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EXTENDED ABSTRACT FOR PAPER SUBMITTED FOR PRESENTATION  
FOR THE

ANSER/ARES 2010 CONFERENCE

*Social Innovations for a New Era: Contributions from Nonprofits and the Social Economy.*

Third Annual Conference  
June 2 to 4, 2010

# Cooperative Banks and the Financing of Social Enterprise Innovation in the Agricultural Sector: A Case study from Almería, Spain

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## ABSTRACT:

Our paper analyses how cooperative banks can act as a catalyst or "hub" in helping to solve/address the social-economic issues through the provision of financial services to other social and cooperative enterprises. We refer to a case study involving an agricultural community located in a historically impoverished, and now thriving, area of southern Spain in which *we investigate the cooperation established and interaction between the local agricultural cooperatives and the cooperative bank and its role in financing innovation in the process of development*. This illustrative case study is part of a larger in-progress multi-country European and South American project which involves not only cooperative banks but other forms of social investment and finance.<sup>1</sup> Here, we identify general strategies taken by the cooperative bank, such strategies contributing to the cooperative bank playing a key role in the transformation of an underdeveloped, nascent farming area into a largely cooperative agricultural sector (expanded into a local production system) which also produces and exports innovative agricultural knowledge and technology.

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\*This extended abstract should not be quoted or referred to without permission of the authors. It is a work in progress and part of a larger project. Should the reader wish a fuller version of the paper, which includes a bibliography, more details, and data and a richer historical background, not to mention a more complete theoretical approach, please contact [cgiagnocavo@ual.es](mailto:cgiagnocavo@ual.es)

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<sup>1</sup> EURICSE (Trento, Italy) and other European research centres are partners in the research project "Cooperative Bank Strategies for Social-Economic Problem Solving: Supporting Community Social Enterprises" along with the University of Almería, Spain. Further partners will be added in the second phase.

## SUMMARY OF PAPER:

Background: In Europe credit cooperatives were founded to provide credit to enterprises so that they could modernise and gain access to markets. This model was in direct contrast to the “charity” model, as was the model subsequently adopted in North America to help “people of small means”<sup>2</sup>. Of importance is the fact that development was based on local initiatives of people who had a common need and not by state controlled entities seeking to impose “tools” of economic development.<sup>3</sup> In keeping with such historical origins, we investigate how cooperative banks aid or promote social enterprises. Our approach begins with understanding the social and financial needs of people or communities and, thereafter, an assessment of the cooperative banks’ role in setting up strategies that assist in the successful founding or assisting of social enterprises which address specific social-economic issues. (For the purpose of our study, “social enterprise” is given a purposive, not legalistic, definition.) . In addition, there is an investigation of, and strong emphasis on, social enterprises as community-based and -originated “problem-solvers”. (This approach may be seen to unite both the European “social enterprise” (EMES definition) with the more North American “social innovation” of Dees and CASE.)

The importance of the role of cooperative banks as “catalysts for economic and social cohesion” was noted in a 2007 EACB study<sup>4</sup> (a general survey) and more recently within the ILO Sustainable Enterprise Programme.<sup>5</sup> In a global context, this issue is particularly relevant given limited resources by governments to deal with pressing social issues. Only 1% of existing economic research in Europe is being devoted to cooperative banks.<sup>6</sup> This project works within this void and as well contributes to the investigation of financing social enterprise. Of particular note in our case study is the role of the cooperative bank during a society’s transition from dictatorship to

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<sup>2</sup> Meyer, M. (2008) Does Capitalism Need Cooperation? Cooperative Business Journal Nov./Dec. p. 4

<sup>3</sup> Birchall, J. (2003) Rediscovering the Cooperative Advantage, Geneva, ILO, p. 48-51

<sup>4</sup> European Association of Co-operative Banks (2007) “Cooperative banks: Catalysts for economic and social cohesion in Europe”

<sup>5</sup> International Labour Organization, (2009) “Resilience of the Cooperative Business Model in Times of Crisis”, Sustainable Enterprise Programme.

<sup>6</sup> IMF Working paper “Co-operative Banks in Europe: Policy Issues”, July 2007.

democracy, with all the attendant social, political and economic transformations which occurred during such time.

**Case Study:** We present a case study in Almería, southern Spain, and outline the activities of a broad range of actors, most notably that of the cooperative bank and the agricultural peasants, focusing on implementation and on-going interaction. The province of Almería is known within Europe as an example of smallholding rapid development due to the expansion of, and innovation within, intensive agriculture (mainly greenhouses). More recently it is gaining prominence for its integrated approach to agriculture which includes wise use of resources, bio-control instead of pesticides, increased production based on innovative technology and a focus on ecological product. These innovations are largely due to the direct investment and R&D of the rural cooperative bank. It is also a model for its development of a cooperative based local production system, such system comprising not only agricultural activity but related “spin off” businesses.

In 1955 in terms of provincial GDP per capita Almería ranked last in an already relatively poor Spain. Drought-ridden, devoid of infrastructure and with an undernourished and undereducated population, subject to a dictatorship wedded to autarky, there was little promise for economic growth. Many of its poor population had emigrated to find work elsewhere, leaving in tatters what little social cohesion existed by virtue of the institution of family. Today, it is ranked within the top third of Spain’s provinces, with wealth creation widely spread throughout its population. The average land holding, still, of an agricultural enterprise is a mere 1.5 hectares (approx. 3.75 acres), most owned by families or SMEs who join agricultural cooperatives. The development of Almería, serving as an example of cluster support for a successful sustainable, non-industrial development model, cannot be explained or understood without investigating the active implication of both the local cooperative bank and the social economy movement of the farmers.

While the financial needs of the farmers in the 60s were relatively low compared to the present day, it was a crucial need, as those without capital lacked a method to turn the only thing they did have, their labour, into capital. (Current modern sustainable agriculture financial needs in

Almería are up to 10 times higher than that of traditional agriculture.) The rudimentary “innovation” of the early stages of agriculture consisted of peasant farmers noticing that covering the earth with sand conserved moisture and filtered the poor salinated water of the area. Using the abandoned grape trellises of former times covered with cane sticks and eventually plastic increased yields significantly and saved scarce water resources: The early greenhouse was born. Equally important was the need for capital and organization to create a system of commercialization, such as a cooperative umbrella association to help the small businesses compete in difficult markets.

In light of this, a few committed people started visiting small towns in the province, explaining how cooperatives worked, encouraging cooperative formation and providing rudimentary banking and the pooling of cash, which facilitated the buying of small plots of land and the basics to begin. Initially deposits were kept in an established commercial bank, with the founders taking the money out every morning, making the rounds to those peasants who needed cash, and depositing the balance in the bank at night, only to repeat the process every working day. In 1964, as rural cooperative development took root in Almería, a new rural cooperative bank was created under the umbrella of the Spanish financial cooperative law to focus on rural needs: Caja Rural de Almería (now Cajamar).<sup>7</sup> In the following 12-13 years it helped develop the Almería cooperative movement and established innovations in both information and agricultural technologies (it purchased its first electronic computer in 1974). Its actual financial activity was straightforward, its investment in innovation focusing instead on R&D initially through the setting up of experimental farms.<sup>8</sup>

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<sup>7</sup> It should be noted that “cooperatives” under Franco were not the cooperatives we know today, but rather initially intended to keep workers under control and content with a tiny parcel of decisionmaking power. However, the founders of Cajamar were aware of the cooperative movement in other countries and aware of their power for local development.

<sup>8</sup> The innovative activities of the cooperative bank changed over time, based on the needs of the cooperative agricultural sector and external economic, social and political events. We divide the agricultural sector activity of Almería in 4 stages: Initial activity (pre1960-1975); The “Take-off” period (1975-1990); Maturity (1990-2000); and Spillover (2000—onwards). We have described each stage and identified the financial needs of each stage in a larger paper, in which we go into more detail on the role played by the various financial entities, predominantly that of the cooperative bank, Cajamar. We also have investigated the relationship between such research and production and profitability in the sector as well as charted the growth of the cooperative bank and the agricultural cooperative sector.

A key strategic decision was taken in 1975/6: three experimental farms were initiated and fully financed by the cooperative bank with the goal of increasing the technical level of the agricultural cooperatives by testing, developing and sharing results with the agricultural cooperatives. Its purpose was to transfer in part, experimental and crop risk (and thus, financial risk) from the farmer to the credit cooperative. Water technologies were an important area of research. The experimental farms gave courses and published both scientific and informative reports, widely disseminated amongst the cooperatives and the farmers. At such time there was neither a university nor research centers which could have fulfilled a research function. In 1975/6, as well, the Technical Agricultural Service, fully financed by Cajamar, was created, where the viability of new technologies was tested in order to provide information on establishing the adequate finance mechanisms that needed to be put in place for each new technology (basically, a system of risk assessment). While certain technologies were indeed innovative, whether they were or would be profitable was an entirely different matter.

Franco died in 1975 and Spain began its transition to democracy. One would be tempted to think that the economy and society would immediately improve, but while there was a clear improvement in terms of political freedoms, the economic path upwards proved more complicated: high unemployment was coupled with a population unfamiliar with entrepreneurial tactics or the knowledge of how to compete in foreign markets. Innovation was necessary on a social, economic and strategic level and the cooperative bank was a partner, perhaps the instigator, for the farmers in such process, navigating the demands of the then European common market intricacies.

As the sector has modernised, the cooperative bank continues to finance cooperative agricultural innovation in terms of bio-control, water resources and irrigation, greenhouse engineering, food safety, organics, sustainable environmental practices and social programs (social inclusion of immigrant workers, school nutrition education, marginalized workers, rural women, etc.). As well, innovative strategic decisions on the part of the cooperative bank have been taken in order to continue its local role, as well as maintaining its strength and pursuing growth (in keeping

with the significance of local context for innovative action in increasingly globalised economic integration). Cajamar is now Spain's largest cooperative bank and is among the top 20 Spanish Banks. Its agricultural cooperative model based on small holdings is studied as a model for China, South America, etc.

The Almería example represents a variant of the industrial district<sup>9</sup>, albeit agricultural, characterized by both its active community members and the population of enterprises within Almería's geographical and historical boundaries. (We recognize, and discuss, that there is some argument as to whether it is a "district" or "cluster"). The role of finance, i.e. the Caja Rural de Almería, is central to such model. Its evolving and flexible tactics have also been important in addressing the weaknesses and limitations of the classic industrial districts and related financing. In addition, although a case has often been made for cooperative finance based on information and transaction costs efficiencies (e.g. that monitoring is easier and knowledge more implicit or community/trust based, thus the risk of "incompleteness" of both information and contract is reduced), we argue that in our case the cooperative bank's role went far beyond a relationship-based supply of credit; rather it was a constant source of and impetus for sustainable innovation, both social and technical and a co-creator of development.<sup>10</sup>

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<sup>9</sup> We rely on G. Becattini's notion of industrial district (rather than Marshall's) wherein industrial districts tend to identify the local productive system with the local social system.

<sup>10</sup> A significant result that flows from conceiving of the cooperative bank as more than just a local source of capital avoids several problems inherent in both territorial and the economics of information approaches; That is, if the limited control-based territorial model, premised as it is on the economics of information and transaction costs efficiencies based on proximity, is adopted, any advantage that cooperative banks may be seen to have disappears as soon as the cooperative bank experiences significant growth or goes beyond its territory (even though growth may actually be key to capturing more funds to finance the original territory's financing needs). By approaching the role of Cajamar as a co-generator of development and as an important contributor to civil society in the development of Almería, it leads us to re-examine our notion of "territory" and "local development". For example, if we look to how "territories" or "communities" may be constructed in the case of "ethical banks" we can see that they rely on a community that shares values but not necessarily physical proximity. Perhaps we can redefine the societal role of finance using "active" cooperative banks as an example. Their unique, inherent characteristics allow them to fulfill certain social/developmental goals, where the "territory" is one of community (which they help to construct) of values rather than one necessarily based on a pre-existing relationship with a geographic area. Indeed, given the migration patterns of those involved in the "miracle" of Almería's development, the sense of "community" is something that arguably had to be created. First there was vast emigration out of the territory, followed by immigration of farmers who were re-located from other areas. The sense of community perhaps was more about economic activity, at least at the beginning, than it was about any particular "embeddedness" in the pre-existing social fabric. Hence, cooperative finance played role in defining/building community, and not the other way around.

Several observations are key to the social, political and economic conditions found within our case study:

-The cooperative bank under study was formed during the Franco dictatorship and operated largely “under the radar” until it was too rooted and influential to stop. The regime had decimated a large proportion of its citizens through inept economic policies and cruel political repression and in Almería this was amplified because of lack of infrastructure and investment and a harsh, near desert, environment. We set out particular historical social and economic institutional deficiencies, which resulted from the Regime, and suggest that Cajamar acted as a catalyst in the rebuilding of Almería’s social economy and filled a civil society vacuum. Almería was a wasteland, people had migrated out, there was little sense of civic or cultural community (labour and other leaders had been executed as had a large proportion of educators and academics) and a profound distrust of basic institutions such as the state and the Church (which was aligned with the Regime). The family (particularly amongst the lower classes) was the only trustworthy unit, in spite of being stretched to the limit at times, often forced to emigrate to other richer provinces (such as the Basque region, Madrid or Catalonia) or other European and South American countries. The cooperative bank was in many cases, the first non-family institution in which the peasants had placed their trust.

-Other forms of financing were present in the province at the time, including private banks, commercial banks, foreign capital, savings banks and certain government development funds, yet they played almost no role in the agricultural development of the area, which was largely responsible for the area’s economic success. Such other sources of finance ignored the peasants, as they had no property with which to secure their loans. Government development schemes assumed that any aid to peasants would merely allow part-time farming, leaving the peasants to work as cheap labour for other interests. In addition, the development projects of the Franco government were often ineffective at best, disastrous at worst, and unsustainable across the board, relying as it did on exploitation of scarce underground water and other limited resources.



- The first simple innovation (within the context of the finance sector of Almería) of the cooperative bank was to break the rules of traditional finance and give unsecured loans, based solely on the promise of labour, the only thing the peasants had to offer. As a result, it also put Cajamar in a different position than a traditional provider of credit or capital: it had an interest in making sure that whatever activity the farmers engaged in was worth financing. This simple, although paradigm changing, observation has informed the strategy of the cooperative bank since such time, transforming it from playing a mere “*rentier*” role, to that of being an integral “co-producer”. In keeping with such expanded role, the cooperative bank also assumed a large portion of experimental and financial risk, investing in knowledge production and dissemination.

We illustrate through our case study the evolution of the role and activities of a cooperative bank in the development of its community, moving from a primary agricultural system to a local production system (akin to an industrial district). As a pro-active agent of technological, economic and social innovation, such cooperative bank has also fulfilled a central institutional role in the contribution to a civil society in a population left vulnerable by an economically and politically repressive regime.

It has done so by carrying out the following strategies:

- committing itself financially and socially to a vulnerable community such that initially the only “security” it had was to make sure that the activity of its members was worthwhile funding, thus implicating itself in a profound way in the economic and social activities of the community;
- encouraging the establishment of a cooperative economic “fabric” through the set up of cooperatives and the coordination of family/SME based enterprise;
- building on but going far beyond relationship-based finance through pro-active production and dissemination of technical, economic and social knowledge and playing an active role in the incorporation of the same;

- shifting and transforming individual economic risk (including technological and experimental risk) to community risk, thus involving not only the cooperative bank, but the community in shared success (the financing and management of experimental farms and investment in R&D was crucial);
- recognizing the transformation from “peasant” to “agricultural entrepreneur” and providing management and financial training as well as support to other institutional players;
- assuming the role of intermediating international and political changes and EU policy for community members;
- pursuing organic growth strategies in order to sustain innovation and sector growth amongst its members and as well, to diversify its activities beyond local specialization (both sector and territorial) thus protecting against undue potentially volatile concentration; and
- pursuing strategic growth strategies in response to government imposed integration in order to maintain its strength both inside and outside its original territory.

Through our case study, we have shown how a cooperative bank, in concert with a cooperative movement has been able to co-construct an economically stable community through sustainable innovation. While we recognise that each region, culture and historical place is unique and hence we reject a “one size fits all” approach to “best practices”, the above observations may prove useful in setting out characteristics of successful cooperative bank strategies.

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