almost the same realities; this implies that the observations of Adams and Mehran could be similar while taking into account the heterogeneity of the sector. The characteristics retained are related to gender, seniority, level of education, and remuneration. To these characteristics are added the manager's evaluation, frequency of reporting, and presence on the credit committee.

Characteristics of the microfinance institutions

The particularity of MFIs, unlike commercial banks, lies in their lending methodology. They can grant loans to people individually (individual loans) or people in a group (group loans). Group lending with joint and several guarantees is a method that allows the MFI to grant credit to people who do not have any material guarantee. Cuevas and Fischer (2006) consider the credit methodology (group lending or individual lending) as a governance mechanism to reduce conflicts arising from the credit relationship. For better management of credit risks, control systems (internal and external audits and controls) are put in place. According to Honlonkou (2009), this mechanism determines and locates responsibilities and eventually punishes those responsible for infractions to dissuade them from repeating them. Also, according to the provisions of the law regulating microfinance institutions in WAMU, decentralized financial systems are required to produce a quarterly report to the Supervision Unit, for a total of four periodic reports. The characteristics retained relate to the methodology of credit and its preponderance, the presence of the internal control system, the internal credit and risk management committee, and the quality of the information system.

External governance mechanisms

The choice of variables for the study takes into account the specificity of savings and credit cooperatives and the law in force in the microfinance sector in WAEMU. The external governance mechanisms taken into account are as follows: membership in a network, regulation or supervision (membership in the APSFD and compliance with prudential standards), external audit, and rating.

Quality of governance and performance

Most research on governance quality and firm performance has shown that governance positively influences performance (Black, 2001; Bauer et al., 2004; Brown and Caylor, 2006; Da Silva and Leal, 2008; Tobossi, 2018). In contrast, other studies have found a negative (Guest,

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2009) or neutral (Chang, 2003) relationship. Gompers et al. (2003) analyze the relationship between the GIM index and Tobin's Q. In the first step, the authors perform a simple correlation analysis and find no relationship between the GIM index and Tobin's Q. In the second stage, they measure the impact of this index on the firm's capital expenditures using linear regression and find a negative relationship between these two variables. Recall that the GIM index inversely measures the quality of governance. Thus, we can conclude that the results of Gompers et al. (2003) show a positive relationship between governance quality and performance. Following these authors, Villalonga and Amit (2006) apply the same index and the same performance variables to family firms in the Fortunes database in the United States. Using regression analysis, these authors reach the same conclusions. Brown and Caylor (2006) use their GOV-Score index that integrates the internal and external dimensions of governance. Their analysis is based on data collected on 1,868 companies in February 2003 in the ISS database. Using Pearson and Spearman correlation tests, they find a positive relationship between this index and Tobin's Q. In particular, they find that poorly governed firms perform less well and pay their shareholders fewer dividends. This result is confirmed by regression analysis. Da Silva and Leal (2008) focus exclusively on the Brazilian case. They construct their governance index: the Corporate Governance Index (CGI). This index is calculated based on 15 binary questions related to the dissemination of financial information, the composition and functioning of the board, the ownership structure, and the protection of shareholders' rights. The value of the index is equal to the sum of the points obtained by the company on all the questions. Companies with an index value of less than 5 have "poor governance", those with an index value between 5 and 9 have "less good governance" and those with an index value greater than 9 have "good governance". Through regression, they show that this index has a positive and significant effect on the economic profitability of the firm. Moungou Mbenda and Niyonsaba Sebigunda (2015) also used the governance quality index to assess the performance of 300 SMEs in Cameroon over the year 2011. Their analysis shows that the GQI value is relatively low for most SMEs. However, a positive and significant relationship between the GQI and SME performance indicators is observed.

The governance indices used in different contexts have tested the link between the quality of corporate governance and certain financial performance attributes. The results of various studies presented above show that there is a link between the governance index and financial performance measures. Indeed, most of these indices are designed to assess shareholder governance in trove as a signal to investors. These indices incorporate several corporate governance mechanisms in their calculation and it is difficult to know which ones significantly influence performance. In the microfinance sector, research aimed at constructing governance indices is rare. However, we can mention the work of Wélé (2009) who, inspired by the governance mechanisms in microfinance proposed by Briceno-Garmendia and Foster (2007), presents a model that makes it possible to calculate an aggregate index of governance quality. However, the link between this index and the performance of MFIs has not been addressed. de Tlilli (2019) in his study, found a significant and negative effect between the governance index and the different aspects of performance. Based on this reasoning, two hypotheses (2) follow:

- the quality of governance influences positively the financial performance of credit unions
- the quality of governance influences positively the social performance of credit unions.

METHODOLOGICAL APPROACH OF THE STUDY

Study sample

There were 76 microfinance institutions in Togo at the end of December 2019, of which nearly 70% were in Lomé. They are composed of 70 savings and credit cooperative or mutualist institutions (including 6 networks taken on a unit basis), 4 associations, and 2 companies. The data was collected from the Cellule d'Appui et de Suivi des Institutions Mutualistes ou Coopératives d'Epargne et de Crédit (CAS-IMEC) and from microfinance institutions over the period from 2013 to 2019. Over the period, only 60 IMECs provided their data and two IMECs were chosen per network, which gives a total of 66 IMECs in our sample. Following the data processing, 55 are usable questionnaires. The geographical distribution of the sample was based on the administrative division of Togo. The number of questionnaires for Lomé commune is 38, compared to 17 for the interior of the country.

Operationalization of the variables

The operationalization is linked to the retained variables, namely the governance variables, the performance variables, and the control variables (Appendix 1).

Financial performance variables

The Return On Assets (ROA), operational self-sufficiency (OSS), and portfolio, at risk (PAR) are the financial performance variables selected. ROA is the financial performance variable often used in microfinance (Hartarska, 2005; Lafourcade and al., 2006; Mersland and Strom, 2009; Bassem, 2009). It measures profitability regardless of the underlying funding structure of the institution and allows for comparisons between commercial and non-commercial MFIs (Bruett, 2005). Lin and Ahlin (2011) and Nawaz (2010) show the extent to which an MFI covers its costs, through its revenues, by comparing financial revenues to financial and operational expenses, including the provision for loan impairment. Operational self-sufficiency (OSS), the most commonly observed performance measure, is used to quantify the institutional performance and sustainability of MFIs (Bassem, 2009; Hartarska, 2005; Mersland and Strøm, 2009). CGAP (2009) recommends Portfolio at Risk (PAR) to assess the quality of the portfolio at risk in the banking sector and microfinance institutions. Portfolio at risk is measured by the ratio of outstanding loans with at least one 90-day past due date to total gross outstanding loans including those in default. The regulations in force in the WAEMU zone set the maximum value of the 90-day PAR at 3%.

Control variables

The age of the institution, the size of the institution, and the area of intervention are the control variables retained. Age has been used by several actors to assess performance in various aspects (Bassem, 2008; Kablan, 2009; Kasman et al., 2010; Tchakoute Tchuigoua and Nekhili, 2012; Solhi and Rigar 2014; Ellouz Ziadi et al., 2017; Djofouet, 2019; Kemdong Tenekeu & Nzongang, 2020). Pugh et al. (1968) emphasize that the seniority of an organization allows it to better formalize its behavior. According to Diop and Wade (2020), experience in terms of years of existence can be synonymous with a better knowledge of the threats and opportunities of its sector of activity, its strengths, and weaknesses.

Size, as measured by total assets, is according to some authors a factor determining the performance of microfinance institutions (Hartarska, 2005; Bassem, 2009; Mersland and Strom, 2009; Tchakoute Tchuigoua, 2010; Tchakoute Tchuigoua and Nekhili, 2012; Solhi and

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Rigar 2014; Ellouz Ziadi and al., 2017; Djoufouet, 2019; Douanla and al, 2019; Djontu and Nzongang 2019; Kemdong Tenekeu and Nzongang, 2020). For the latter, the larger size allows for economies of scale in contrast to Kablan (2009) who shows that large institutions are rather the least efficient. The Experian logarithm of total assets is often used in data analysis.

Microfinance has as its area of intervention the rural environment. It is this area that is home to many poor populations excluded from the traditional banking system. Some studies of the performance or efficiency of microfinance institutions use the area of operation or location (Kobou and al., 2010; Mondjeli, 2013; Djontu and Nzongang, 2019 and Kemdong Tenekeu and Nzongang, 2020).

Specification of the analysis model

The need to take into account the individual effect but also the time effect leads us to estimate the performance of the 55 financial cooperatives over the period 2013 to 2019. We used a dynamic panel model to analyze the influence between governance quality and performance. A linear type relationship was established between these variables to conduct regressions with the various estimation analyses that are required. Thus, the general linear model for panel data is as follows (Bourbonnais, 2009):

$Performance_{it} = \beta_0 + \beta_1\ IGOUV_{\ it} + \beta_2\ AGE_{it} + \beta_3\ SIZE_{it} + \beta_4\ ZONE_{it} + \varepsilon_{it}$

with : i = 1, ..., 55 : index allowing to go through the 55 MFIs ; t = 1, ..., 7 : index allowing to go through the 7 years of observation (2013 to 2019); Performance it : performance of MFI i observed in year t ; $\beta 0$: constant term for MFI i and εit : error term.

$$ROA_{it} = \beta_0 + + \beta_1 IGOUV_{it} + \beta_2 AGE_{it} + \beta_3 SIZE_{it} + \beta_4 ZONE_{it} + \varepsilon_{it} \quad (1)$$

$$OSS_{it} = \beta_0 + + \beta_1 IGOUV_{it} + \beta_2 AGE_{it} + \beta_3 SIZE_{it} + \beta_4 ZONE_{it} + \varepsilon_{it} \quad (2)$$

$$PAR_{it} = \beta_0 + + \beta_1 IGOUV_{it} + \beta_2 AGE_{it} + \beta_3 SIZE + \beta_4 ZONE_{it} + \varepsilon_{it} \quad (3)$$

$$Breadth_{it} = \beta_0 + + \beta_1 IGOUV_{it} + \beta_2 AGE_{it} + \beta_3 SIZE_{it} + \beta_4 ZONE_{it} + \varepsilon_{it} \quad (4)$$

$$Depth_{it} = \beta_0 + + \beta_1 IGOUV_{it} + \beta_2 AGE_{it} + \beta_3 SIZE_{it} + \beta_4 ZONE_{it} + \varepsilon_{it} \quad (5)$$

$$TP_{it} = \beta_0 + + \beta_1 IGOUV_{it} + \beta_2 AGE_{it} + \beta_3 SIZE_{it} + \beta_4 ZONE_{it} + \varepsilon_{it} \quad (6)$$

The governance quality index groups together several criteria assessed by binary values. It thus makes it possible to integrate the diversity of governance dimensions, while synthesizing the information and assessing the weight and impact (±) of each indicator in the index (Moungou Mbenda and Niyonsaba Sebigunda, 2015). We adopt the methodology of Wélé (2009) who speaks of the aggregate or synthetic governance index. Thus, to calculate the governance index, we transform the starting variables into binary variables (0 or 1) after calculating the median value. Those that are already binary variables are not modified. When the starting value is greater than or equal to the calculated median, the variable takes on the value 1. Otherwise, it takes on the value 0. By adding up the values of these 27 binary variables, we obtain the governance score for each MFI. The governance index (IGOUV) is obtained by dividing the governance score by the total number of variables considered (27). The MFI that obtains a

governance index close to 0 has a low governance quality, while the MFI that has a governance index close to 1 has a good governance quality.

RESULTS

Description of financial performance variables

The table 2 presents the descriptive statistics of the selected variables.

Table 2: Descriptive statistics of variables

Variable	Mean	Std. Dev.	Min	Max	Observation
Average OC	291422.94	818347.33	10158.784	7797124.3	385
TP	.985715	2.614826	.0317029	23.15343	385
Breadth	13507.41	21727.23	53	226943	385
Depth	40.68903	18.22489	5.77	100	385
ROA	21.28842	13.75899	.37	46.41	385
OSS	105.1199	49.82601	1.52	344.96	385
BY	9.314877	16.85842	.1	105.4	385
AGE	18.59221	8.564549	8	40	385
SIZE	1.98e+09	3.17e+09	4431171	2.64e+10	385

Source: Data from our surveys

Over the seven years of observation, savings and credit cooperatives granted a minimum loan of 10,158 FCFA compared to a maximum of 7,797,124 FCFA. The average loan granted over the period was 291,422 FCFA. The indicator used to measure social performance in terms of outstanding loans and which is generally accepted in the literature is the size of the loan or credit (Tchakoute Tchigoua, 2010). This is an indicator that allows us to assess the pursuit of the social mission of MFIs when the value of the loan size is less than one (01). The average loan size is 0.986. Also, it varies from .032 to 23,153. Overall, the savings and credit cooperatives studied lend to the disadvantaged social stratum. These results are not in line with Tchakoute Tchigoua (2010) who found an average loan size of 1.085. The results show that 83.12 percent of the savings and credit cooperatives have a loan size of less than 1. This implies that they particularly target the poorest, unlike the rest of the sample. When considering the percentage of female borrowers (depth), the average outreach is 40.68 percent with some disparities. The average number of active borrowers (breadth) is 13,507. Taking these two dimensions together to express social outreach (SP = Depth*Breadth), the results show that savings and credit cooperatives lend to an average of 5,094 women. The Microfinance Information Exchange (MIX) classifies MFIs into three categories based on the number of borrowers. An MFI is considered "small" if it has fewer than 10,000 borrowers; "medium" if it has between 10,000 and 30,000 borrowers; and "large" if it has more than 30,000 borrowers. According to this classification, 13.51% of the savings and credit cooperatives studied are large; 21.3% are medium, and 65.19% are small. The average profitability is 21% with a variation of. 37% à 46,41 %. These results show that the majority of SACCOs are profitable. The operational self-sufficiency of SACCOs varies from 1.52% to 344.96% with an average of 105%. These results show an operational insufficiency over the study period. The minimum and maximum values of the portfolio at risk are respectively 0.1% and 105.5%. The average of the portfolio at risk at 90 days is 9%. This result is three times higher than the norm of less than 3% and shows that there

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is still room for improvement in the quality of the credit portfolio. The savings and credit cooperatives examined have a certain maturity in the microfinance activity since the average age is 18.59 years. The most mature has 40 years of experience and the youngest has 8 years of experience. In addition, there are large disparities in the distribution of this variable. The results show that all the credit unions in the study are mature institutions. The average size of the credit unions is 1.976 billion with a standard deviation of 3.168 billion. The smallest size is 4,431,161 and the largest size is 26.36 billion. On the one hand, the need for space for training sessions before the establishment of the credit or training to strengthen the management capacities of credit beneficiaries in the exercise of their activities, and on the other hand, the national coverage of certain SACCOs, explain the importance of the total assets recorded. National coverage or the creation of branches (or service points) requires significant investments that increase the fixed assets of these institutions. Thus, we have SACCOs that have imposing buildings for the exercise of their activities.

Analysis of the governance index

The analysis of the governance index (IGOUV) was done through the presentation of the results and their assessment of the control variables. The following table shows the descriptive statistics of the governance index.

Table 3: Descriptive statistics for the governance index

Years	Better governed	Median	Mean	Min	Max	Std. Dev.
2013	39	0,481	0,52	0,22	0,78	0,12
2014	29	0,519	0,52	0,22	0,78	0,11
2015	28	0,519	0,52	0,22	0,78	0,11
2016	40	0,481	0,52	0,22	0,78	0,12
2017	40	0,481	0,52	0,22	0,78	0,12
2018	40	0,481	0,52	0,22	0,78	0,11
2019	28	0,519	0,52	0,26	0,78	0,11
IGOUV	244	-	.5185185	.2222222	.7777778	.1137797

Source: Data from our surveys

Over the observation period, the number of best-governed credit unions has moved up and down. The average governance index is 0.5185. The results show that the majority of the credit unions analyzed have better governance quality. The years 2015, 2019, and 2014 show the lowest numbers of credit unions (28 out of 55) that are better governed. Better governance quality does not mean exemplary governance here. Credit unions that qualify as better governed in a year are those whose governance index is higher than the median governance index for that year. This change in the average governance index, however, hides some disparities.

Profile of better-governed SACCOs by age

Table 4: Profile of the best- governed SACCOs by age

	Years	Median age	Less mature	More mature	Total better governed
AGE	2013	15	17	18	35
	2014	10	16	19	35
	2015	10	17	18	35
	2016	11	16	19	35
	2017	12	16	19	35
	2018	14	17	18	35
	2019	15	15	19	34
	Total	**114**		**130**	**244**

Source: Data from our surveys

For a more in-depth analysis, a classification of the best-governed SACCOs was carried Oi sabotage the best-governed SACCOs whose age is greater than or equal to the median are considered the most mature. The results show that the quality of governance is not necessarily linked to excessive maturity. There are no major differences between the most and least mature institutions in terms of governance quality. However, the older the SACCO, the better the quality of governance.

Profile of best governed SACCOs by size

Table 5: Profile of the best-governed SACCOs by size

	Years	Median size	Large SACCOs	Small SACCOs	Total
SIZE	2013	1965724556	14	25	39
	2014	1331929868	15	14	29
	2015	996325774	13	15	28
	2016	1718895352	23	17	40
	2017	1947252135	23	17	40
	2018	1289794396	22	18	40
	2019	1544992124	17	11	28
	Total	**127**		**117**	**244**

Source: Data from our surveys

The best-governed savings and credit cooperatives are divided into 127 larger sizes and 117 smaller sizes, i.e. 52.05% versus 47.95%. Beyond this apparent equality, it is worth noting that the larger size SACCOs have better governance quality throughout the study period except in 2013 and 2015. These data show that size has an impact on the quality of governance.

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Profile of the best-governed COOPECs according to the area in which they are located

Table 6.1: Profile of the best-governed SACCOs according to the area of activity

	Years	Urban area	Rural area	Total
Area of activity	2013	26	13	**39**
	2014	18	11	**29**
	2015	17	11	**28**
	2016	26	14	**40**
	2017	26	14	**40**
	2018	26	14	**40**
	2019	17	11	**28**
	Total	156	88	**244**

Source: Data from our surveys

Table 6.2: Summary of the best-governed SACCOs according to location

Year	Rural area				Urban area			
	Total	Better governed	NO	% better governed	Total	Better governed	No	% better governed
2013	17	13	4	76%	38	26	12	68%
2014	17	11	6	65%	38	18	20	47%
2015	17	11	6	65%	38	17	21	45%
2016	17	14	3	82%	38	26	12	68%
2017	17	14	3	82%	38	26	12	68%
2018	17	14	3	82%	38	26	12	68%
2019	17	11	6	65%	38	17	21	45%
Total	119	88	31	74%	266	156	110	59%

Source: Data from our surveys

Over the seven years of observation, 63.93% of the best-governed SACCOs reside in urban areas. If we relate the best-governed institute number in each zone, it is easy to see that the institutions in the rural zone have a better quality of governance than those in the urban zone. These results could be explained by the involvement of the cooperators in the management, unlike the urban institutions, whose management is often disconnected from the real cooperators.

Link between the governance index and the governance variables

To estimate the equations, different assumptions have been made about the coefficients and the error term, which leads to different models that use specific estimation methods. The assumptions made are tested in order to determine the model that best exploits the information contained in the data. From the File tests in table 7, the ROA, OSS and PAR models have common effects. The null hypothesis of the existence of common effects is rejected for the DEPTH, BREADTH and TP models. They then behave as individual effects which are of two kinds (fixed effects and random effects). The Hausman test must be performed to determine which model to use. The Hausman test on the models did not reflect the individual effect at first sight for confirmation. According to the results of the Hausman test, there are fixed effects in the BREADTH and TP models. On the other hand, at the level of ROA, DEPTH models, the results

negate the existence of fixed effects. However, the Breusch Pagan random effects validation test is performed on all models. Given the results of these tests, it should Given that there are random effects in all the models. Finally, the tests of autocorrelation of the Durbin-Watson errors and normality of the Jarque Bera errors were performed. cording to the results of the normality test of the errors, it should be noted that for all the models studied, the errors follow a normal distribution except for the ROA model for which the probability of the Chi-square is higher than the significance level which is 5%. The Durbin-Watson statistics are between zero and two, which allows Watson's conclude that there is no problem of autocorrelation of the errors across the models considered.

Table 7: Summary of estimates

	Fisher test (Prob)	Hausman test	Breusch Pagan test	Jarque-Bera test	Durbin-Watson test	Model retained (effects)
ROA	0.2002	0.0517	0.000***	0.4918	1.3563942	random
OSS	0.5791	0.6763	0.000***	0.000***	1.5918723	random
PAR	0.0875*	0.0875*	0.000***	0.0005***	1.5919414	random
Breadth	0.000***	0.000***	0.000***	0.000***	.76660159	random and fixed
Depth	0.0172**	0.5847	0.000***	0.000***	.96465734	random and fixed
TP	0.000***	0.0130*	0.000***	0.000***	.77680955	random and fixed

Source: Data from our surveys

These different estimates lead to the regression results presented below.

Table 8: Financial performance regressions

	ROA		**OSS**		**PAR**	
	Coef.	p-value	Coef.	p-value	Coef.	p-value
IGOUV	.467333	0.000***	.6941774	0.520	5.770857	0.031**
AGE	-.38688	0.000***	-.4270537	0.760	3.755744	0.313
SIZE	-.11698	0.000***	.1346604	0.007**	.0569908	0.538
ZONE	.16568	0.000***	0	0	-	-
Constant	6.5577	0.000***	3.442009	0.285	-6.748342	0.526
R-squared		0.2448		0.0287		0.0198
Prob>F		0.0000		0.0472		0.0875

Significance threshold of 1% (* p<.01) ; 5% (** p<.05) and 10% (* p<.1)**

Source: Data from our surveys

Although having a positive coefficient, operational self-sufficiency does not have a significant relationship with the governance index. The results show that the quality of governance (IGOUV) significantly and positively explains the financial performance measured by the return on assets at the respective 1% threshold. These results are similar to those of Moungou Mbenda

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and Niyonsaba Sebigunda (2015). Their analysis shows that governance quality measured by the governance quality index significantly improves all performance indicators. They show that the unit improvement in the GQI leads to a more proportional improvement in the turnover of the Cameroonian firms studied. These results are consistent with previous studies by Tchakoute Tchuigua (2010) on a sample of 64 microfinance institutions from 4 Sub-Saharan African diamonds. These studies show that governance positively influences the performance of microfinance institutions. Other authors (Wamba et al., 2014; Messomo, 2017; Djoufouet, 2018) also attest to the positive relationship between the quality of governance mechanisms and the performance of the microfinance institutions in the Cameroonian context. In light of the above, the hypothesis that the financial performance of savings and credit cooperatives is confirmed.

Table 9: Social performance regressions

	BREADTH		**DEPTH**		**TP**	
	Coef.	p-value	Coef.	p-value	Coef.	p-value
IGOUV	1.3095	0.012**	.5402374	0.038**	-1.256347	0.017**
AGE	-.4003	0.194	-.2980423	0.043*	.5703665	0.059*
TAILLE	.34344	0.000***	-.0670178	0.002**	.6193661	0.000***
ZONE	.13242	0.651	.2656836	0.055*	-.1034719	0.717
Constant	3.5358	0.003***	5.961297	0.000***	-16.25607	0.000***
R-squared	0.1415			0.0268		0.3995
Prob>F	0.0000			0.0001		0.0000

Significance threshold de 1% (* p<.01) ; 5% (** p<.05) and 10% (* p<.1)**
Source: Data from our surveys

Governance quality has a significant and positive influence on the number of active borrowers and the percentage of female borrowers at the 5% threshold. This result shows that improving governance quality increases the number of active borrowers in general and the number of female borrowers in particular. This is contrary to Tlili (2019) who finds no effect between governance and the number of active borrowers in microfinance institutions in 7 MENA countries between 2007 and 2012. In contrast, governance is significantly and negatively associated with loan size. Loan size decreases as cooperative managers implement or strengthen their governance mechanisms. This is explained by a refocusing on the primary mission of these cooperatives as governance quality improves. This result could also be explained by the increase in the number of active borrowers and the percentage of female borrowers. The increase in the number of female borrowers leads to a decrease in the size of the loans. This result confirms the one found by Tlili (2019). Based on this result, the hypothesis is that cooperatives are partially verified.

After verification of the hypotheses, we proceed to the verification of the influence of the control variables on the different aspects of the performance. Age has a significant negative influence on the return on assets at the 1% level. These results show that as savings and credit cooperatives age, their economic profitability deteriorates. This could be explained by the familiarity of the managers of these institutions with their clients and proxy lending. This relationship also stems from the increase in the size of loans whose default deteriorates the return on assets. These results are not consistent with those found by Deh et al. (2021), who find that the oldest banks in the West African Economic and Monetary Union improve their

performance through the experience they have acquired during their years of existence, their knowledge of the sector, and the reputation they have acquired. All of this allows them to increase their market share, minimize the cost of risk and consequently increase their performance. These results are contrary to those found by Tchakoute Tchuigoua and Nekhili (2012) who find that age contributes significantly and positively to the improvement of the economic profitability of 148 microfinance institutions in 56 countries over the period from 2001 to 2006. Age has no effect on operational autonomy and the portfolio at risk. Our results are consistent with Tchuigoua and Nekhili (2012). Following a multiple regression performed on a sample of 148 microfinance institutions from 56 countries over the period 2001 to 2006. Djoufouet (2018) finds no relationship between age and performance for 62 microfinance institutions in Cameroon over a period from 2009 to 2015. The estimation shows a significant and positive effect of size on operational self-sufficiency at the 5% threshold. This result is consistent with that of Mba Fokwa (2020) in the Cameroonian context at the 1% threshold. On the other hand, Deh et al (2021) in their study on the operational performance of WAEMU banks find a significant and negative relationship between size and performance. They conclude that large banks have very high operating expenses such as overheads, which for the most part are fixed operating expenses that can be paid out. Thus, any decline in net banking income that does not result in a decline in fixed bank operating expenses negatively impacts the net bank operating margin. This ultimately impacts the bank's operational performance. Unlike operational autonomy, size has a significant and negative effect on return on assets. This implies that any increase in the size of these cooperatives leads to a decrease in their profitability. The increase in total assets could be synonymous with an increase in fixed assets that reduces the results of the cooperatives. This situation is also explained by the increase in the number of active borrowers and the size of loans following the increase in size at the 1% threshold. The high loan size means that any delay or insolvency of borrowers creates financial difficulties for cooperatives. Also, the cooperatives could no longer play the role of outreach with an increasing number of borrowers. Djontu Nzongang (2019) find a similar result in the Cameroonian context. The rationale for this result is that increasing size challenges the proximity linkages that are the source of effectiveness for microfinance institutions. Mba Fokwa (2020) draws a different conclusion to our results. The area of operation does not have a significant impact on performance in all dimensions except economic profitability. Our results are consistent with those of Djontu and Nzongang (2019) who find a positive effect. They justify this result by the fact that the majority of microfinance institutions are located in rural areas, close to the poor population, in given financial and social inclusion mission. The results can also be explained by the knowledge and solidarity of the cooperators who live in an environment where everyone lives together. However, the number of female borrowers increases as the cooperatives move closer to rural areas with a predominantly female poor population.

CONCLUSION

The objective of this paper is to analyze the influence of governance quality on the performance of savings and credit cooperatives in Togo. The quality of governance is assessed by a governance index. The construction of this synthetic index of governance quality takes into account 27 variables related to internal and external governance mechanisms. These mechanisms include the characteristics of the board of directors, the manager, the cooperative, membership in the professional association of decentralized financial systems, external audit, and rating. These mechanisms are derived from the theoretical framework based on banking, non-governmental, and microfinance governance. The study focuses on a sample of 55 savings

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and credit cooperatives over the period from 2013 to 2019 in Togo. The results show that governance quality positively impacts performance as measured by economic profitability, operational autonomy and portfolio at risk, number of active borrowers, and, percentage of female borrowers as opposed to average loan size. The control variables influence performance in different ways. There is a significant and positive association between age and average loan size. This relationship is negative with the number of female borrowers and economic profitability. Size has a significant and positive effect on operational autonomy, the number of active borrowers, and average loan size. Area positively impacts the percentage of female borrowers. This paper is one of the few studies on governance quality using a synthetic governance index in Togo. The results of this paper are of several interests. First, they show that improved governance has a positive impact on the performance of savings and credit cooperatives. Second, they constitute a tool for promoting good governance practices for the various actors involved in the microfinance sector, starting with the managers of microfinance institutions. The limitation of this study lies in the assessment of governance quality through the calculation of governance indices. All the initial variables were transformed into binary variables. This could lead to a loss of information due to this transformation. This study only considers savings and credit cooperatives. Future studies could consider institutions from the entire sector to highlight differences or similarities in governance.

Annexe

Table: summary of the operationalization of the variables

Variables	Measure	Authors
Financial performance		
Return on assets (ROA)	= 1 if RAO >3% and 0 if not	Hartarska (2005) Messomo (2017)
Operational self-sufficiency (OSS)	= 1 if OSS >130% and 0 if not	
Portfolio at risk 90 (PAR)	= 1 if PAR< 3% and 0 if not	
Social performance		
Number of active borrowers (Breadth)	The number	Hartarska (2005) Tchakoute Tchuigua (2010) Wamba & al., 2014 Djoufouet, 2018 Tlili, 2019)
Percentage of female borrowers (Depth)	The percentage of women	
Loan size (TP)	Average credit to GDP per capita	
Characteristics of the Board of Directors		
Board size	Number of administrators	Wanda Robert, 2010 Hartarska (2005) Tchakoute Tchuigua (2010)
Gender diversity in the board of directors	Number of women on the board	Strøm & al. (2014) Djoufouet (2018)
Gender leadership on the board	= 1 if female president of the board and 0 if not	
Frequency of Board Meetings	Nombre de réunions statutaires du conseil par an.	Salloum & Azoury (2010) Tchakouté Tchuigoua (2014)
Board of Directors Attendance Rate	= 1 if the rate is 100% and 0 if not	Vafeas (1999) Jensen (1993)
Education level of directors	= 1 when the level is superior or equal to the Mastery, and 0 if not	Charreaux & Pilot-Belin (1990)

		Beamish&Dhanaraj (2003)
Age of directors	= 1 if age ≥46, and 0 otherwise	Maati-sauvez (2016)
Seniority of directors	= 1 if number of years≥3 and otherwise 0	Sahgal (2013)
Expertise on the Board	= 1 if an expertise exists in the CA and 0 otherwise	Tchakouté Tchuigoua (2014) Wamba & al. (2014)
Characteristics of the manager		
Gender of the leader	= 1 if female president of the board and 0 otherwise	*Djoufouet et Nzongang, 2020*
Seniority of the manager	= 1 if at most two persons have managed the institution and 0 otherwise	Shleifer & Vishny (1989
Manager's level of education	= 1 if higher degree greater than or equal to master's and 0 otherwise	Schatt & Allemand (2010)
Frequency of report writing	= 1 if at least two in a year and 0 if not	Schatt & Allemand (2010)
Remuneration of the manager	= 1 if the manager is paid and 0 if not	Boukharrazi (2018)
Manager's evaluation	= 1 if evaluation other than the DG itself and 0 otherwise	-
Presence of the manager in the credit committee	= 1 if the manager is present and 0 if not	-
Credit methodology and membership		
Credit method	1= if both credits and 0 only of individual credit	Tchakoute Tchuigua (2010)
Predominance of the credit mode	= 1 if the SACCO grants more solidarity credit and 0 otherwise	Tchakoute Tchuigua (2010)
Network membership	= 1 if belonging to a network and 0 if not	Tchakoute Tchuigua (2010)
Compliance with regulations (Membership in APSFD)	= 1 if member of APSFD and 0 if not	-
Risk management		
Internal control system	= 1 if the IC exists and 0 if not	-
Existence of internal credit committee	= 1 if the ICC exists and 0 if not	-
Quality of the information system	= 1 if the IS is good and 0 otherwise	-
Existence of a risk management unit	= 1 if the service exists and 0 if not	-
Compliance with prudential norms	= 1 if all prudential standards are met and 0 otherwise	-
External audit	= 1 if the SACCO is audited and 0 if not	Tchakoute Tchuigua (2010)
Rating	=1 if the SACCO is noted and 0 otherwise	Tchakoute Tchuigua (2010)
Control variables		
Age of institution (AGE)	Number of years the SACCO has been operating	Deh & al. (2021) Tchakoute Tchuigoua & Nekhili (2012)
Size of the institution (SIZE)	Total assets of the SACCO	Mersland et Strom, 2009 ; Tchakoute Tchuigoua, 2010 Djontu & Nzongang (2019)
Zone d'activité (ZONE)	=1 if the SACCO operates in the rural area, and 0 otherwise	Djontu & Nzongang (2019

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