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Government Regulations and Performance of NGOs: Lessons Learnt from Local NGOs in Ethiopia

Dr. Lakachew Walie Zeleke[1]; Wario Guyo[2]; Dr. Makori Moronge[3]

[1,2,3]Lakachew Lalie Zeleke

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Abstract: The objective of the study was to assess the moderating effect of government regulations on the relationship between governance practices and performance of local non-governmental organizations in Ethiopia. A mixed-method approach combining descriptive survey and correlational research designs was employed. Data were collected via survey questionnaires from 276 Chief Executive Officers and 199 Board Chairpersons of systematically sampled local NGOs in Ethiopia. Responses were analysed using SPSS and the PROCESS macro for moderation analysis. Government regulations significantly moderate the relationship between governance practices and performance of local NGOs in Ethiopia ($b = -0.153$, $p = .0013$), accounting for an additional 1.05 percent of variance in performance. While governance practices consistently improve performance across all regulatory contexts, their relative benefit diminishes in more heavily regulated environments. Simple slopes analysis revealed that the positive effect of governance practices weakens once government regulation exceeds a threshold level. The study also found that only 40.9 percent of respondents perceived a favourable regulatory environment despite the 2019 reforms, and only 34.9 percent confirmed understanding of the current CSO Proclamation. The findings are based on cross-sectional data from internal stakeholders within Ethiopian local NGOs. Future research should incorporate longitudinal designs, external stakeholder perspectives, comparative studies with international NGOs, and examination of mechanisms through which regulations condition governance effectiveness. The study concludes that government regulations significantly moderate the governance-performance relationship in Ethiopian local NGOs.

Keywords: *Government Regulations, Governance Practices, Performance, Non-Governmental Organizations, Ethiopia, Moderation, Resource Dependence Theory*.

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I. INTRODUCTION

Ethiopia's poverty profile remains stark, with global multidimensional poverty indices indicating that 68.7 percent of the population experiences multidimensional poverty while an additional 18.4 percent remains vulnerable to such deprivation (UNDP & OPHI, 2022). Within this context, NGOs serve as important mechanisms for channelling resources toward underserved populations and complementing governmental development efforts across sectors including education, health, agriculture, and humanitarian assistance. Non-governmental organizations therefore occupy a distinctive position within Ethiopia's development agenda, functioning as critical intermediaries between international development assistance and local communities requiring essential services. The sector's significance derives not merely from its numerical presence but from its substantive contribution to addressing the country's persistent development challenges.

The economic footprint of the NGO sector in Ethiopia warrants scholarly attention. According to humanitarian financial tracking systems maintained by the United Nations Office for the Coordination of Humanitarian Affairs, in 2023 alone, the donor funding directed through NGOs approximately USD 1.71 billion into the Ethiopian economy (OCHA, 2023). This financial flow positions the sector as a meaningful contributor to national economic activity while simultaneously raising questions about the effectiveness of the governance mechanisms that guide organizational decision-making and utilization of such resource. As Thrikawala et al. (2013) and Taskin and Okur (2018) have demonstrated across various contexts, well-structured governance practices fundamentally shape organizational capacity to translate available resources into intended developmental outcomes.

In Ethiopia, research shows that despite the NGO's economic significance and developmental potential, Ethiopian NGOs confront multifaceted operational and

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governance challenges that may constrain their effectiveness. A study by Ariti et al. (2018) examining barriers to NGO participation in policy development identified that administrative barriers affect 99 percent of NGOs in Ethiopia. Moreover, inadequate information sharing affect 77.3 percent, poor networking affecting 50.9 percent, limited stakeholder cooperation affecting 61.3 percent, and community trust deficits affecting 34.9 percent of surveyed organizations. These findings suggest that governance-related deficiencies, rather than technical capacity gaps alone, constitute fundamental impediments to NGO effectiveness. Weldegebriel (2022) similarly observed that governance factors consistently emerge among the weakest links preventing Ethiopian NGOs from fully realizing their organizational objectives. This observation aligns with broader literature establishing that organizational survival and effectiveness depend substantially on governance practices that promote strategic orientation, support efficient resource utilization, and ensure accountability to diverse stakeholder constituencies (Mihail et al., 2022).

The relationship between governance practices and corporate performance has generated substantial scholarly inquiry across multiple sectors and geographical contexts (Akbar et al., 2016; Wahyudin et al., 2017). However, extending findings from corporate and for-profit contexts to non-governmental organizations operating in developing country settings requires careful consideration of contextual specificities. The limited empirical research within Ethiopia specifically, has predominantly examined NGO performance through the lens of restrictive legislation and regulatory constraints rather than investigating internal governance dynamics (Yalemzewd et al., 2009; Belew, 2010; Wagari, 2015; Rahmato et al., 2009). This focus, while valuable for understanding the external environment, leaves underexplored the mechanisms through which internal governance practices interact with regulatory frameworks to shape organizational outcomes.

The regulatory environment governing Ethiopian civil society has undergone substantial transformation over the past decade and a half. The Charities and Societies Proclamation No. 621/2009 introduced stringent restrictions on foreign-funded NGOs, particularly those engaged in human rights and governance-related activities, requiring such organizations to source at least 90 percent of their funding from domestic sources (International Center for Not-for-Profit Law, 2010). The implementation of this legislation produced measurable contractions within the sector. Data from the Consortium of Christian Relief and Development Associations indicated that only 62.1 percent of 1,824 registered charities and 56 percent of 1,020 societies successfully renewed their licenses in 2013 (CCRDA, 2013). Organizational closures increased from four in 2011 to seven in 2012 and fifty-one in 2013, while resource inflows declined from 916.9 million Ethiopian birr in 2008/2009 to 600 million birr in 2011/2012 (Tadele, 2015). These patterns illustrate how regulatory frameworks can fundamentally reshape organizational populations and resource availability within the non-governmental sector.

At the end of that decade, the legislative landscape shifted significantly with the adoption of the Organizations of Civil Societies Proclamation No. 1113/2019, which repealed the 2009 restrictions and established the Civil Society Organizations Agency as a regulatory and support mechanism for the sector (Federal Democratic Republic of Ethiopia, 2019). This reform removed funding limitations and created potential for expanded civil society engagement across previously restricted thematic areas. Nevertheless, implementation challenges persist, including bureaucratic delays, inconsistent application of legal provisions, and limited institutional capacity for effective monitoring and support (Tiruye, 2021). The coexistence of formal regulatory reform with persistent implementation challenges creates a complex environment within which NGOs must navigate their governance practices and pursue their organizational missions.

The scholarly literature reveals important gaps in understanding how regulatory environments moderate the relationship between internal governance practices and organizational performance. While agency theory has been extensively applied to explain principal-agent relationships within organizations (Jensen & Meckling, 1976), and resource dependence theory illuminates how organizations manage external dependencies (Pfeffer & Salancik, 1978), the interactive effects between internal governance mechanisms and external regulatory conditions remain underexplored within the NGO context. Studies examining board composition, leadership styles, resource mobilization, and stakeholders' engagement have produced mixed findings across different contexts (Alabede, 2016; Adams & Ferreira, 2009; Chapple & Humphrey, 2014), suggesting that contextual factors including regulatory environments may condition these relationships.

The present study addresses this gap by examining the moderating effect of government regulations on the relationship between governance practices and performance of local non-governmental organizations in Ethiopia. This investigation recognizes that governance practices do not operate within institutional vacuums but are enacted within specific regulatory contexts that may either amplify or attenuate their effectiveness. Understanding this moderation effect carries both theoretical and practical significance. Theoretically, it extends existing governance frameworks by incorporating regulatory context as a conditioning variable, enriching applications of agency theory, resource dependence theory, and stakeholder theory within the NGO sector. Practically, it provides evidence to inform policy development, enabling government to design regulatory frameworks that facilitate rather than hinder NGO effectiveness, while equipping NGO leaders with insights for strategic adaptation to regulatory realities.

The study's specific objective was to assess the moderating effect of government regulations on the relationship between governance practices and performance of local non-governmental organizations in Ethiopia. This objective recognizes governance practices as multidimensional, encompassing attributes of board

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composition, leadership styles, resource mobilization capabilities, and stakeholders' engagement, each of which may be differentially affected by regulatory conditions. By investigating this moderation effect, the study contributes to an understanding of how external institutional environments interact with internal governance mechanisms to shape organizational outcomes within the Ethiopian NGO sector.

II. LITERATURE REVIEW

➢ *Theoretical Background*

Resource dependence theory provided the theoretical lens for examining the moderating effect of government regulations on the relationship between governance practices and performance of local non-governmental organizations in Ethiopia. Developed by Pfeffer and Salancik (1978), resource dependence theory centers on the proposition that organizational survival depends critically on the ability to acquire and maintain resources from the external environment. Organizations cannot generate all necessary resources internally and must therefore engage with external actors who control resources essential for organizational functioning (Pfeffer & Salancik, 1978). This external resource acquisition creates dependencies that fundamentally shape organizational behavior, decision-making, and performance outcomes. Government regulations represent a critical dimension of external environment, determining what resources may be accessed, from whom, and under what conditions.

Resource dependence theory has not escaped criticism. Critics note that the theory overemphasizes environmental constraints while underestimating organizational agency and strategic choice (Aldrich, 1999). Organizations may possess greater capacity to shape their environments than the theory acknowledges. Additionally, the theory's focus on power and dependency relationships may overlook cooperative and collaborative possibilities that generate mutual benefits rather than zero-sum outcomes (Casciaro & Piskorski, 2005). Some scholars argue that the theory inadequately explains how organizations prioritize among multiple competing dependencies or how internal organizational characteristics mediate responses to external pressures (Hillman et al., 2009). Despite these critiques, the theory's core insight, that external resource dependencies shape organizational behavior remains highly relevant for understanding regulatory effects.

The Ethiopian case dramatically illustrates how government regulations reshape resource environments. The Charities and Societies Proclamation No. 621/2009 imposed stringent restrictions on foreign-funded NGOs engaged in human rights and governance-related activities, requiring such organizations to source at least 90 percent of their funding domestically (International Center for Not-for-Profit Law, 2010). This legislative intervention fundamentally reconfigured resource dependencies, rendering previously accessible international funding unavailable for certain activities and forcing organizations to either abandon those activities, seek alternative funding sources, or face organizational closure. Dupuy et al. (2015) documented how this regulatory offensive led to the disappearance of most small NGOs and local human rights groups in Ethiopia, while survivors either rebranded or redirected their work away from proscribed areas. The subsequent Organizations of Civil Societies Proclamation No. 1113/2019 represented a shift toward a more enabling regulatory environment, removing funding limitations and expanding operational space (Federal Democratic Republic of Ethiopia, 2019).

Resource dependence theory illuminates how such regulatory interventions moderate the relationship between internal governance practices and organizational performance. Effective governance practices including board composition, leadership styles, resource mobilization strategies, and stakeholder engagement enhance organizational capacity to navigate restrictive regulatory environments by identifying alternative funding sources, building relationships with domestic resource providers, and adapting organizational strategies to comply with regulatory requirements while maintaining mission focus. In more enabling regulatory environments, governance practices may more directly translate into performance improvements through enhanced resource acquisition and utilization without the constraints imposed by restrictive funding limitations. The theory thus explains not only why regulations matter but also the mechanism through which they exert their moderating effect by shaping the resource dependencies that fundamentally condition organizational possibilities and the effectiveness of internal governance mechanisms.

➢ *Empirical Review*

The relationship between government regulations and non-governmental organization performance has attracted increasing scholarly attention, particularly in contexts where regulatory frameworks have undergone substantial transformation. Empirical evidence from diverse geographical settings demonstrates that regulatory environments significantly shape NGO operations, yet the moderating effect of regulations on governance-performance relationships remains underexplored.

Dupuy et al. (2015) examined the regulatory offensive against civil society through an Ethiopian case study, investigating how the Charities and Societies Proclamation No. 621/2009 affected NGO operations and survival. The study found that legislation prohibiting foreign-funded NGOs from working on politically sensitive issues led to the disappearance of most small NGOs and local human rights groups in Ethiopia. Survivors either rebranded or redirected their work away from proscribed areas. The research highlighted how governments shape the population ecology of the non-governmental sector, noting that NGOs' reliance on external funding renders them politically vulnerable. The study recommended that analyses of NGO institutional environments must include governments as key components shaping organizational opportunities and constraints.

Nega and Milofsky (2011) investigated the role of democratically organized NGOs in fostering economic development, using Ethiopia as a case study of civil society's cultural infrastructure. The research documented initial

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government acceptance followed by growing resistance to civil society organizations, culminating in the anti-NGO law of 2009. The study argued that government repression threatens opportunities for economic development generated by local-level NGOs. These finding underscores how regulatory frameworks can either facilitate or impede NGO contributions to development outcomes, suggesting that the relationship between governance practices and development impact may be contingent on regulatory conditions.

Karungani and Ochiri (2017) conducted quantitative research examining the impact of policy and regulatory framework on organizational performance within Kenya's public procurement sector. Using purposive sampling to select 87 employees from the Nairobi County government procurement department, data collected through questionnaires were analysed using descriptive and regression techniques. The findings demonstrated that policy and regulatory frameworks significantly improve organizational performance by creating level playing fields for organizations. While this study focused on public sector procurement rather than NGOs, it provides evidence that regulatory frameworks can enhance organizational performance through standardization and accountability mechanisms applicable across organizational types.

Ariti et al. (2018) investigated factors restraining Ethiopian NGOs from participating in natural resource management policy development. The study identified multiple barriers including administrative restrictions affecting 99 percent of organizations, inadequate information sharing affecting 77.3 percent, poor networking affecting 50.9 percent, limited stakeholder cooperation affecting 61.3 percent, and community trust deficits affecting 34.9 percent of surveyed organizations. These findings suggest that governance-related deficiencies, rather than technical capacity gaps alone, constitute fundamental impediments to NGO effectiveness. The study implicitly points to the interaction between external regulatory constraints and internal governance capacities in shaping NGO performance outcomes.

Tiruye (2021) examined implementation challenges following Ethiopia's Organizations of Civil Societies Proclamation No. 1113/2019, which repealed the restrictive 2009 legislation. The study documented persistent challenges including bureaucratic delays, inconsistent application of legal provisions, and limited institutional capacity for effective monitoring and support. These findings indicate that even enabling regulatory frameworks may fail to produce expected performance improvements when implementation remains problematic, suggesting that the relationship between regulatory reform and NGO performance is mediated by implementation quality.

Gebre (2016) documented that 552 NGOs were shut down in Ethiopia between 2009 and 2016, with 44 percent of closures attributed to lack of funds. This situation resulted from repressive laws limiting foreign funding to only 10 percent for organizations engaged in rights-based work. The study provides quantitative evidence of regulatory impact on organizational survival, demonstrating how funding restrictions translate directly into organizational mortality. This finding supports resource dependence theory predictions that regulatory constraints on resource access produce significant organizational consequences.

Cross-national evidence from Meessen et al. (2017) examining Turkish NGOs revealed that 10 percent of local NGO funding came from private charitable provisions, 43 percent from government support and public sector payments, and 47 percent from private institutions. Batti (2018) similarly found that internationally generated funds accounted for 43 percent of local NGO funding across 35 Asian and European countries, with private offers accounting for 30 percent and government support accounting for 27 percent. These studies demonstrate substantial variation in NGO funding environments across regulatory contexts, suggesting that resource mobilization strategies must be adapted to specific regulatory conditions.

Comparative research from the African context by Musila (2019) indicated that African governments increasingly impose restrictions that handicap NGO activity through legislation or policies improperly constraining non-governmental organizations. This continental trend underscores the importance of understanding how regulatory environments condition NGO governance effectiveness, as organizations across Africa face similar challenges of navigating restrictive regulatory spaces while maintaining mission focus and operational effectiveness.

The empirical literature reveals several patterns relevant to understanding the moderating effect of government regulations on governance-performance relationships. First, regulatory frameworks significantly influence organizational survival, resource availability, and operational scope. Second, the relationship between regulatory design and organizational outcomes is mediated by implementation quality and organizational capacity to navigate regulatory requirements. Third, governance practices including board composition, leadership, resource mobilization, and stakeholder engagement likely affect organizational capacity to respond to regulatory constraints. Fourth, the Ethiopian context provides particularly valuable evidence given the dramatic regulatory transition from restrictive 2009 legislation to more enabling 2019 provisions.

Despite these contributions, the empirical literature exhibits important gaps. Few studies explicitly examine how government regulations moderate the relationship between specific governance practices and organizational performance. Most research treats regulations as direct influences on outcomes rather than as contextual factors conditioning the effectiveness of internal governance mechanisms. Studies examining governance practices and those examining regulatory effects often proceed in parallel rather than investigating their interaction. The present study addresses this gap by investigating whether government regulations significantly moderate the relationship between governance practices and performance of local NGOs in Ethiopia.

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Based on the theoretical framework of resource dependence theory and the empirical evidence reviewed, the following hypothesis is formulated:

- H_0: There is no significant moderating effect of government regulations on the relationship between governance practices and performance of local non-governmental organizations in Ethiopia.

III. METHODOLOGY

The study adopted a mixed-methods approach combining descriptive survey and correlational research designs to investigate the moderating effect of government regulations on the relationship between governance practices and organizational performance. The study population comprised 2,201 registered local non-governmental organizations in Ethiopia (FDRE ACSO, 2022). The sampling frame was obtained from the Federal Democratic Republic of Ethiopia's Authority for Civil Society Organizations, which maintains the official register of all legally registered NGOs. Fisher's formula ($N = Z^2\, p(1 - p)e^2$) was employed to calculate the sample size using a 95 percent confidence level, proportion set at 0.5, and margin of error at 0.05, yielding a sample size of 327 NGOs. The units of analysis were the local NGOs, while the units of observation were Chief Executive Officers and Board Chairpersons of the selected organizations, resulting in total target respondents of 654.

Data were collected using a survey questionnaire containing both closed-ended and open-ended questions. The quantitative section employed five-point Likert scales ranging from strongly disagree to strongly agree, while the qualitative section included open-ended questions designed to elicit elaborative explanations, examples, and contextual insights regarding the quantitative ratings. The quantitative component facilitated generalization of findings from the sample to the larger population, while the qualitative component provided depth and contextual understanding. The questionnaire was adapted from previous validated tools through a multi-stage process including intent review to select items with proven reliability measuring the constructs of interest, contextualization to modify wording and examples relevant to the Ethiopian NGO sector, and expert review by a panel of three governance and leadership specialists who assessed content validity, clarity, appropriateness, and contextual relevance. Their feedback was used to refine the wording and structure of several items.

The decision to focus data collection exclusively on CEOs and Board Chairs was a strategic methodological choice aimed at mitigating response bias and enhancing validity and reliability. First, CEOs and Board Chairs possess unique and comprehensive organizational overview, being the individuals most knowledgeable about governance, leadership, and overall organizational performance. Surveying staff from lower hierarchical levels would introduce significant informational bias, as their perspectives are often limited to specific departments or roles and may not accurately reflect strategic realities. Second, using a homogeneous respondent group controls for variation in question interpretation, as CEOs and Chairs share common language regarding governance and performance metrics, ensuring terminologies are understood uniformly and reducing noise that would be introduced by more diverse respondent groups. Third, potential social desirability bias was mitigated by emphasizing strict anonymity and confidentiality, with respondents assured those individual responses would not be shared with their boards, staff, or donors, and that only aggregated data would be published.

Systematic sampling was employed whereby from the ordered sampling frame of 2,201 NGOs, every seventh organization was selected for participation. Questionnaires were administered through drop-and-pick strategy with two-week collection periods. Research assistants supported distribution and collection, and multiple follow-up calls were conducted to mitigate non-response bias. The data was cleaned to remove errors, coded and entered into SPSS for data analysis. Data analysis involved descriptive and significance testing. Results were presented in tables.

IV. RESULTS AND DISCUSSION

Suitable responses for analysis were received from 475 out of 654 questionnaires distributed, constituting a 72.6 percent response rate. This rate compares favorably with response rates ranging between 48 percent and 68 percent reported in similar survey studies (Holtom et al., 2022). Of these, 277 responses were received from Chief Executive Officers and 198 from Board Chairpersons, ensuring representation of both key governance perspectives. Demographic analysis revealed male dominance in top leadership positions, with males constituting 84.75 percent of respondents. The majority of respondents (83.65 percent) had worked in their organizations between one and ten years, indicating sufficient organizational experience to understand governance practices and performance dynamics. With respect to educational qualifications, 45.1% were holding master's degrees 39.0% bachelor's degrees and 4.4% PhDs. The rest were certificate/diploma holders.

Descriptive analysis was conducted to examine the state of governance practices among local non-governmental organizations in Ethiopia. Table 1 presents the aggregate descriptive statistics for the four governance practice variables examined in this study. These were board composition, leadership styles, resource mobilization, and stakeholders' engagement. These variables were measured on a five-point Likert scale where 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, and 5 = Strongly Agree. The mean scores therefore indicate the average level of agreement with positive statements about each governance dimension.

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Table 1 Descriptive Statistics for Governance Practices

Variable	SD %	D %	N %	A %	SA %	Mean	Std. Dev
Board Composition	13.8	22.8	24.1	27.4	12.0	3.01	1.176
Leadership Styles	11.4	22.4	22.7	30.0	13.6	3.11	1.215
Resource Mobilization	17.5	30.6	22.9	21.3	7.8	2.71	1.190
Stakeholders Engagement	4.4	13.7	24.2	43.8	13.8	3.49	0.967
Governance Practices	11.78	22.38	23.48	30.63	11.8	3.08	1.137

The findings reveal varying levels of governance practices across the four dimensions. Stakeholders' engagement recorded the highest mean score (M = 3.49, SD = 0.967), with 57.6 percent of respondents agreeing or strongly agreeing that their organizations maintain adequate stakeholder engagement through systematic mapping, strategic networking and partnerships, and transparent information sharing with communities, donors, government bodies, and other relevant actors. The relatively low standard deviation indicates consistency in stakeholder engagement practices across surveyed organizations, suggesting that Ethiopian local NGOs have largely internalized the importance of maintaining strong relationships with those affected by their work.

Leadership styles followed with a mean of 3.11 (SD = 1.215), where 43.6 percent of respondents agreed or strongly agreed that their organizations demonstrate relevant and effective leadership styles. This indicates that leaders in Ethiopian local NGOs moderately exhibit a contextually appropriate blend of transformational, transactional, and laissez-faire behaviors, adapting their approach to situational demands. The higher standard deviation suggests greater variability in leadership practices across organizations, meaning that while some NGOs benefit from strong, adaptable leadership styles, others face significant leadership challenges.

Board composition recorded a mean of 3.01 (SD = 1.176), with 39.4 percent of respondents affirming that their organizations have well-constituted and functioning boards. This means that in approximately four out of ten NGOs, boards demonstrate diversity in membership, clear eligibility criteria for board service, balanced representation of executive and non-executive members, regular performance appraisals, adequate induction for new members, and effective strategic oversight including long-term strategy formulation and resource mobilization. However, the substantial proportion of respondents in disagreement or neutrality indicates that many boards lack these essential characteristics, pointing to significant governance weaknesses at the governing body level.

Resource mobilization recorded the lowest mean score among the four governance dimensions (M = 2.71, SD = 1.190), with only 29.1 percent of respondents agreeing or strongly agreeing that their organizations demonstrate effective resource mobilization practices. The remaining respondents either disagreed (48.1 percent) or remained neutral (22.9 percent), indicating significant challenges in financial resource acquisition and management. This finding reflects limited capacity in developing and implementing resource mobilization strategies, maintaining comprehensive financial manuals and policies, accessing diverse internal and external funding sources, and building adequate organizational capacity for sustainable resource acquisition. The mean score below the neutral midpoint confirms that resource mobilization represents the most critical governance weakness among Ethiopian local NGOs.

The aggregate governance practices mean score of 3.08 (SD = 1.137) indicates moderate overall favourable governance practices among local NGOs in Ethiopia. Slightly more than two-fifths of respondents (42.43 percent) expressed agreement or strong agreement with positive governance statements across the four dimensions, while approximately one-third (34.16 percent) expressed disagreement or strong disagreement. The remaining 23.48 percent remained neutral, suggesting either uncertainty about governance quality in their organizations or recognition that practices fall between adequate and deficient. This overall picture suggests that while Ethiopian local NGOs demonstrate strengths in stakeholder engagement and reasonable leadership practices, these are offset by weaknesses in board functioning and significant deficiencies in resource mobilization.

Descriptive statistics for government regulations were generated from the dataset and are presented in Table 2. The findings established that the majority of respondents (53.9 percent) agreed that NGOs comply with national laws and regulations. Similarly, 57.0 percent agreed that there is an enabling policy environment for NGOs, while 42.2 percent agreed that the CSOs proclamation guides NGO operations within acceptable standards. Regarding compliance with organizational rules and regulations, 53.5 percent of respondents affirmed that NGOs comply with their internal regulations. Concerning enforcement, 37.2 percent agreed that the government enforces laws and regulations on NGOs, with 30.2 percent remaining neutral on this question. Notably, 46.7 percent of respondents disagreed that the CSOs proclamation provides NGOs with opportunities for better funding, and 42 percent disagreed that the proclamation encourages citizens to organize and establish new NGOs. Regarding understanding of the regulatory framework, 42.9 percent disagreed or strongly disagreed that board and management understand the 2019 CSOs Proclamation, while 34.9 percent agreed or strongly agreed with this statement. On the question of government and political interference, 39.6 percent disagreed that interference exists in NGO work, 33.8 percent agreed that interference exists, and 26.6 percent remained neutral. Overall, 40.9 percent of respondents agreed or strongly agreed that there is a favourable government regulatory framework.

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Table 2 Descriptive Statistics for Government Regulations

Government Regulations	**SD %**	**D %**	**N %**	**A %**	**SA %**	**Mean**	**Std. Dev**
NGOs comply with national laws and regulations	6.2	17.6	22.3	38.2	15.7	3.40	1.131
An enabling policy environment for NGOs	4.7	14.6	23.7	41.3	15.7	3.49	1.067
CSOs proclamation guides NGO operations	8.8	18.0	31.0	33.8	8.4	3.15	1.088
NGOs comply with their rules and regulations	8.0	20.9	17.5	38.7	14.8	3.31	1.189
Government enforces laws and regulations	8.7	23.8	30.2	29.8	7.4	3.03	1.088
CSOs proclamation gives better funding opportunities	16.7	30.0	24.8	22.3	6.2	2.71	1.166
CSOs proclamation encourages new NGOs	18.0	24.0	31.0	22.9	4.0	2.71	1.127
Board and management understand 2019 Proclamation	22.0	15.9	27.2	25.3	9.6	2.75	1.347
Government and political interferences exist	8.4	31.2	26.6	17.3	16.5	3.02	1.218
Aggregate	11.8	21.8	25.5	30.0	10.9	3.06	1.158

Moderation analysis was conducted using PROCESS macro (Model 1; Hayes, 2022) to test whether government regulations moderate the relationship between governance practices and performance of local non-governmental organizations in Ethiopia. The results are presented in Table 3.

Table 3 Moderation Analysis Results

Model Summary	**R**	**R-sq**	**MSE**	**F**	**df1**	**df2**	**p**
	0.7323	0.5362	0.3218	260.0801	3	470	0.000
Model		coeff	se	t	p	LLCI	ULCI
Constant		-0.9066	0.3502	-2.5888	0.0099	-1.5947	-0.2185
Government Regulation (M)		0.1934	0.1677	1.1535	0.2493	-0.1361	0.5230
Governance Practices (X)		1.5547	0.1251	12.4245	0.0000	1.3088	1.8006
Int_1 (X*M)		-0.1532	0.0473	-3.2417	0.0013	-0.2460	-0.0603
R-square change due to Int_1:		**R2-change**	**F**	**df1**	**df2**	**p**	
int_1		0.0105	10.5086	1	470	0.0013	
Conditional effect of X on Y at the values of moderator:							
Government Regulations		Effect	se	t	p	LLCI	ULCI
2.1910		1.2190	0.0675	18.0592	0.0000	1.0864	1.3517
3.0216		1.0918	0.0772	14.1510	0.0000	0.9402	1.2434
3.8522		0.9646	0.1021	9.4448	0.0000	0.7639	1.1653

The overall model was statistically significant, explaining 53.62 percent of the variance in NGO performance ($R^2 = 0.5362$, $F(3,470) = 260.08$, $p < .001$). Governance practices had a significant positive main effect on performance ($b = 1.5547$, $p < .001$), indicating that stronger governance practices lead to higher performance. Government regulations alone did not significantly predict performance ($b = 0.1934$, $p = .2493$). However, the interaction term between governance practices and government regulations was negative and significant ($b = -0.1532$, $p = .0013$), confirming that government regulations moderate the governance-performance relationship. The negative and significant interaction term means that the positive impact of good governance practices on NGO performance weakens as government regulations become more intensive.

Simple slopes analysis revealed that at low levels of regulation, governance practices had a strong positive effect on performance (effect = 1.2190, $p < .001$). At moderate regulation levels, the effect remained strong but diminished slightly (effect = 1.0918, $p < .001$). At high regulation levels, the positive effect was still significant but noticeably weaker (effect = 0.9646, $p < .001$). These findings demonstrate that while good governance practices consistently improve performance, their relative benefit diminishes as regulatory intensity increases. This could be because heavy regulations divert organizational resources toward compliance, reduce strategic flexibility, or substitute for internal governance functions that would otherwise differentiate well-governed organizations from poorly governed ones.

V. CONCLUSION

This study examined the moderating effect of government regulations on the relationship between governance practices and performance of local NGOs in Ethiopia. Several conclusions emerge from the findings. First, governance practices significantly influence NGO performance. Organizations with stronger board composition, effective leadership styles, robust resource mobilization, and meaningful stakeholder engagement achieve better outcomes, aligning with established literature (Recadina & Ouma, 2017; Alabede, 2016; Kemei & Mweberi, 2017). However, descriptive findings reveal uneven state of governance practices across the local NGOs. Stakeholder engagement is a relative strength (M = 3.49; SD=0.967) with 57.6 percent of respondents agreeing or strongly agreeing that their organizations maintain adequate stakeholder engagement through systematic mapping, strategic networking and

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partnerships, and transparent information sharing with communities, donors, government bodies, and other relevant actors. This is followed by leadership styles (M=3.11; SD = 1.215), where 43.6 percent of respondents agreed or strongly agreed that their organizations demonstrate relevant and effective leadership styles. Then by board composition (M=3.01; SD = 1.176), with 39.4 percent of respondents affirming that their organizations have well-constituted and functioning boards, while resource mobilization remains the most critical weakness (M = 2.71), with only 29.1 percent of respondents affirming effective resource mobilization practices.

Second, government regulations significantly moderate the governance-performance relationship (b = -0.1532, p = .0013). The positive impact of governance practices diminishes as regulatory intensity increases, supporting resource dependence theory (Pfeffer & Salancik, 1978). Simple slopes analysis confirms that governance practices matter across all contexts but prove more determinative in less regulated environments, where their effect is strongest (effect = 1.2190), and less so in heavily regulated contexts, where the effect weakens noticeably (effect = 0.9646).

Third, despite the 2019 regulatory reforms, perceptual gaps persist. Only 40.9 percent of respondents perceive a favourable regulatory framework, 46.7 percent disagree that the CSOs proclamation enables better funding, and merely 34.9 percent affirm that board and management understand the 2019 Proclamation. These gaps, consistent with Tiruye (2021), suggest that reform benefits are constrained by limited awareness and implementation challenges. Fourth, the study contributes to resolving conflicting findings in governance literature by identifying regulatory context as a critical contingent variable. Variations in reported governance-performance relationships (Adams & Ferreira, 2009; Chapple & Humphrey, 2014) may reflect unexamined differences in regulatory environments across study settings.

Theoretically, this study extends resource dependence theory by demonstrating how external regulatory environments condition internal governance effectiveness. Practically, the findings underscore that NGO leaders must strengthen both governance and regulatory navigation capabilities, while policymakers should design frameworks that balance oversight with operational flexibility to enhance rather than attenuate the benefits of good governance.

This study has several limitations. First, the cross-sectional design captures only a snapshot of relationships at a single point in time (February 2023), preventing analysis of how regulatory effects evolve or how governance-performance dynamics change over organizational lifecycles. Second, findings are generalizable only to local Ethiopian NGOs, not to international NGOs operating in Ethiopia or to NGOs in other countries with different legal and political contexts. Third, the study relied solely on perceptions of internal stakeholders (CEOs and Board Chairs), which may be subject to positive self-reporting bias and may not align with perspectives of beneficiaries, donors, or government regulators. Fourth, government regulations were measured through perceptions rather than objective indicators of regulatory provisions or enforcement intensity. Fifth, the research design did not examine the specific mechanisms through which regulations exert their moderating effect. Sixth, other potentially important contextual factors (political volatility, economic conditions, donor priorities) were not included. Seventh, the striking gender imbalance in leadership (84.75 percent male) was documented but not investigated as a variable influencing governance or performance. Eighth, the quantitative approach limited depth of understanding regarding how leaders navigate regulatory environments.

➢ *The Following Recommendations are Made:*

- *For Policymakers and Government:*

Conduct an independent, comprehensive evaluation of the Organizations of Civil Societies Proclamation No. 1113/2019 before any future revisions, drawing on broad stakeholder consultation. Establish transparent, performance-based funding mechanisms that support NGOs with demonstrated skills and expertise to fill service delivery gaps and foster innovation.

- *For NGO Boards and Leadership:*

Adopt clear policies mandating skilled and diversified board composition with specific targets including at least 60 percent women and 20 percent youth representation. Establish independent audit committees with expertise in finance, accounting, and risk management. Enforce clear consecutive and cumulative term limits for board members to prevent entrenchment and infuse fresh perspectives.

- *For Private Sector and Development Partners:*

Encourage corporate social responsibility practices through tax incentives and partnership brokering to expand domestic resource mobilization and reduce foreign funding dependence. Explore innovative strategies including social franchise models that generate earned income while advancing mission objectives to reduce the identified weak resource mobilization patterns.

- *For Future Research:*

Conduct longitudinal studies tracking how regulatory moderation effects evolve over time. Undertake comparative studies examining whether findings extend to international NGOs and other national contexts. Employ multi-stakeholder research designs incorporating perspectives of beneficiaries, donors, and government regulators. Investigate mechanisms through which regulations condition governance effectiveness, including resource dependence patterns and regulatory navigation capabilities. Examine how gender-balanced leadership influences governance practices and organizational outcomes. Integrate additional variables including funding stability, organizational culture, and political context into more comprehensive performance models.

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