

Mobilization of finances through internal capitalization



2SCALE Consortium



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1. Pioneer partnership

This replicable practice was first introduced in the partnership between partnership between Angereb Multipurpose Primary Cooperative and 2SCALE in 2017. The partnership focuses on the sesame crop value chain. Like most primary cooperatives in Ethiopia, Angereb faced challenges to access financial investments to grow their business, due to low bankability.

Without internal capitalization - inside mobilization of finance of members - it is hard for any cooperative to become bankable and get a loan. By overlooking the capitalization of the cooperatives, many remain weak, creditworthiness stays low and investment capacity is hardly available. Agricultural cooperatives have different ways to build internal capital. However, the self-financing principle is of high importance. When members have trust in their cooperative, they are willing to leave or invest their capital in the cooperative. It is a significant indicator of commitment towards the cooperative, and thus a healthy member base.



2. Replicable practice

Lack of internal capitalization is one of the key reasons why cooperatives in Ethiopia are having hard times surviving, growing, competing, and realizing new business ambitions. Lack of member equity to leverage investments or use it for working capital purposes is a major problem for many cooperatives in the countries where 2SCALE is active. It is a topic that continuously comes back as a problem with almost every new partner 2SCALE starts a relationship with. Therefore, 2SCALE replicated this practice with Angereb as the practice was initially successfully tried and tested with TMFCU making the Union increasingly important and attracted 'outsider' finance from banks and other moneylenders e.g., TMFCU received USD 260,000 financing from Rabobank Foundation.

To summarize, this practice is addressing constraints in terms of:

<p>Inclusion</p>	<ul style="list-style-type: none">• Ownership: As a farmer-based organization, everything is owned by the smallholder farmers (SHFs), who previously were not included in change-making processes particularly on collective finance mobilization processes to enable them to realize their organizational goals.• Voice: The marginalized SHFs were involved in the activation campaigns and decision makings of the implementation of the internal capitalization strategies.• Risks: Farmers were hesitant to register as new members and/or buy more shares. The doubted accountability of the union was resolved by applying the cooperative inspection and auditing guidelines along with fair and timely dividend payments. Hence, the risk was shared among the government supporting partners to increase the mutual reward of accessing internal finance through increasing number of shares and recruiting new members.• Rewards: The number of farmers (including women) that bought the union's share has increased. Hence, their reward has been increased.
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3. Preconditions for replication

Starting with a needs assessment: The business champion or BSS needs to be the one initiating the practice where it can cascade the implementation with full dedication and aspire to succeed.

Training & coaching of promoters and leaders of the producer organization: The trainers need to be properly trained and grasp the perspectives of the partnership.

Team building: The implementing team has to be well organized and accountable. A clear check and balance system among the team is a major success factor.

Sharing the purpose of the internal capitalization to stakeholders: This will make the SHFs committed, increase the sense of belonging and enable greater drive to accomplish the practice. Besides, customized strategies of finance mobilization need to be designed in consultation with all the stakeholders.

Appropriate timing: Harvesting season needs to be clearly identified and targeted for the practice.

Constant follow up: As per the agreed upon action plan and structured team apt follow up is highly required. The team may have different structures either as a civil service/government or private company structure. Regardless of the type of structure and organizational hierarchy, the internal capitalization requires continuous follow up on the progress updates and the actors accountability, autonomy and motivation. The private sector will do the lobbying while the government structure (the cooperative agency for most cases in Ethiopia) strategically support the business champion. The follow up needs to be from all stakeholders angle including 2SCALE to triangulate and verify results to later have better fruitful results.



4. Results Achieved

Under TMFCU partnership, Megenagna Farmers' Cooperative Union (FCU) is a business support service provider that introduced one financial service to the partnership stakeholders as a strategic intervention and successful universal impact indicator. The specific objective of the internal capitalization was making the envisioned rice processing factory a reality for Megenagna FCU. It planned to mobilize 5,640,482 ETB (140,000 USD) in the 2020 Financial Year.

Even though Covid-19 has presented several obstacles to tackle, an incredible achievement was obtained within five months' time after the initiation of the mobilization activation in February 2020. Exceeding the targeted amount by 15% shows the union's determination and the level of adaptability towards the "new normal".

The union is still not fully satisfied with the mobilized 6,500,000 ETB (161,206 USD) and it is currently planning to mobilize additional 8,500,000 ETB (210,808 USD) from the 75,000 SHFs it has. Which means, every SHF will be expected to bring a pre-agreed upon amount of cash or a substitute in kind/commodity.

Want to know more?

If you want to know more about this practice, please reach out to Tigist Belachew, tbelachew@2scale.org, Partnership Facilitator in Ethiopia.

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