

Xiwang Sugar Holdings Company Ltd.

COMPANY BACKGROUND

Established in 1986 as a cooperative enterprise, Xiwang Sugar Holdings Company Ltd. (Xiwang) has grown to become a leading corn processor, producing corn and high value-added starch sugar products in China. The company is the country's largest producer of crystalline glucose, a starch sugar product, with an annual production capacity of 800,000 tons. As of 2011, Xiwang had an annual corn processing capacity of 1.5 million tons and procured corn from 400,000 small farmers.

Xiwang was reorganized into a limited liability company in 2001. In 2005, after further restructuring, the company was listed on the Main Board of the Hong Kong Stock Exchange. Xiwang is headquartered in Zouping County of Shandong Province and employs over 3,200 people.

Country: China

Sector: Agribusiness

IFC's Investment: \$5 million in equity and \$20 million in long-term debt financing

DRIVERS FOR XIWANG'S INCLUSIVE BUSINESS MODEL

- Business need to ensure stable supply of corn for production of corn starch – a key ingredient for Xiwang's high value-added starch sugar products
- Xiwang's geographic location enables direct procurement from small farmers
- Agriculture sector dynamics - small scale farmers are predominant in China

Xiwang makes its own corn starch that it uses to produce various high value-added starch sugar products. Making its own corn starch rather than purchasing it from other parties helps the company reduce costs, increase efficiency, and ensure stable supply of this key ingredient. However, to maintain a stable supply of corn starch Xiwang needs to procure corn in large quantities. The company procures corn directly from small farmers to meet this business need, enabling it to receive a consistent, high quality supply of a large volume of corn.

The company's geographic location also gives it a logistical

advantage, enabling it to easily and cost-effectively procure a large volume of corn from small farmers to produce corn starch. Its factory is strategically located in Shandong, China's second largest corn-growing province, which accounts for about 12% of the national corn output of 180 million tons. Since the vast majority of farmers in China engage in small-scale farming, agro-processors like Xiwang must procure from small farmers either directly or indirectly via grain warehouses.

XIWANG'S INCLUSIVE BUSINESS MODEL

Xiwang produces various corn products such as starch, germ, and gluten (both meal and feed). The company is vertically integrated, producing corn starch which it uses in turn to produce high value-added starch sugar products.

This eliminates the need to procure corn starch from outside parties. Further, it enables Xiwang to reduce costs, improve overall production efficiency, and ensure a stable supply of this key ingredient for its starch sugar products.

Companies in industries as diverse as food and beverage; chemicals; pharmaceuticals; fermentation; paper and textile; animal feed; and construction purchase Xiwang's products. The vast majority of Xiwang's industrial customers are in China, but the company also exports to customers in South East Asia and Europe.

Since corn starch is essential for production of its high value-added starch sugar products, Xiwang places a strong emphasis on maintaining a stable supply of corn. Its factory is strategically located in a major corn-producing area of Shandong Province, the second largest corn-growing province in China. This gives the company a natural logistical

advantage in sourcing corn from small farmers in Shandong Province and other provinces in northeast China.

Small farmers who supply to Xiwang have an average farm size of 0.5 hectares. They grow natural, non-genetically modified (non-GMO) corn from May until October. During the rest of the year these farmers grow wheat, which enables them to diversify production and earn additional income. As of 2011, Xiwang's small farmer suppliers were estimated to have average annual net incomes of US \$1,320.

Although Xiwang is not the sole agro-processor of corn in the region, these small farmers choose to supply to the company since it can purchase large quantities of corn

Xiwang procures over one million tons of corn annually at market prices from 400,000 small farmers via two procurement methods. First, about 50% of its total annual corn volume is procured directly from small farmers who deliver their output to Xiwang's factory given their proximity. Although Xiwang is not the sole agro-processor of corn in the region, these small farmers choose to supply to the company since it can purchase large quantities of





when farmers deliver corn to its factory. They use advanced equipment to test the corn to ensure it meets the company's requirements for water content and purity. Once Xiwang is satisfied with the quality of the corn delivered, farmers are paid immediately in cash based on market prices. Farmers can also receive higher prices for better grades of corn once Xiwang confirms higher quality with a test.

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corn. Xiwang is able to do so because it maintains storage facilities to better manage price and supply fluctuations. At any given time, Xiwang maintains sufficient corn volumes to meet several months of production. Xiwang's ability to procure large quantities of corn gives farmers security since they can immediately sell their entire harvest. The alternative of storing corn would be costly and risky for small farmers given the possibility of disease or pest infestation.

Second, to procure the balance of its annual corn volume, the company works with 20 grain warehouses that purchase corn from small farmers for resale to agro-processors. Xiwang enters into contracts with these warehouses and sets purchase prices based on market prices. While some grain warehouses are located in Shandong Province, others are farther away in a neighboring province. The small farmers who sell to these grain warehouses are not able to bear the transportation costs to directly supply Xiwang as they are far from its factory.

Xiwang places a strong emphasis on high quality standards, which are valued in particular by its industrial customers. The company's focus on high quality starts right at the corn procurement stage. Xiwang's procurement department has 20 staff who conduct thorough quality assessments

At the farm level, Xiwang's small farmer suppliers focus on quality and yield improvements based on the training they receive from the government's Ministry of Agriculture. Since 2003, the government has set-up six demonstration projects for farmers covering topics such as eco-friendly planting, pollution-free inputs, and water-saving technology. Farmers also follow standardized planting practices. Since only a few varieties of non-GMO corn have been grown in China over the last decades, planting practices have become standardized over time. In addition, farmers who may have access to the Internet can obtain information from an agriculture information website set-up by the government, which offers agricultural news, laws and regulations, prices, and other useful information.

RESULTS OF XIWANG'S INCLUSIVE BUSINESS MODEL

- Net profit of US \$28 million in 2011
- Consistent track record in corn procurement from small farmers - 1.25 million tons in 2011
- Xiwang recognized as a top enterprise in the fermentation and starch sugar industries

Xiwang has grown to become one of China's largest corn processors with US \$576 million in annual revenues in 2011. In the same year, Xiwang's net profit was US \$28 million. In 2003, Xiwang's corn processing capacity was 600,000 tons and by 2011 this had grown to 1.5 million tons.

In 2011, Xiwang procured 1.25 million tons of corn from 400,000 small farmers directly or from grain warehouses. In the previous two years, the company procured 1.23 and 1.15 million tons respectively, demonstrating its consistent track record of procuring large quantities of corn from small farmers. Over the years, Xiwang's reliable off-taker role has helped small farmers to earn stable incomes and increase their standard of living, for example through improvements in housing and the purchase of household appliances. In 2012 Xiwang plans to expand its corn processing capacity

to about 2.5 million tons. Xiwang anticipates it will increase its corn procurement volume from farmers and grain warehouses, as well as expand procurement to other regions.

In 2010, Xiwang was recognized as one of the top 10 enterprises in the fermentation industry in China, and since 2006 it has ranked as one of the top 20 Enterprises in the starch sugar industry. Xiwang is also highly committed to environmental safety. It has been accredited as a National Environmental Friendly Corporation by the Ministry of Environmental Protection since 2005. Further, in 2009, Xiwang was recognized as a demonstration enterprise for circular economy by the government's National Development and Reform Commission in its Yellow River Delta Efficient Eco-economic Zone Development Plan.

IFC'S ROLE AND VALUE-ADD

IFC's Investment: \$5 million in equity and \$20 million in long-term debt financing

Investment Year: 2010

- The 2008 financial crisis resulted in the tightening of credit markets and reduction in demand from industry as growth slowed. In response, IFC invested equity and extended a loan to Shandong Xiwang Bio-chem Technology Co. Ltd., a 100% subsidiary of the company, in 2009
- IFC's investment is helping Xiwang to develop specialized processing capability and strengthening its financial structure
- IFC financing conveys a strong positive signal to the capital markets, and will help bolster the confidence of other potential long-term lenders and investors
- IFC's rigorous monitoring and evaluation of its investee's environmental and social standards will help reinforce and enhance Xiwang's practices in these areas

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For more information, visit ifc.org/inclusivebusiness and xiwang-sugar.com