

Participants learned how to apply IC to enhance their equity position, as well as practical techniques for implementing IC successfully. C4C discussed with them how to put together an IC action plan including the end goal for mobilised resources the total amount of money needed to achieve it, how much should be generated by IC versus bank loans or other means, how much to value each IC share, and the communication plan for announcing the IC plan to members.

**“ If members would like their cooperative to flourish, investing in their company is a cooperative duty, ”**  
**Finance Manager, Becho Woliso Farmers' Cooperative Union**

C4C presented the benefits of IC both for the union or cooperative as well as for the members. C4C discussed how IC can improve a union or cooperative's balance sheet and demonstrate the equity necessary to secure formal loans through banks. For farmers, participating in IC can give them a greater voice in the management of the union or cooperative, and can also give them additional dividend payment. Above all, C4C explained that if members would like their cooperative to flourish, investing in their company is a cooperative duty. The project reviewed how IC can support stronger member participation: after purchasing shares for IC, members may feel a stronger commitment to the union and become more active participants in the union. This could be particularly valuable to unions and cooperatives seeking to increase the active participation of women, who are eligible to participate in IC as members or as relatives of members. C4C also shared tips on how to communicate the benefits of IC to members, including through the use of model farmers who can share information about IC directly with farmers at the community level.

During the workshops, C4C presented the IC success story of Admas FCU to inspire participants through peer-to-peer learning. Admas used a combination of bank loans and IC to finance an oil refinery plant. In order to receive financing from the bank, the union was required to contribute a minimum of 30-40% of the total investment from their equity. Admas decided to issue additional shares in the union to raise money. In meetings conducted with district level cooperative experts and promoters, the union presented their IC plan to 2,000 farmers and subsequently 500 members bought shares. The IC plan generated a total of 3.7 million Ethiopian Birr (ETB), approximately US \$167,000, in internal capital that it combined with a bank loan to build the refinery.

## Results

Seven unions set up IC plans to mobilise investments for flour mill factories or other agro-processing plants, additional machinery, vehicles or to cover operating expenses. Three unions (Duro Abaro, Uta Wayu, and Raya Kajewa) promoted their IC plans through radio programmes to attract member interest and investment.

Becho Woliso and Tsehay FCUs presented their IC plans to the Oromia Cooperative Bank of as part of their loan application process. The bank approved their loan requests for 70% of the total proposed investments, with remaining 30% to be supplied by the unions through IC and other means. Using their IC plans, the unions were able to mobilise the funding needed to secure their loans and proceed with their investments.

**Table: Internal Capitalization results of selected unions.**

Union	Region	Mobilised Capital		Purpose
		ETB (million)	US\$ ('000)	
Tsehay	Amhara	7.8	363	Oil refinery plant
Ras Gayint	Amhara	2.9	135	Working capital
Selam	Amhara	0.8	37	Working capital
Bacho Woliso	Oromia	11.8	549	Chickpea processing
Raya Wakena	Oromia	18.0	837	Flour mill factory
Utawayu	Oromia	6.6	307	Working capital
Total		<b>47.9</b>	<b>2,228</b>	

Several unions used model farmers as ambassadors for their IC plans. When farmers learned that model farmers were purchasing shares, they were more likely to invest themselves.

Based on C4C's introduction of IC the government has given the topic an important priority in the agenda for Cooperative development. Subsequently the project is developing, jointly with the Federal Cooperative Agency (FCA), a manual for cooperative experts and managers of unions and cooperatives that outlines the IC concept and practical steps for implementing IC at the union and cooperative level. For example, the project saw that unions implementing IC plans needed accountability and compliance measures to gain the trust of members and increase their participation in IC. The manual will include provisions for unions to make their IC process transparent and comprehensible for sharing with their members.

## Business Development



## Internal Capitalisation for Financially Healthy Unions

Cooperatives for Change (C4C): Value Chain Approach for Cooperative Development in Ethiopia is a four-year project (2012-2016) implemented by SNV in partnership with Agriterra. C4C enhanced the business performance of 16 Farmer Cooperative Unions, reaching out to 160 primary cooperatives, and benefitting 44,000 smallholder farmers raising their productivity and incomes. C4C strengthened unions to adopt innovative business practices for improved service delivery and output marketing. The project is funded by the Bill and Melinda Gates Foundation. Agriterra also invests in the project with own funds.

[www.snv.org/project/cooperatives-change-c4c](http://www.snv.org/project/cooperatives-change-c4c)  
[www.agriterra.org/C4C-project-ethiopia/](http://www.agriterra.org/C4C-project-ethiopia/)



## Background

Internal Capitalisation (IC) is a way for unions and cooperatives to improve their equity and leverage capital for investments. One modality of IC is issuing shares by unions and cooperatives that members can purchase to invest in the organisation. Each member-share gives the holder the right to vote and to receive a dividend payment, which can be an incentive for farmers to contribute to improving the equity of their union or cooperative. Unions and cooperatives can also make shares available to family members, including spouses, which has the potential to increase women's participation in union and cooperative decision-making and financial transactions.

Beyond creating financial reserves to protect unions during difficult financial periods, IC reduces capital costs (no interest rates), provides working capital, strengthens competitiveness and allows unions to invest in offering better services to members.

## Problem

A lack of equity is a key challenge for unions and cooperatives to survive, grow, compete and realise new business ambitions. Equity is necessary to attract financing from banks: when balance sheets of cooperatives have sufficient equity, external financiers are more willing to provide credit. However, unions and cooperatives are not always aware that equity can be increased through the mobilisation of internally available resources of their members.

## C4C intervention

C4C introduced internal capitalisation at Becho Woliso, Duro Abaro, Ras Gayint, Raya Wakena, Selam, Tsehay, and Uta Wayu unions as an innovative way to raise awareness of the potential of internal resource mobilisation for generating working capital for their operations. Two other unions are following their example.

The project started with workshops to introduce union and cooperative managers to the concept of IC and its legal context, discuss the different modalities and practical steps in applying IC, and present the potential benefits of IC for a union and its members. The trainings were also attended by staff of the Cooperative Promotion Agency, policy makers, bank representatives, and model farmers.

## Lessons Learnt and the Way Forward

Building equity through IC reduces dependency on loans from financial institutions, limits debt, and helps unions and cooperative realise sustainable growth. IC is an alternative financial solution for unions still in a nascent stage in Ethiopia. Based on the positive results from C4C's IC pilots, stakeholders can now to bring this approach to scale in Ethiopia. As interest for IC is growing, C4C recommends that:

1. Unions should involve model famers in the promotion of IC: the IC plans developed during C4C achieved significantly better results when model farmers bought shares, as others tended to follow their example.
2. Unions should promote the IC approach among their cooperatives: IC can also be applied to create a healthy financial situation at the primary cooperative level. Unions can use their experience with IC to assist their cooperatives to set up IC plans of their own.
3. Unions should ensure accountability: Union IC plans should include compliance measures to make their IC efforts effective and to gain trust from the members, so that they are more willing to invest in the union.
4. The government of Ethiopia (FCA) brings the implementation of IC to scale by training unions and distributing the IC manual.

With government support, more unions and cooperatives will be trained with the aid of the IC manual and improve their equity through IC.





This document is based on experiences of C4C project staff and does not necessarily reflect positions or policies of the Bill & Melinda Gates Foundation or the Government of Ethiopia.

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