



## Self-financing, a cooperatives duty



Pic 1: Participants of Internal capitalization and KPIs workshop held at Ngong Hills Hotel Nairobi Kenya. The workshop included two SACCOs from Kenya, one SACCO from Uganda and one Cooperative Bank from Tanzania

## Internal capitalization

As a duty, a cooperative should add value to three of its key stakeholders: owners, investors, and customers. In some cases all these stakeholders are one and the same thing while others are different parties. The value derived from the cooperation depends on the mission of the organization and the need it is trying to fulfill for its members. A cooperative needs may also differ from a company objectives and some of these needs may at times go against one another. For instance a member may have a need to access low-interest bearing loan in a SACCO (Savings and Credit Cooperative) while on the hand need more returns to investment. Despite such limitations, the cooperative also have other benefits that members are sure they can only get them from a cooperative and not from anywhere else.

What value necessitates a member to join a cooperative and not open a private company? The list may be in exhaustive. However the major reasons are categorized as:

- ❖ Economic, social and educational development
- ❖ Sustainability both in the short-run and also in the long-run
- ❖ For the community i.e both the current members and also future members

However, in meeting its objectives, the cooperation needs money which may come from the internal and also external sources. With the political nature of our cooperatives, the external funding sometimes leads to lack of independence in decision making of the organization since the external forces may influence directly or indirectly. Its therefore of importance to ensure that those charged with the running of the organizations understand the motives why the members invest their money in the cooperation.

External funding has however been serving as a scape goat to the Societies hence bridging the gap where internal funds are inadequate. Since they are readily available to the organizations offering them, sometimes the members may not see a reason of increasing their capital contribution. This may seem a low hanging fruit since its readily available but those who have been using these funds have their other side of the story. They describe external funds as high costs, restrictions by providers, limitation of growth amongst others. Of these reasons, one caught my attention. In order get the external funds, the capital providers require that the members invest a certain proportion of the money in the business before they can qualify for any loans for a certain amount. This shows that however available the external funds are, they are dependent on internal funding.

Internal funds are therefore the only amount that may have lesser restriction since it belongs to the organization hence can be used for the business of the organization freely.

***It is not easy to get your money into other people's pockets.*** Same way it is even harder to get other people's money into your pocket. Same thing also to members, you cannot get funds from them unless they believe that you can offer them value. Without this then in no way will you access these funds. The organization therefore need to get it clearly what value in real terms they will add to members so as they can be able to invest.

A well internally funded cooperative will earn organization a very good reputation not only from the members but also from the external parties who may be potential members or providers of external funds. This is as a result of:



**Why internal capital**

- Trust
  - Proof that the society is adding value
- Economic activity
  - Indicates that the activity is profitable
- Buffer
  - Indicates that the cooperative can deal with disappointments
- Sustainable
  - Shows that the cooperative is working for future development
- Cost effective
  - Internal capital costs less than external capital
- Equity
  - Leverage for external financing

It is therefore no longer an alternative for a cooperative to internally fund its activities but a duty. For instance sustainability which is cited as the one of the key reason for joining a cooperative can be ensured and if the member are convinced beyond reasonable doubt that you can deliver what they want then you are assured they will give as much as you want.

### ***What do I need to improve my internal capital?***

As is always the case for anything worthwhile, there is need for any organization to ensure that the pre-conditions are in place.

#### *TRUST*

For members to give you their fund, there must be trust. A very key component of the cooperation, it takes time to build but will only take a split of a second to disappear. To win the trust, an organization needs to take care of a range of issues which are interrelated. Every of these contributes towards the cooperative winning the most precious leverage to members' funds; TRUST. These preconditions include:

- ❖ Good governance
- ❖ Transparency and accountability
- ❖ A clear strategic plan
- ❖ Member commitment and involvement
- ❖ Competent management
- ❖ Entrepreneurship and business approach

When these ingredients are brought together in the right proportions, they result into trust which then gives members courage to invest their money into the cooperative. Lack of one of the pre-requisites may hurt the whole process of capitalization. For instance, the members will require higher returns on investment. In order to attain this, there is need for a business approach in the cooperative business.

### **Modalities of Internal capitalization**

Several modalities have been proven to be effective in boosting cooperatives internal capital both in African context and also in the western context. Nevertheless, most of these modalities are applicable regardless of where the cooperative is located. Some modalities that have been proven applicable are:

1. Member capital
  - ❖ Common shares
  - ❖ Special shares
  - ❖ Member accounts
  - ❖ Member deposits
2. Institutional capital
  - ❖ Retained earnings
  - ❖ Reserves

Regardless of where the capital comes from, either from retained earnings or from capital contribution, there must be existence of trust amongst the members, management and board.

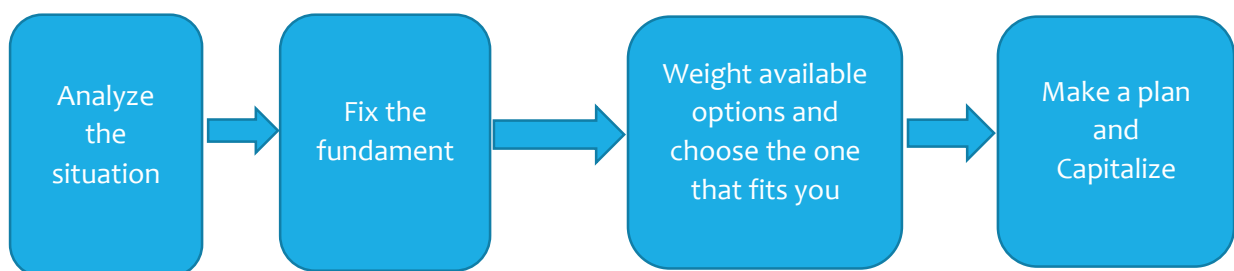
### **Capitalization plan**

As the famous adage goes, Rome was not made in one day, so is trust. It is good to appreciate the fact that trust is not build in one day, it needs commitment and time on both sides. However hard it is to be earned, it will pay off in the long run.

Therefore, for any modality to be successful, there is need for a plan to be in place. However, you may realize that before you make two step ahead there may be need first to make one step behind so as to enable you to sustain your progress.

So much said and done, always Keep it Simple. In your plan on capitalization, let it be a step-by-step approach.

**GOOD LUCK!**







Participants of Wakulima SACCO participating in a discussion during the Internal capitalization and KPIs workshop.



Above: Participants from Kigarama Peoples SACCO discussing with the facilitator. Right, KCBL participants sharing their learning objectives during the workshop. Below, Team Kiambaa SACCO.

