

**ITFC PROGRESS REPORT ON
ENHANCING INTRA-OIC TRADE**



**31st Meeting of the Follow-up Committee of the
COMCEC**

**13-14 May 2015
Ankara, Turkey**

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A. TRADE FINANCE OVERVIEW

ITFC continuously expanded its coverage and connections in several areas while implementing strategic objectives set for enhancing intra-OIC trade. ITFC collaborated with new players in trade finance business and attracted new clients in new sectors. Trade approvals reached USD 5,155 million in 1435 and USD 2,367 in the first half of 1436H.

Although approvals for the year were only slightly higher than last year, the achievement is remarkable given strategic objective set for achieving a balanced portfolio. In the same fashion, geographical distribution of ITFC intervention improved for the year with more reliance on business opportunities in MENA region. In addition, business in Sub Saharan Africa region increased by 85% making its share of the portfolio 8% up, from 5% in 1434H. The breakdown of approvals by region is provided in the table below.

Table 1: ITFC Trade Approvals by Region (US\$ Million)

Region	1434H Actual	%	1435H Actual	%	1436H 6 Months
ASIA/CIS	3,405	67	2,464	48	1,440
MENA	1,409	28	2,259	44	833
SSA*	234	5	432	8	94
Total Approvals	5,048	100	5,155	100	2,367

*SSA: Sub-Saharan Africa

ITFC continues to achieve its strategic objective to reduce concentration not only country wise but also sector wise. Because of efforts exerted to reduce concentration country wise, ITFC made significant achievements by attracting new countries to the portfolio in 1435H (Comoros Islands, Djibouti, Palestine & Kyrgyzstan). Given the need of member states, ITFC sustained its operations for sovereigns for the year. Similar to last year, in 1435H, sovereign lending constituted more than 70% of total approvals. The concentration in sovereign lending is derived from demand from member states for energy imports. For the year 1435H, energy sector still represented 80% of portfolio. In this regard, efforts continue to reduce presence of energy sector in ITFC portfolio for upcoming years. This is expected to be achieved by focusing on STF operation in soft commodities.

Table 2: ITFC Trade Approvals by Type of Security (US\$ Million)

Type of security	1434H	Share (%)	1435H	Share%	1436H 6 Months
Sovereign	3,712	74	3,771	73	1,689
Bank Guarantee	124	2	399	8	215
Unsecured	235	5	230	4	125
STF	977	19	720	14	315
Credit insurance	0	0	35	1	23
TOTAL	5,048	100	5,155	100	2,367

Up until now, ITFC implemented asset backed STF operation in which ITFC assumes the ownership of commodities financed. A new initiative for asset based STF is expected to take off in upcoming years. ITFC kept expanding its operations to finance trade in a way to achieve mutual benefit among member countries in developing intra-OIC trade. This expansion is accompanied by adequate guarantees so that the ITFC resources could be preserved.

1. Providing Solution for Impact

Compared to any other form of lending or investing in the emerging markets, structured trade finance (STF) has demonstrated a solid record of accomplishment of "survivability" under extreme country / market conditions. These very attributes create more space for ITFC to provide trade solutions in emerging markets as an alternative to traditional balance sheet financing.

ITFC continued its efforts to enhance its capabilities to develop Shari'ah compliant solutions for its stakeholders. Different Structured Trade Finance (STF) schemes were implemented across the member countries. This required collaborating with collateral managers, agent banks and insurance community to provide tailored solution to entities in member countries for fitting their business models. For example, necessary arrangement were worked out with a bonded warehouse operator in Turkey to provide Collateral Management services. ITFC also concluded the first STF line of financing with a bank in the CIS and the first STF operation for a private client in Bangladesh. Moreover, ITFC was able to structure a transaction based on Government Subsidy receivables in Morocco that lead to implementing an LPG transaction for a company that serves the rural communities in the country.

As part of ITFC strategy, which calls for the diversification of the trade finance portfolio, many efforts have been exerted to break into new markets and new sectors. ITFC has demonstrated a lot of resourcefulness to face the challenges in the face of stiff competition for entering new markets and sectors. ITFC has shifted from unsecured and bank guaranteed lending to structure commodity trade lending. This strategic shift was essential to enable ITFC to penetrate new markets and sectors in which traditional collaterals are not feasible. The new shift also enabled ITFC to move from extending financing alone to providing an array of complete trade solutions, tailored to customers' needs.

In 1436H, ITFC embarked on focusing export financing: Islamic discounting for export finance and Islamic export finance lines to banks have been developed.

2. Regional Presence

1435H was a remarkable year for regional presence. ITFC posted its staffs to Dakar Office and IDB Country Gateway Office in Istanbul. The IDB Group Country Gateway Offices were established in pursuit of consolidating and synergizing the interests of each Group member under one flagship. Under the CGO model, IDB Group entities are presented in country offices to carry out the delegated mandate. The local presence will allow ITFC to increase its accessibility in the local market, and will allow ITFC to expand its business with implementation of more complex structures with better services, a balanced portfolio mix whilst adopting a customer-centric approach. Local presence will target to achieve two of the most important strategic objectives for ITFC:

- (i) Diversify, Integrate and Grow
- (ii) Embed Operational Excellence

Besides, active local presence will enhance ITFC image and branding through accessibility and participation in local events in order to fulfill ITFC vision “to be a recognized provider of trade solutions for OIC MCs needs”. Hence, the focus will be on the following:

- Better market intelligence
- Increased Approval
- Increased Disbursement
- Increased Income
- Better monitoring of clients
- Diversification
- Innovation and Trade Solutions
- Branding

ITFC continues to expand its local presence during 1436H in Indonesia and Bangladesh.

3. Expanding Access to Finance for Strategic Commodities, LDMCs & SMEs

As a part of mandate delegated to ITFC by OIC to support strategic commodities, particularly in LDMCs, ITFC was able to provide demanded services in commodities, as indicated in the below table, with necessary checks and balances in tailor made financing structures.

Table 2: ITFC Trade Approvals for Strategic Commodities (US\$ Million)

Commodity	1435H	1436H 6 Months
Grains & Oilseeds	155	255
Other	350	240
Machinery & Equipment	72	23
Cotton	153	30
Other Foodstuff	83	10
Sugar	60	0
Metals	60	30
Fertilizers	68	0
Plastics	25	0
Other Chemicals	10	0
Pharmaceuticals	6	0
Other Minerals	0	50

As indicated above, ITFC was able, for the first time, to extend a trade financing operation in favor of an exporting company in Palestine to export olive oil. Although the operation is small in size (US\$ 1 m) but the developmental impact it has on the local farming community in Palestine is tremendous.

The Framework Agreement on Trade Preferential System among the Member States of the Organization of the Islamic Conference (TPS-OIC), identifies, in Article-2, trade finance as a tool for promotion of trade among OIC countries. The lack of trade finance still seems to be a problem that needs to be addressed for least developed member countries (LDMCs) and SMEs. In this regard, efforts were under way to increase

operations for LDMCs. Accordingly, the financing amount to LDMCs reached to US\$ 1,865 million for the year in 1435H and USD 540 in the first 6 months of 1436H.

Table 3: ITFC Trade Finance Approvals for LDMCs (US\$ millions)

Country	1435H
Bangladesh	1,450.00
Burkina Faso	147.00
Comoros Islands	20.00
Djibouti	30.00
Gambia	62.00
Maldives	0.00
Mauritania	65.00
Mozambique	0.00
Niger	20.00
Palestine	1.00
Senegal	30.00
Togo	40.00
TOTAL	1,865.00

As for SMEs, ITFC does not have direct facilities to SMEs as significantly large number of small disbursements needed and credit control is difficult to assess in many local markets. In order to fulfil this mandate, ITFC extends 2-Step Murabaha financing (2SMF) lines to local banks to overcome such shortcomings. Under Line of Trade Financing and 2-Step Murabaha financing, funds are made available to local banks, which then provide it to the SMEs for specific trade finance transactions. In 1435H, ITFC continued its focus on these mechanisms for SME financing and provided US\$399 million. This type of finance amounted to USD 225 for the first 6 month of 1436H.

B. TRADE COOPERATION AND PROMOTION PROGRAM (TCPP)

1. *Brief about TCPP*

TCPP is the trade development and cooperation program of ITFC aims at complementing and supplementing ITFC's efforts in enhancing trade and trade cooperation among its MCs. Until 2012, the Program was being operated on an event-based approach, where various activities were being carried out under four business lines of the program, which were namely; trade promotion, trade facilitation, capacity development, development of strategic products.

The activities undertaken by the TCPP during that period include organizing/supporting collective participations of Trade promotion Organizations (TPOs) in international trade fairs, trade missions, business forums, conducting trade-related capacity-development training programs, organizing/supporting the organization of specialized thematic trade seminars, workshops, forum as well as Experts Group Meetings

with a view to develop consensus on trade related policies and programs for their further implementation with Member Countries and OIC Institutions.

Starting from 2012, TCPP's business model changed to focus on programming approach, partnership development and resource mobilization. TCPP's new strategy is to be "connector", by expanding trade partnership, pooling technical and financial resources to develop comprehensive regional/thematic trade development programs. In these directions, TCPP's efforts concentrated on developing and implementing following flagship programs in close consultation and cooperation with MCs as well as trade development partners.

1. Aid for Trade Initiative for Arab States (AFTIAS)
2. Aid for Trade Initiative for SPECA Region
3. Trade Development Forum
4. Trade Knowledge Bridge Program
5. Global Trade Development Partnership Programme

Each program has its own specific work plans addressing different trade development needs and challenges of MCs. Within the framework of these programs, TCPP's interventions aim at facilitating trade transactions in and across the borders of MCs to reduce trading cost and time, enhancing human and institutional capacities in trade related areas, providing opportunities to businesspersons to develop new partnership, overcome supply side constraints and strengthen their marketing and managerial capacities. Following sections provides brief information about these programs.

2. Platforms of Cooperation for Enhanced Regional Economic Integration

2.1. Aid for Trade Initiative for Arab States:

One of the concrete examples of TCPP's new orientation in providing trade related technical assistance to MCs in an integrated and holistic manner is the AFTIAS. It is a platform of cooperation and collaboration of national, regional and international trade related institutions and donor community.

In 2014, the executing agencies started implementation of AFTIAS' Fast Track Programs, which laid down the main blocks of strengthened connectivity among beneficiary countries.

The initiative started to address soft infrastructure segment of the trade development issues by contributing to the creation of conducive trade and business environment in and across the borders of the nations. In 2014, several studies were conducted to identify regulatory and procedural barriers and non-tariff measures to trade, which could be eliminated through simplifying and harmonizing trade rules and procedures among Arab countries. These studies will act as inputs to develop comprehensive customs gates reform projects. Also, a dedicated technical assistance program was launched in 1435H to strengthen the technical and institutional capacities of League of Arab States (LAS). This enables LAS to better monitor the implementation of resolutions by Ministerial level meetings and to provide efficient technical support to MCs to implement LAS' trade policies.

3rd Meeting of AFTIAS Project Board, which took place in Jeddah during 3-4 December 2015, decided to change implementation and management arrangement of the initiative to delegate project monitoring and fund administration functions to ITFC from UNDP. ITFC is now establishing Coordinating and Monitoring Unit (CMU) under TCPP to fulfil these two new functions.

2.2. Aid for Trade Initiative for SPECA Region

In the light of experiences accumulated from AFTIAS, TCPP exerted efforts to finalize the Project Document of the Aid for Trade Initiative for SPECA Region, in consultation with UNDP and UNECE. This initiative has two sub-components. First component aims at improving regional economic integration among Central Asian MCs of OIC by implementing various trade facilitation measures at national and regional level. Second component of the project aims at improving trade competitiveness of agri-food industries in SPECA Countries and their possible integration to the Global Value Chain. Proposed interventions of the second component will address supply side constraints faced by the SMEs in agri-food industries. Within the framework of the projects, SMEs will be provided some consultancy services to develop their product quality and expand their production/packaging lines.

With a view to start implementation of the first component, TCPP prepared and submitted a project to COMCEC Coordination Office titled "Trade Facilitation Program for Central Asian MCs of OIC". The project aims to strengthen trade connectivity between MCs through removal of regulatory and procedural barriers to regional trade. Implementation will start in the 2nd quarter of 2015. Furthermore, ITFC plans to organize a consultative meeting in cooperation with IDB during the 3rd quarter of 2015 to discuss the implementation arrangements and partnership modalities of AfT SPECA Project with beneficiary MCs and project partners.

2.3. Regional Workshop on Reducing Trade Costs for inclusive, Sustainable Growth

As part of its preparation to 5th Global Review of Aid for Trade, ITFC organized a regional seminar in Amman, Jordan during 21-23 April 2015 with the participation of Arabic speaking MCs, international and regional organizations. The objective of the Seminar's discussion was to highlight IDB's MCs experiences and needs in the areas of reducing trade costs and associated impacts and to come out with a "Rapporteur Report" which will feed in to the IDBG report to be submitted to the 5th Global Review of Aid for Trade. During the seminar, participants will deliver presentations on how to address market access issues, removal of NTMs, implementation of WTO Trade Facilitation Agreement, usage of ICT solutions in trade transactions, regional trade facilitation programs, and government trade facilitation policies and programs. It is expected that the conclusion of the seminar will contribute to the IDBG's report to be distributed at the 5th Global Review of Aid for Trade.

3. OIC Level Initiatives/Efforts

The Program continued to exert efforts in 1435H at OIC level to have active communication and cooperation among trade authorities of the OIC Institutions. Examples of some interventions by the TCPP are:

3.1. Consultative Group for Enhancing Intra-OIC Trade

In pursuance of the relevant resolution of the 30th Session of COMCEC, ICDT and ITFC co-organized the 7th Meeting of the Consultative Group on the implementation of the Executive Program for Enhancing Intra-OIC Trade in Casablanca, Morocco during 2-3 March 2015. The main objective of the meeting was to review the implementation of the Executive Program by the members of the Consultative Group and discuss the way forward for strengthening coordination between OIC Institutions for implementing successor OIC programs. The meeting also reviewed the Assessment Report prepared by the consultant about the implementation of the Executive Program. This will be submitted to up-coming COMCEC Meetings in 2015, upon its finalization.

3.2. New OIC Ten-Year Plan of Action and New COMCEC Strategy

On a wider scope, TCPP was engaged actively in the preparation of the new OIC ten year Plan of Action by providing technical inputs to OIC Secretariat General. Furthermore, ITFC/TCPP is a key strategic partner to the COMCEC Coordination Office. It has provided technical support to the implementation of the new COMCEC Strategy through the Trade Working Group and the Project Cycle Management.

3.3. Sponsorship program

TCPP continued its efforts to accommodate different financial requests received from MCs, regional and international organizations to sponsor or support implementation of trade related activities. TCPP's financial support facilitated the participation of LDMCs in trade promotion activities, meetings, seminars organized by OIC Institutions.

3.4. Trade Development Forum

Another flagship program of TCPP is the Trade Development Forum, which is an attempt to establish a private-public platform of partnership. The Forum aims to bring together trade policy makers and businesspersons. The purpose is to elaborate on trade related issues and policies with a view to agree on common solutions to address common challenges of OIC MCs, share experiences and best practices in trade development, while providing businessmen opportunities to establish trade partnerships through match-making events. Another purpose is to provide an educational opportunity through selected capacity building event. Preliminary discussions with possible hosting country took place during 2015 to detail partnership arrangements, roles and responsibilities for the organization of the first edition of the Forum.

4. Partnership for Trade and Knowledge Capacity Building

Building up of strong human and institutional capacities in trade are essential to adequately apply and manage long-term trade development projects/initiatives. For this reason, the following examples are envisaged as sub-components of ITFC Trade Knowledge Bridge Program.

4.1. Arab Africa Trade Bridge Program

The intra-regional trade between Arab States and African MCs of OIC does not reflect the trade potentials between both regions. As a result, ITFC, Saudi Export Program (SEP), Arab Bank for Economic Development in Africa (BADEA), Islamic Corporation for the insurance of the Investment and Export Credit (ICIEC), agreed to form a partnership platform to address this issue by developing a regional trade promotion program with a view to boost intra-trade between the two regions. During 1435H, the project partners collectively prepared the first Project Document and detailed intervention plans.

It is planned that the project will be launched in 2015 by addressing capacity development challenges faced by Trade Support Institutions (TSIs) and SMEs; assisting both improve their knowledge, skills, and experiences in marketing, quality and product development. In addition, a series of business matchmaking events will be organized to develop trade corridors between the two regions. Furthermore, the program partners aim to offer trade-financing options to facilitate potential trade deals.

4.2. Trade Facilitation Implementation Guide (TFIG)

Trade facilitation issues are being addressed in various programs designed and implemented by TCPP and its development partners. As supplementary efforts to these initiatives, with a view to close knowledge gaps in

trade facilitation and regional integration subject, TCPP collaborated sponsored the translation of the TFIG into Arabic and to establish an Arabic version of the Guide website. The Trade Facilitation and Implementation Guide (TFIG) comprises a series of trade facilitation instruments and information (conventions, policy recommendations, standards, best practices). It is planned in 2015 that TCPP will organize several training programs on trade facilitation measures, in cooperation with UNECE and UNESCAP, to strengthen local capacities in MCs to effectively implement such measures at national and regional levels. The Arabic version of the TFIG was formally launched during “the Regional Workshop on Reducing Trade Cost for Inclusive, Sustainable Growth”, which was organized in Amman, Jordan during 21-23 April 2015.

4.3. Regional International Trade Training Center for West Africa

ITFC’s investment in a regional capacity and knowledge building centre in trade related areas is another example of placing importance on the subject. The centre, planned to be established in Guinea, will function as regional trade centre for West Africa. In 1435H, ITFC coordinated with the Trade Facilitation Office (TFO) of Canada to explore the possibility of project partnership in the establishment of the Center. Within the framework of the project, training materials for trainers will be prepared in a modular form addressing skills and knowledge gap of SMEs in exporting and foreign trade. Two training programs for trainers are planned to be organized in 2015.
