

**NEW CROPS**  
**Cooperative and social enterprise Case study**  
**CAJAMAR CAJA RURAL**



**Executive Summary**

This case study focuses on the start-up of a cooperative rural bank and the role of cooperative credit in social-economic development and innovation.

In 1955, the Andalucían province of Almería, in south-eastern Spain, was a drought-ridden area with little infrastructure and a GDP per capita of less than half the national average-it was one of the poorest areas in Europe. Most residents who had not already fled in search of better opportunities were merely subsisting.

Today, it is the top Spanish fruit and vegetable growing area with an income among the wealthiest third of Spanish provinces in GDP per capita. Almería's rapid rise is the story of two interlinked co-operative institutions: its co-operative bank and its co-operatively organized farmers and their related organisations. This turnaround from destitute province to agricultural co-operative industrial district or cluster is a unique case as it was not born from huge industry but rather small business organised into agricultural cooperatives and financed by cooperative credit.

Almería's average landholding is still only 1.8 hectares and most are held by the province's 15,500 small-scale or family farmers who utilize greenhouses and who are members of cooperatives. Cooperative investment in I+D+i and the attention to appropriate technical and market knowledge creation and exchange have been central elements in the success of the model. The organisational characteristics of the cooperative cluster has allowed economies of scale on a sector level so that it could compete with other areas in which large companies were already operating.

## Section 1: Description of the case

### 1.1. Context and history

After the Spanish civil war, Almería was a devastated area. It also had few resources, lacked infrastructure and was very scarce on water, a crucial resource for farmers. Farming was done around the banks ("vegas") of mostly dry riverbeds, which depended on runoff from the mountains and sporadic rains. Farming was subsistence farming and starvation was not uncommon post war.

A huge aquifer was discovered in an area close to Almería in El Ejido. Small gas pumps were used to bring up water but were very inefficient and expensive for the farmers. Franco's dictatorial regime initiated development efforts in the 50s and 60s by rolling out an electrification plan and installing water pumps that utilized this underground water. Farmers were lured to this rudimentary farming area by being able to purchase land up to a limit of 3.5 ha. The overall intention was to increase agricultural production in the area. However, it was an exploitive arrangement, environmentally unsustainable and designed to ensure that farmers would continue to be subsistence farmers and cheap labour for others.

The introduction of the cooperative business form changed this dynamic and the social-economic circumstances.

### 1.2. Life cycle

#### i) Start up and founding

Before the beginnings of the cooperative bank, Caja Rural de Almería (activities commenced in 1963, now Cajamar), there were other sources of finance operating in the region: regular commercial banks (for example Banco Bilbao, its head office in the wealthy Basque region) foreign capital, private banks, savings banks related to the Church, as well as some public finance in the form of development programs. While the savings bank was involved in social programs, such as schools, residences, social housing, seniors clubs, etc. it did not lend to poor farmers, although it began to offer some lines of credit to the established and profitable inland grape and citrus rural agricultural sector.

It is useful to give a bit of background on cooperative bank legislation under the Franco Regime: In 1942 through its Law of Cooperatives, the Regime recognized the importance of having a cooperative movement which was structured to be consistent with the Regime (which should not be confused with recognizing the importance of the cooperative movement). This eventually led to the creation in 1957 of a National Caja Rural (rural cooperative credit bank) which took under its wing the already existing cooperative rural banks operating in Spain. 1962 saw a new law for the regulation of the finance sector in general in Spain and in 1964 the National Caja Rural was reorganized and strengthened and put under the supervision of the Minister of Finance. Important benefits were available to those credit cooperatives that fulfilled certain requirements (5 years of operation, prohibition on being a second level cooperative and maintenance of assets superior to 100 million pesetas.) This created a big impetus for rural cajas as they had thus the opportunity to access official agricultural credits and to restructure with a more solid base.

The Almería cooperative bank's activity was initiated quietly by a group of dedicated young lawyers in Almería in 1963, which were looking for an economic model that was an alternative to both communism and fascism. The farmers had no access to capital and were isolated in small villages with poor access to markets. They had to sell their

product at the “farm gate”, which means they sold their individual production to intermediaries and had no idea what the market value was for their product. The founders had heard of the Raiffeissen model and decided to try to copy it, starting at “kitchen tables” in the small towns of the province of Almería, pooling resources to lend to farmers who needed financing. One of the main founders, Juan Del Águila, described how he and his wife would travel the countryside dirt roads in their small car, going from town to town, talking to the farmers. When asked how he “convinced” the farmers to join a cooperative, he responded quickly— <We didn’t “convince” anyone. We explained to them what a cooperative was, how it functioned and the benefits of belonging to one. Based on that and the fact that they had common sense, they chose the reasonable option>. The young lawyer would collect money from farmers and every night return to the city to deposit it in a Bank, taking it out again in the morning to do the rounds of “kitchen table” lending. The cooperative bank was officially set up in 1966 and in 1967 Cajamar was permitted by the state to administer agricultural loans to farmers.

During this time, the farmers began using a growing technique to save on water and to improve growing conditions. Given the land was so poor, they put down a layer of fertilizer and then put a layer of sand on top to keep in the fertilizer and maintain moisture. Walls of cane were constructed, and later posts were utilised from an outdated table grape production farther inland. When plastics were available, plastic sheeting was put around the walls and also overtops to create a rudimentary greenhouse, utilising the one resource that was in great supply: the sun.

Production did increase, particularly in the months where production was not possible in other parts of Spain and Europe. But this was not an end to problems. Outside buyers offered abusive prices. Price fixing auction houses sprang up. Farmers found it extremely difficult to obtain credit.

They soon realised that individual farmers’ main problem, in addition to lack of financing, was a lack of bargaining power and poor access to markets. Technical knowledge was also lacking as there were not sufficient channels for the farmers to share information. Cajamar realised that it had to support a whole cooperative fabric in order to address the problems.

## ii) Organisational design

When Cajamar officially became a credit cooperative, it could only give credits or make loans to agricultural cooperatives. To this end, it followed a strategy of creating cooperatives in many small towns and villages, dedicating resources and people to the task. Deposits from the interior towns, where during the 50s and 60s the exportation of oranges and grapes was still somewhat profitable, were used to finance the emerging needs of the new irrigated farming on the coast. There was a double objective: to find new clients and to create an agricultural cooperative network throughout the province. (As the legislation was progressively relaxed, the commercial strategy was varied. For example in the 1980s members did not have to be farmers and the percentage of such credit could be up to 50%. Cajamar strove to make the majority of its clients cooperative members, regardless of sector origin.)

In 1968 Cajamar became the intermediary for the province of Almería for those agricultural loans given by the official bank. In 1970, Cajamar, conscious of its rural roots and focus, proceeded to rapidly open branches in all of the small towns and villages of the province, such “branches” being modest buildings amongst the greenhouses. It grew along with the agricultural sector. In 1971 vegetable cultivation occupied 9,000 hectares and had become the motor of the Almería economy. In 1972, the cooperative bank opened its own office in Almería city (until then having operated out of the Union Organization building)

### iii) Growth and expansion

In 1973 Almería experienced an environmental disaster, torrential floods wiping out a huge portion of the greenhouses and farmland. Cajamar administered more than 860 million of pesetas in official loans to the farmers. Realising its shortcomings in handling such volume, in 1974 it began the process of information development and signed an agreement for the acquisition of its first electronic computer.

In 1975 Franco died and Spain began the transition to democracy. Noting the end of the dictatorship, one could be tempted to think that the economy and society would immediately improve. While there was a clear improvement in terms of political freedoms, the economic path upwards proved more complicated. Unemployment was high, there was little culture of investing, Spain was isolated and there was a muddled vision of the way forward with the loss of the paternalistic state and little sense of external international competitiveness. Not to mention fear of further violence and instability should the delicate process of transition to democracy fail.

From the social perspective, growth had a cost. Farming was hard work and in particular the Almería model depended on the exploitation of the whole family. According to a study, 75% of parents preferred that their children go to university instead of following the path of such a hard life and only .5% wished their children to become farmers. The sense of one's home place, always an important part of Spanish life, was disoriented as there had been so much movement, and social and community structures were crumbling. In total the population of the area had grown over 250%.

There was a deficit of services and alcoholism, delinquency, etc. was on the rise. As farmers entered into more and more debt, suicides became more common when enterprises failed. The growing agricultural model began to show signs of stress, particularly in the most concentrated areas of greenhouses. As land became more in demand, it became scarcer and prices climbed. At the same time, overexploitation of underground water was threatening the levels and the saline content was increasing due to the intrusion of seawater seeping in to fill the gap. Mineralization of the soil increased, pesticides started to accumulate, plagues increased, erosion was a problem as was waste disposal. Production started to decrease and energy prices started to climb. Supply started to overtake demand as other areas of Spain also had increased production (Murcia, Canary Islands, Valencia, etc.). Countries which had a favoured status within the European Common Market and countries which had agreements which gave them preference (Holland, Morocco, Israel) were serious competitors. This weakening position gave more market power to large agri-food companies.

The challenges for the cooperative farmers in this stage of development not only were the adjustments to be made in the transition to a market economy and to a democracy, but there was also a need for innovation, on a social, economic and strategic level. In the province of Almería at least, Cajamar was a partner, perhaps the instigator, for the farmers in such process.

A key strategic decision was taken in 1975/6: three experimental farms were initiated and fully financed by Cajamar 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 no university or research centre 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.

Absent channels to directly export product, COEXPHAL (the association of co-operatives and producer organisations) was formed in 1977 with the support of Cajamar in order to give farmers access to external markets.

Although Cajamar provided financing, more importantly it acted as a catalyst in building organizational strength, providing the means by which poor farmers could turn their labour into something of value. It had a crucial interest in making sure the agricultural co-operatives' activities were worth financing, because the success of the cooperative bank depended on it.

The initial catalyst role of Cajamar and the co-operatives grew into strategic sector level innovation. In the 1970s, the experimental farms tested, developed and shared the results of new agricultural technologies such as improved greenhouse design and new irrigation techniques, essentially transferring the financial risk of innovation from the farmer to the credit co-operative. Almería cooperatives responded to new challenges brought about by globalization by investing further in R+D+i: sustainable greenhouses, biological crop control, genome research, shorter supply chains and renewable energy.

The Almería model of production, based on small holding (1.5 hectare) family farms and SMEs, has grown into an agricultural cluster. The synergies created by the different co-operative institutions have allowed Almería's agricultural and credit co-operatives to thrive: Cajamar is now Spain's largest co-operative bank, and the farming area is now the largest co-operative vegetable growing area in Europe, with the majority of cooperatives using biological pest control.

The current Cajamar entity is a result of mergers with other rural credit cooperatives across Spain.<sup>1</sup> It is present in 41 provinces of Spain as indicated by the dark blue areas below (source Cajamar):



The structure of Cajamar has changed over time, as mentioned above by mergers. Recently, a Credit Cooperative Bank (BCC) has been set up, which has 32 rural banks as shareholders. The first group of these shareholders are the Cajamar Cooperative Group,

<sup>1</sup> In Andalucía (Almería and Málaga in 2000), Murcia (Campo de Cartagena in 1989), Madrid (Grumeco in 2000), Castilla y León (Caja Rural del Duero in 2007), Baleares (Caixa Rural de Balears in 2010), Comunidad Valenciana (CajaCampo in 2011, Caja Rural Castellón y Ruralcaja in 2012, Caja Rural de Casinos y Crèdit Valencia in 2013) and Canarias (Caja Rural de Canarias en 2013).

which includes Cajamar and 18 other rural cooperative banks. Secondly, there are 13 other rural cooperative banks that are not part of the Cajamar Cooperative Group, but are shareholders of the the BCC.

#### iv) Crisis and/or change

Cajamar has gone through many periods of crisis and change. First, there was the transition to democracy which led to the opening of competitive markets. It was no longer a question of just financing production, but rather steering the sector to become agricultural businesses and entrepreneurs. The environmental degradation of the misuse of pesticides and exploitation of water was dealt with by an investment in I+D and the financial crises was dealt with by being the leader of a group in order to stabilise the banking system and head the mergers with other smaller entities. This was further built on by creating the overarching entity BCC. Now the challenges lay not only in the globalisation of markets, but also in meeting regulatory standards. In the words of the Chairman, Luis Rodríguez: *the most important and fundamental one [challenge] is to have overcome the revision of asset quality and the exercise of stressing the balance, prior to the incorporation to the Supervisory Single Mechanism. It also has been a year of radical changes to adapt us to a new environment and to strengthen us to the new demands imposed to the financial sector.*

### 1.3. Core business model

Cajamar continues to maintain its links with the rural community and to promote its agricultural "DNA". It supports SMEs, family businesses, agro-business, the real economy and the social economy. It has small offices in towns where there are no other financial services present. Shareholder banks do not find the business volume of small towns profitable enough. The Cajamar foundation continues to fund the experimental farm, Las Palmerillas and also economic and social studies.

In order to do so, it helped set up export institutions, R+D experimental farms, knowledge transfer methods, small local branches, help with regulatory requirements, etc. It also realised that the farming methods needed to be environmentally sustainable in order to be economically sustainable. As the sector grew, so did the cooperative bank, in what can be described as a „virtuous circle“.

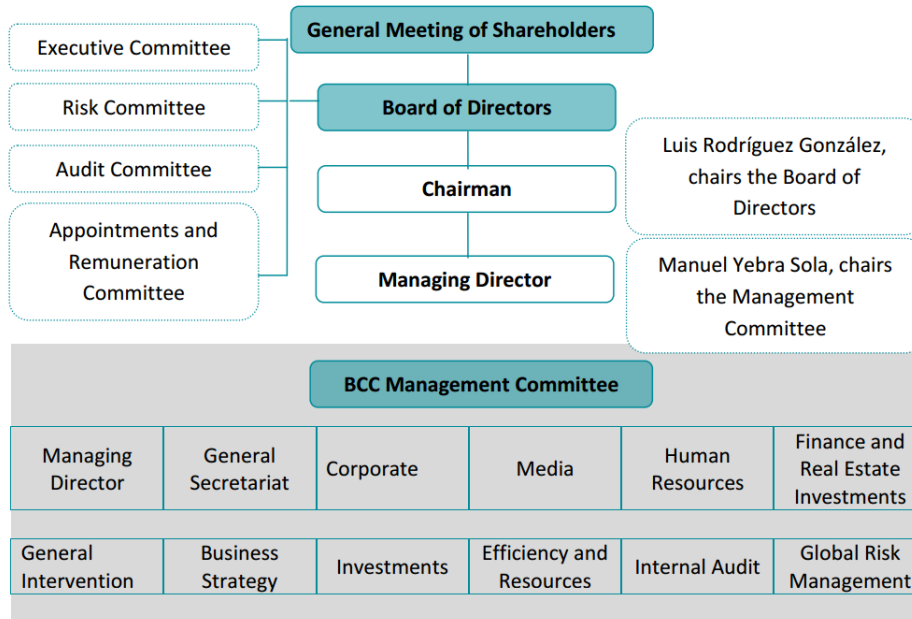
### 1.4. Institutional/governance structure

BCC manages the Cajamar Cooperative Group, being responsible for its day to day functioning, setting commercial policy, procedures and risk controls, treasury, as well as the issuing of financial instruments, commercial plans and budgets. It prepares consolidated accounts and deals with the supervisory agents and markets. It also looks after the compliance with good governance standards and best practices. It is governed by the European Central Bank. BCC is active in the market through the 1,258 offices of the Cajamar Cooperative Group.

BCC has a general assembly, in which members vote. There is also a board of directors, currently composed of 11 board members, 3 of which are women. The Board of Directors has set up, as a decision-making committee, an Executive Committee, with delegation of general decision-making powers. It follows a code of good corporate governance in which transparency and flow of accurate and timely information is central to its governance. Its bylaws and general assembly rules are published. Its management is structured as set out in the chart below:

## Government bodies and Management of Banco de Credito Cooperativo

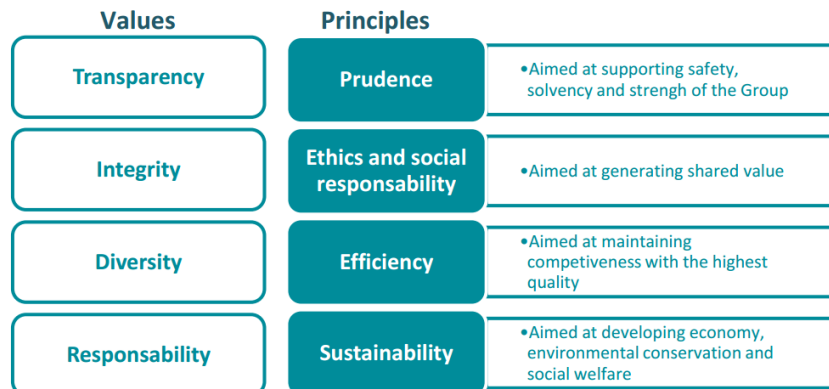
The General Meeting of Shareholders is the supreme body of Banco de Credito Cooperativo, being the Board of Directors and its three Committees the natural bodies of representation, administration, management and supervision of the Entity.



The functions of the General Meeting of Shareholders in regard to the control and monitoring of the entity are:

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>• Approval of annual statements, distribution of the profit and approval of corporate management.</li> <li>• Appointment, reappointment and removal of Directors, besides of the ratification of themselves by means of co-optation.</li> <li>• Appointment, reappointment and removal of statutory auditors.</li> <li>• Modification of Articles of Association.</li> <li>• Increase and reduction of share capital.</li> <li>• Exclusion or limitation of pre-emptive subscription rights.</li> <li>• Transformation, merger, spin-off or global assignment of assets and liabilities and transfer of the ownership abroad.</li> </ul> | <ul style="list-style-type: none"> <li>• Dissolution of the Company.</li> <li>• Approval of final liquidation balance sheet.</li> <li>• Approval of the establishment of remuneration systems for Directors and senior executives of BCC consisting of the delivery of shares or rights thereto or that are linked to the value of such shares.</li> <li>• Issuance of debentures and other negotiable securities and delegation to the Board of Directors of the power for their issuing.</li> <li>• Authorization to derivative acquisition of own shares.</li> <li>• Approval and modification of the Rules of the General Meeting of Shareholders.</li> </ul> |
|---|---|

Cajamar also has an ethical policy management system (source Cajamar):



## 1.5. External relations

Cajamar has close relationship with the agricultural sector, cooperatives and SMEs. It is a member of the social economy association (CEPES). It sponsors various chairs in universities across Spain. In addition to local external relations, its board supports various initiatives on a global scale:

❖ Principles of the United Nations Global Compact. The Group supports the Global Compact and works to the dissemination of its ten principles, based on human, labour, environmental and fight against corruption rights.	❖ Women's Empowerment Principles: An initiative of UN Women and the Global Compact of the United Nations. With this signature, the Group assumes the public commitment to align its policies to move forward the gender equality.
❖ Caring for Climate: an initiative jointly convened by the Global Compact of the United Nations, the United Nations, the United Nations Environment Programme (UNEP) and the secretariat of the United Nations Framework Convention on Climate Change (UNFCCC). The aim is to prevent the crisis of climate change.	❖ Carbon Disclosure Project (CDP): The CDP is an independent non-profit organization that works for the reduction of greenhouse gas emissions and for a sustainable use of water. According to this accession, and as a demonstration of its commitment to the environment, the Group is committed to measure, make public, manage and share its environmental information.
❖ By the end of the year, the adherence to the Code of Good Tax Practices of the Spanish State Tax Administration Agency (AEAT) was also approved.	

## 1.6. Economic data

As of 30 September 2015, the Cajamar Cooperative Group had assets of 40,464 million Euros, business volume of 67,917 million Euros, Solvency coefficient of 11,47 %, phased CET1 ratio of 10,97 %, 1,258 offices and 6.422 employees. (5 year statistics are not shown, given the number of mergers and restructuring.)

## 1.7. Policy environment

Cajamar is governed by the bank of Spain and BCC is regulated by the European Central Bank. Cooperative banks in general have been discriminated against due to the increased controls and capital adequacy requirements, which are more appropriate for high risk investment banks.

## Section 2: Analysis of the case

### 2.1. Impact analysis

The impact of Cajamar was profound and its impact changed over time in accordance with the stage of lifecycle. Notable are the following impacts:

- committing itself financially and socially to a vulnerable community so that initially the only security it had was to make sure that the activity of its members was worthwhile funding. This led to 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 enterprises;
- 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;
- funding/investing heavily in R+D+i and agricultural extension services (there were no other I+D entities)



- 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;
- 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;
- pursuing strategic growth strategies in response to government imposed integration in order to maintain its strength both inside and outside its original territory

Although an agricultural production of 2.5 million tons and a turnover of 1.8 billion Euros is impressive, what is most striking is the direct employment provided to more than 40,000 workers, with an equitable distribution of wealth generated in the region. More than 250 complementary or auxiliary businesses, both cooperative and investor owned have been created with a turnover of more than 1,500 million Euros.

## 2.2. Looking towards the future

The biggest risk facing Cajamar at the moment is that it may be a victim of its own success and growth strategy. While it has felt the necessity to grow, in part forced by government policy and Bank of Spain requirements to merge with other banks in order to provide systems of stability, it has to navigate the transition from a rural and territorially rooted cooperative credit bank, to a national entity, with fierce competition. Its biggest challenge is to maintain member and customer connection and loyalty.

Its strengths lie in agricultural based and SME financing. Whether these sectors perform well depend on many factors outside the control of Cajamar. Spain is still in a deep crisis and SMEs have had difficulty since the financial crisis and the introduction of the politics of austerity and increased capital adequacy requirements for financial institutions. Free trade agreements with the EU made several affect the agricultural sector as tariffs are listed. Recent studies have shown that European agriculture has little to gain overall from such free trade agreements. In any case, there will be a period of volatility.

However, this situation may bode well for Cajamar, as it has a record of dealing with the various transitions faced by farmers as they had to deal with increasingly globalised markets. As well, Cajamar still has a wide range of SMEs as clients, with no one client dominating, thus reducing risk. It also has a profound knowledge of its business sectors. In moving into other sectors, its strength with relationship banking should help it in the underserved SME financing market.

The Chairman has this to say about the future:

*This cooperative nature is just what keeps the Group's commitment to its territory, specialised in financial support to families, entrepreneurs and local production systems; likewise it generates shared value by contributing to economic development and social progress through job creation, social economy promotion and, mainly, by supporting thousands of small and medium farmers and livestock breeders in an increasingly technical and competitive agro-food sector.*

## Additional material

- <https://www.grupocooperativocajamar.es/recursos-entidades/en/pdf/informacion-corporativa/integrated-report-2014.pdf> (In English)
- <https://www.cajamar.es/es/comun/informacion-corporativa/sobre-cajamar/> (In Spanish)
- See Cynthia Giagnocavo, David Uclés Aguilera and Luis Fernández-Revuelta Pérez published as: Giagnocavo, C. et al (2013) "The case for proactive cooperative banks in local development: innovation, growth, and community building in Almería, Spain" in Goglio, S. and Alexopoulos, Y. Eds., *Financial Cooperatives and Local Development.*, (London: Routledge).
- Also for a very full account of the history of Cajamar see [http://www.euricse.eu/sites/default/files/db\\_uploads/documents/1284104993\\_n694.pdf](http://www.euricse.eu/sites/default/files/db_uploads/documents/1284104993_n694.pdf)

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