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COMASA: Creating an industry

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ABSTRACT

One afternoon in September 2007, after a long day of work, Miguel Zavala Navarro, General Manager and Founding Partner of Comercializadora de Mani S.A. (COMASA), was talking to Joaquin Zavala, the company's Vice-General Manager. "Don Miguel," as his colleagues called him respectfully, was remembering the experiences they had over the past 25 years, when they successfully created and developed a new industry in Nicaragua. Their company had contributed to the economic growth of the western region of the country, which had been affected by an economic slump and the country's political situation in the 1980s. Don Miguel was worried about new competitive conditions that the industry was facing locally and in international markets. He had just asked Mr. Zavala to review their strategic plan for the next few years.

1. The boom of "white gold"

Nicaragua had experienced great success growing cotton. Beginning in the 1950s, the country began exporting internationally and was the main producer in Central America. Cotton exports were the country's main source of income. The Government had supported production at the end of the 50s, promoting technological adoption to increase physical yields through technical assistance, providing financing conditioned to the use of new technologies, and promoting intensive fertilizer and insecticide use. Productivity increased by 45% in the 60s with respect to the previous decade, leading the country to have some of the best yields and quality in the world by the 70s. At the same time, other industries using cotton and its derivatives as raw materials were also established, such as textile mills, edible oil manufacturers, soaps and animal concentrates.

During the first half of the 70s, due to lower international prices for cotton, the company, Grasas y Aceites S.A. (GRACSA), which processed cotton seeds to make edible oil, began a project to grow peanuts in Chinandega[1] and use its factory's excess capacity to continue manufacturing and selling oil. However, after starting the project and investing in peanut processing machinery, they had abandoned it when the cotton industry recovered with an increase in international prices at the end of the 70s.

In 1977 at the height of the country's cotton cultivation, nearly 311,000 *manzanas*[2] (Table 1) were planted; the country exported more than US $260 million and created more than 300,000 jobs a year, mostly in the western part of the country where production was concentrated (the departments of Leon and Chinandega). However, at the beginning of the 80s, several factors had caused a crisis in the cotton industry: continued low international prices, increased costs of inputs, soil degradation, a lack of crop rotation, resistance to pests, a lack of financing, and questionable land ownership.

2. The 1980s

The National Revolution occurred in 1979,[3] and the Frente Sandinista de Liberación Nacional (FSLN) came to power. The FSLN began an agrarian reform process that confiscated private property, especially unused or "underused" land, and turned it over to federal or cooperative management. It was difficult to find international buyers, however, because of the economic sanctions imposed by the Government of the United States under the leadership of President Ronald Reagan.

At the end of 1982, Tropical Storm Aletta had caused heavy rains in the country for a period of two weeks, provoking landslides on the San Cristobal Volcano that damaged the fertile soil of many properties that grew cotton; this damage included the property owned by the Zavala family, which led the family to abandon cotton production that year. The General Manager of GRACSA, Antonio Lacayo, had heard about Don Miguel's problems and offered his unused peanut seeds and machinery for free, as long as the company could purchase all of their harvest.

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[1] Department located in the upper western part of the country bordering Honduras and the department of Madriz to the north, the Pacific Ocean to the south, the department of Leon to the east and the Fonseca Gulf to the west. Its main economic activity was agriculture.

[2] Unit of measure for areas used in Nicaragua. 1 manzana = 0.7026 ha.

[3] A political process that ended more than 40 years of rule by the Somoza family.

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Table 1
Evolution of cotton crop areas in Nicaragua.
Source: Análisis de Sostenibilidad de la Industria de Algodón en Nicaragua. Pratt y Pérez. 1997.

Crop season	*Manzanas* harvested
1950–1951	23,945
1955–1956	123,139
1960–1961	81,491
1965–1966	202,809
1970–1971	136,287
1975–1976	204,601
1976–1977	283,005
1977–1978	310,846
1978–1979	248,175
1979–1980	64,033
1980–1981	134,651
1981–1982	132,723
1982–1983	129,100
1983–1984	166,100
1984–1985	164,300
1985–1986	123,300
1986–1987	84,900
1987–1988	86,000
1988–1989	57,600
1989–1990	49,600
1990–1991	64,100
1991–1992	51,400
1992–1993	3300
1993–1994	3600
1994–1995	2100
1995–1996	13,400

Don Miguel enthusiastically decided to recover land that been covered by rocks and sand to produce the new crop. With the support of his friend Mauricio Zacarias, they began planting 100 and 50 *manzanas*, respectively. However, "it was a bust because we lost money," said Don Miguel, adding, "but we liked the crop. It was something new and it grew well on our land. We said we would try again the next year, do it well and see what happens…".

For a second year they continued to experiment with the new crop. On a trip Don Miguel took to Costa Rica, he read an ad in the *La Nacion* newspaper saying "We buy peanuts." He contacted the buyer at the Borbon Market in San Jose, who traditionally bought from small producers from Nicaragua and Guatemala because Costa Rica did not grow peanuts. "I realized that Costa Ricans really do consume peanuts, and they had a shortage," commented Don Miguel. That year he had not sold his products to make oil; rather, he had shelled and cleaned the peanuts improvising on GRACSA's equipment because it was not designed to process peanuts for final consumers. The first year he exported, he sent six containers[4] to the neighboring country.

At that time his wife, Ruth, had moved to Costa Rica with their children because of the political situation in the country. She was in charge of selling the peanuts. Don Miguel also invited his friend, a lawyer and farmer, Dr. Juan Alvaro Munguia, to join the project. Dr. Munguia had also moved to Costa Rica. In 1984 the three partners created the Corporacion Comercial (CC) company, and by 1986 they were exporting one container per month.

The process to clean and select the peanuts was done at a factory called Semillas y Procesos S.A. (SEMPRO) with the equipment that GRACSA had abandoned. The process was mostly done by hand despite having some machinery because the equipment was old, and they could not import spare parts from the United States to maintain it because of economic embargo. In addition, they had another problem: the Government's new economic policies set federal control on agricultural prices and required sales to be centralized through the Instituto de Comercio Exterior e Interior (INCEI), which was the only authorized entity to buy and sell export products. This meant that CC had to sell its production to the Government at a set price and received payment in the national currency. In other words, they were not paid in dollars, which they needed to import inputs, machinery and spare parts. Even so, CC had to find buyers in Costa Rica for the Government.

Don Miguel knew that this situation increased operation risk and decreased profitability. One measure to soften the blow was that CC would sell its product to the Government of Nicaragua, but would also buy it in Costa Rica as an intermediary catering final clients directly. Another option was to form an alliance with a strategic partner to receive more favorable conditions from the Government.

2.1. The "symbiosis" with Coca-Cola

The need to have an international contact that would help them buy machinery and spare parts and the desire to overcome governmental export controls led Don Miguel to form a strategic alliance with other companies. He approached a Coca-Cola bottler in Nicaragua because he knew that they would also need dollars to import raw materials, especially the syrup or concentrate from Costa Rica, since it was difficult to find foreign currency in Nicaragua.

The Government knew the difficulties the bottler was facing and risk that it presented for the supply in the country. The Sandinista Government was worried about its image before the public and what would happen if a common product, such as Coca-Cola, which had been distributed in the country since 1942, was no longer available.

CC had proposed an "exchange" to the Government so that it would allow the company to sell its product directly to Coca-Cola in Costa Rica. The Nicaraguan bottler also participated in the negotiation process to pressure the Government. The idea was that Coca-Cola Costa Rica would pay most of the value of CC's peanuts to Coca-Cola Nicaragua in its equivalent product (syrup), while Coca-Cola Nicaragua would pay the value of the syrup to CC in the local currency. The remaining value of the peanuts would be paid by Coca-Cola Costa Rica in dollars directly to CC. This process avoided intervention by INCEI in CC's exports and allowed CC access to international purchases through the Coca-Cola Company, while the bottler was able to guarantee raw material supplies in Nicaragua.

However, growth in peanut production was limited by the lack of agricultural machinery since CC only had GRACSA's old equipment. The Coca-Cola Company became interested in increasing peanut exports and generating income; in 1986 they donated four brand-new Brazilian harvesters to help foster the project's growth. But the equipment's technology and operations were unknown in the country. So Coca-Cola also invited the company to travel to Brazil on an all-expense-paid trip to learn how the machines worked and how to adapt them to Nicaraguan fields.

In 1987 CC contacted Productos Diana, a Salvadorian company that manufactured chips, sweets and cookies, and began providing them with peanuts through INCEI. At that time CC exported close to 30 containers to Costa Rica and El Salvador a year. They had just over 2000 *manzanas* planted in Chinandega. The Sandinista Government saw the potential for peanut exports after the cotton industry's "bust." In 1988 the Government, together with a group of Israeli investors, founded AGROEXCO S.A., a project to plant and process 5000 *manzanas* of

Table 2
Shelled peanut exports from the main exporting countries in the world (MT).
Source: FAO.

Country	2000	2001	2002	2003	2004
China	330,881	407,856	429,092	399,988	325,315
USA	211,604	125,670	201,757	114,092	155,895
Argentina	212,402	162,587	118,504	107,166	70,490
India	116,732	68,156	44,415	136,330	112,411
Vietnam	76,200	78,163	105,113	82,400	44,900
Nicaragua	44,797	41,410	47,191	41,080	55,920

[4] Each container was approximately 20 metric tons (MT).