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International Science and Technology Institute, Inc.

Headquarters: 1129 20th Street, N.W. Washington, D.C. 20036
202/785-0831 • Telex 272785 ISTI UR • FAX 202/223-3865

EL SALVADOR

PRIVATIZATION STRATEGY
INJIBOA

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Prepared by:
Joseph Borgatti

International Science and Technology Institute, Inc.
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EL SALVADOR: SUGAR - CORSAIN/INJIBOA/INAZUCAR/TOOTSIE ROLL

BACKGROUND

The preferred strategy for privatizing INJIBOA: sell it as an integrated operation: -from cane growing to refining (there are only 2 refineries in Central America, both in El Salvador, one shut down, while JIBOA's operates sporadically to supply local market when INAZUCAR dictates. The local market is unenthusiastic for refined sugar).

Plan was to market INJIBOA to a consortium of local cane growers, employees of INJIBOA, and local investors. It was thought they would be more interested if a foreign buyer for the refined production could be obtained. The foreign buyer was to be offered a small amount of equity participation (with a "put" to local investors after x number of years) to ensure long term supply.

In searching for a foreign buyer, Tootsie Roll Industries was come upon through the offices of A. L. Quinn, Washington, DC. Tootsie had recently acquired a hard candy manufacturer and now had a need for a better quality sugar (see Exhibit 1 for more details on Tootsie's needs). Tootsie had been buying from Pantaleon in Guatemala and San Cristobal in the Dominican Republic, neither of which produced refined sugar.

Contact was made with Tootsie's Chairman, Mr. Gordon, samples were sent to them from which candy was made that proved to be of acceptable quality, and phone introductions were arranged between Tootsie's Vice President David Press and Julio. Rivas, President of CORSAIN, the owner of INJIBOA. Press decided that a visit should be the next step. This was accomplished the week of January 30, 1989 to coincide with the writer's stay at CORSAIN.

TIMING OF VISIT

The harvesting begins in November, and milling continues through February. But selling starts well before November. Right now, the crop is all sold -not only because it is the end of the crop year, but because 2 droughts, one after the other have sharply diminshed the crop which had already been affected by the guerrilla threat as well as financial difficulties. Moreover, the U.S. quota had been increased.

The reason for making the visit anyway was the existence of unsold stocks of refined sugar in the hands of INJIBOA. The idea was that if these could be used for experiment, and the experience proved favorable all around, El Salvador would have an outlet for its value added refining capacity, and a new dollar earner once cane production returned to normal.

Rivas stated that Tootsie's timing could not be better. He was very interested in making a deal with them, he said.

RESULTS OF VISIT

VISIT TO PLANT - Press concluded, after his visit, that the quality and the manufacturing side appeared to be in order. He had brought along a sample shipping bag and was able to discuss on-the-spot how to adapt filling, moving and storing facilities to accomodate its size (42 inches by 65 inches, holding 1.75 tons). Press was still concerned about the logistics of getting the product to the port and storing it there; and was a bit jarred by the passing sight of abandoned cane fields in the area.

MEETING AT CORSAIN - Rivas, whose business is shipping, was able to go over the logistical concerns in order to allay many of Press' fears. The existence of 30,000 qq of sugar refined from the 88-89 crop was definitely ascertained. These represented the equivalent of 833 bags (3,000,000 lbs /350,000 lbs per bag), or enough for a trial shipment.

At this point, Press decided he could take a serious look at a 2 barge equivalent shipment -some 1,800 tons or 800 plus bags- as a trial to be shipped in April or May. This would work out to 12 bags per truck or 74 truck loads to make the 15 hour journey to Puerto Barrios or Santo Tomas. Rivas thought this could be managed. Rivas also said there would be no problem in supplying the quantity for last year INJIBOA had already refined for INAZUCAR 100,000 quintals. He did not see how INAZUCAR could represent a problem with white refined sugar. INAZUCAR had contracted INJIBOA to refine 100,000 qq for each of 3 seasons, but was reneging due to the local consumers' preference for raw and white sugars.

INAZUCAR, however, would be the seller. Rivas felt that there was a tendency in the air for the law that gave INAZUCAR a monopoly, to be changed, no matter who won the next election.

At this point, Press was confident enough to leave contracts with Rivas and to discuss Tootsie's shipping requirements. Tootsie would want the seller to take care of shipping to port and storage at the port. Rivas' company would make all of the arrangements. The price to be agreed upon would be FREE ON BOARD AND STOWED (FOBS). This takes care of everything up to that point. Press made the further point that all the sugar must be all in port before the ship's arrival so that only one day in port would be required.

MEETING AT INAZUCAR (With Segovia and Salaverria, the top 2 members being out of the country). Moreover, the world market price offered by Tootsie is not enough. Locally, sugar sells for the following (personally verified by the writer):

Raw sugar	C .60 per lb (12 cents US)
White sugar	C1.15 per lb (23 cents US)
Refined sugar	C1.30 per lb (26 cents US)

Tootsie's price would be:
10.5 cents US - raw sugar price March 11 futures
1.5 cents US - premium for refines white

12.0 cents US

To the above would be added something to compensate for the filling and handling of the bags. Deducted would be the cost of transporting to the port. The writer's guess is that the net price would be 12 to 12.5 cents US per lb.

As for INJIBOA's remaining stocks of white refined sugar, INAZUCAR's reply was that INJIBOA should sell them locally at the price for white sugar, or even lower, rather than hold out for the refined price or for export.

GENERAL COMMENT

1. Divestiture of INJIBOA has to be seen from a broader perspective than just making deals to facilitate its divestiture:
   - Cane production in the zone needs to be increased at least to former levels
   - Without pacification, perhaps not much can be done. But assuming a lessening of guerrilla threats, there is a need to:
     a. make current fields more productive
     b. return abandoned fields to production

For the above, there is a need for adequate and timely financing plus technical help in the form of small scale irrigation projects (help is available from Israel and Taiwan).

A complementary project which could do much to motivate the farmers/workers of the region would be a divestiture of INJIBOA which includes their participation through an ESOP.

2. Deals like Tootsie come along once in awhile. In this country, so shunned by investors, and which is scratching for export exchange, a more forward-seeing attitude was to be expected. This was an opportunity to be explored and considered from every angle, and not summarily dismissed at a low bureaucratic level.

3. On both counts, it is recommended that AID/CORSAIN see to it that Government, at Ministerial level, be acquainted with the facts. It may not be too late.

J. J. Borgatti

February 3, 1989

Exhibit 1

TOOTSIE ROLL INDUSTRIES - SUGAR REQUIREMENTS

The company has established a free trade zone in Chicago. It buys non-quota sugar on the world market, brings it into the zone for processing, and then sells the product into the U.S. and Canadian markets.

Tootsie's sugar needs are:

Raw	50%
Plantation white	40%
Refined	10%

Total needs are 17-20,000 tons, or 3-4 million lbs. per year, of which 1,800 - 2,000 tons are white refined.

This represents 3-4 shipments per year. Each shipment goes to New Orleans and is then barged up the Mississippi River in 4 barges.

A normal shipment is 3,500 bags, or 6,000 tons. Twelve bags fit on a truck, so that 300 truck loads are required to move the shipment to port.

The special bags are 4 inches by 65 inches high, with big handles or loops for lifting. Each bag holds 1.75 tons, or 3,500 lbs.

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