

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



**32TH MEETING OF THE FOLLOW-UP COMMITTEE OF
THE COMCEC**

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A. TRADE FINANCE OVERVIEW

ITFC continues to expand 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 6,042 million in 1436.

The achievement is remarkable given the strategic objective set for achieving a geographically balanced portfolio. Accordingly, geographical distribution of ITFC intervention improved for the year with more reliance on business opportunities in MENA region and Sub-Saharan region. The breakdown of approvals by region is provided in the table below.

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

Region	1434H	%	1435H	%	1436H	%
ASIA/CIS	3,405	67	2,464	53	3,229	
MENA	1,409	28	2,259	37	2,228	
SSA*	234	5	432	10	585	
Total Approvals	5,048	10	5,155	100	6,042	

*SSA: Sub-Saharan Africa

Given the need of member states, ITFC sustained its operations for sovereigns for the year. Sovereign lending constituted more than 70% of total approvals. The concentration in sovereign lending is derived from demand from member states for energy imports. Energy sector still represented about 80% of portfolio. In this regard, efforts continue to reduce presence of energy sector in ITFC portfolio for upcoming years.

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

Type of security	1434H	Share (%)	1435H	Share%	1436H	%
Sovereign	3,712	74	3,771	75	4,530	
Bank Guarantee	124	2	399	12	720	12
Unsecured	235	5	230	2	125	
STF	977	19	720		644	10.6
Credit insurance	0	0	35	0.4	23	
TOTAL	5,048	100	5,155	100	6,042	

ITFC has been successful in implementing asset backed STF operations in which ITFC assumes the ownership of commodities financed. This Structured Trade Finance, particularly for soft commodities, has gained acceptance in several markets including Turkey, Kazakhstan, and Indonesia.

1. Providing Solution for Impact

Compared to any other form of lending or investing in the emerging markets, structured trade finance (STF) has created more space for ITFC to provide trade solutions 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 partnering 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 to provide Collateral Management services. Moreover, ITFC was able to structure a transaction based on receivables assignment.

As part of ITFC strategy which calls for the diversification of the trade finance portfolio, a lot of 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 further focused on expanding export financing: **Suppliers' Finance Scheme** for export finance has been developed as a new product and Islamic export finance lines to banks have been extended more extensively.

2. Field Presence

1436H was a remarkable year for regional presence. ITFC staffs assumed duty in four regional/country offices:

- 1- Dakar Regional Office,
- 2- Istanbul Country Gateway Office,
- 3- Dhaka Country Gateway Office, and
- 4- Jakarta Country Gateway Office.

The local presence will allow ITFC to increase its accessibility in the local market and 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

ITFC continues to enhance the capabilities of the regional/country offices in order to ensure increased business and better efficiency for providing trade finance solutions for ITFC clients. 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 finance trade in commodities, as indicated in the below table, in tailor made financing structures.

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

Commodity	1435H	1436H
Grains & Oilseeds	155	465
Other	350	720
Machinery & Equipment	72	23
Cotton	153	169
Other Foodstuff	83	10
Sugar	60	114
Metals	60	30
Fertilizers	68	75
Plastics	25	0
Other Chemicals	10	0
Pharmaceuticals	6	0
Other Minerals	0	50

As indicated above, ITFC was able in 1435H, 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 1,664 million in 1436H.

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 1436H, ITFC continued its focus on these mechanisms for SME financing and provided US\$720 million (1435H: US\$399m).

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

Country	1435H	1436H
Bangladesh	1,450	1,000
Benin	0	30
Burkina Faso	147	153
Comoros Islands	20	60
Djibouti	30	120
Gambia	62	45
Mali	0	24
Mauritania	65	85
Mozambique	0	5
Niger	20	0
Palestine	1	0
Senegal	30	60
Sierra Leon	0	10
Tajikistan	0	10
Togo	40	62
TOTAL	1,865	1,664

B. TRADE COOPERATION AND PROMOTION PROGRAM (TCPP)

1. *Brief about TCPP*

Articles of Agreement establishing ITFC mandate it with the tasks of promoting and enhancing trade of MCs and supplementing the efforts of the IDB in this regard by providing trade finance and engaging in activities that facilitate intra-OIC trade and international trade of MCs. ITFC fulfill its mandates through two parallel lines of approach: **1) Trade Finance, 2) Trade Cooperation and Promotion Program (TCPP)**. While ITFC's trade finance arm emphasizes on enhancing intra-OIC trade through providing short-term trade finance facilities, its Trade Cooperation and Promotion Program provides trade related technical assistances under its five focus areas/business lines, namely trade promotion, trade facilitation, capacity development, trade mainstreaming and development of strategic commodities.

Along with their specific objectives, TCPP business lines are interlinked and complementing each other. Basically, TRTA interventions under the domain of trade promotion, trade facilitation and trade mainstreaming aim at increasing trade exchange and trade cooperation among MCs through establishing links between entities in different MCs and through development of enabling business environment in and across the border for smooth flow of goods and services and mainstreaming trade as part of national development policies. Whereas the TCPP interventions under the business lines of capacity development and development of strategic products aim at addressing supply side constraints faced by SMEs and assist them to join into regional and global value chains effectively through improving their institutional and human capabilities.

The program has adopted a program-based approach in order to develop comprehensive regional/thematic trade development programs in close consultation and cooperation with MCs as well as trade development partners, and to mobilize financial and technical resources for their implementation. As result, various flagship programs have been prepared and now are being implemented, or about to be launched soon officially, such as Arab Africa Trade Bridge Program, Special Program for Central Asia, and Trade Development Forum. Aid for Trade Initiative for Arab States, Trade Knowledge Bridge Program, Global Trade Development Partnership Programme.

Each program has its own specific work plans addressing different trade development needs and challenges of MCs. The following sections give brief information about ITFC's trade development and cooperation initiatives being undertaken by TCPP.

2. *Platforms of Cooperation for Enhanced Regional Economic Integration*

2.1. Aid for Trade Initiative for Arab States:

The Aid for Trade Initiative for Arab States (AfTIAS) is a multi-donor, multi-country and multi-agency programme, aiming to "foster Arab trade through enhancing enterprise competitiveness and facilitating trade". was developed and launched since 2013 by TCPP/ITFC, in collaboration with the United Nations development Programme (UNDP), the International Labour Office (ILO), the International Trade Centre (ITC), the United Nations Conference on Trade and Development (UNCTAD) and the United Nations Industrial Development Organization (UNIDO). Eight donors funded AfTIAS Programme: Kingdom of Saudi Arabia, State of Kuwait, Kingdom of Sweden, Arab Republic of Egypt, UNDP, IDB , ITFC and Industrial Training Council (ITC) / Egypt.

As part of the global Aid for Trade initiatives, AfTIAS Programme objectives are:

- Enhance regional competitiveness through trade reforms;
- Strengthen trade supply side and value chain integration; and
- Strengthen regional and sub-regional organizations' capacity to foster trade integration.

As a technical assistance vehicle for the development of trade between Arab countries, the AfTIAS raised interest, over a relatively short period of time, among development partners and donors, as well as in the target countries. It revealed itself as a programme with huge potentials that could be effective for trade cooperation, trade facilitation, capacity building and for the intensification of trade flows in the region, both for goods and services, thus significantly fostering regional integration and economic development. Among the important projects that benefitted from AfTIAS resources during the current phase, the following ongoing projects can be mentioned :

Performance improvement of the trade and transport corridors between Sudan - Egypt, Egypt - Saudi Arabia, and Jordan - Saudi Arabia, through the enhancement of customs procedures and the equipment of the border centres ;

- Strengthen capacity of the League of Arab States to promote trade integration;
- Improvement of regional competition by addressing non-tariff measures in Egypt, Jordan, Morocco, Palestine, Saudi Arabia, Sudan, and Tunisia and identifying concrete actions at national and regional levels to eliminate non-tariff restrictions ;
- Support to the accession of Sudan and the Comoros to the World Trade Organization (WTO);
- Enhancing the skills of workers in selected export sectors in Egypt and Tunisia through the application of training tools that aim to help matching the needs of the industry and the skills of job seekers in the sectors of food industry, wood and furniture (For Egypt) and Food industry and metallurgical and metal construction sector (For Tunisia);
- Strengthening of trade support institutions in Algeria, Egypt, Kuwait, Lebanon, Oman and Saudi Arabia (implemented by the ITC);
- Support to small and medium-sized companies in the Gulf Cooperation Council (GCC) for access to foreign markets project (implemented by ITC);
- “Training & Employment for Export – TREE” aiming to train university graduates to become Certified Export Specialists in Egypt.

2.2. Special Program for Central Asia (SPCA)

Landlocked Countries of Central Asia have the same trade development challenges like many of other OIC MCs; low level of economic diversity, dependency on oil and agricultural products, low-intra trade, market access difficulties, challenges faced by SMEs etc. As part of its complementary roles in supporting IDB Group efforts to enhance regional integration among the MCs, ITFC has closely worked with Country Programming Department of IDB to prepare a Special Program for Central Asia, where trade development and promotion of regional trade cooperation is one of the focus area of the program. A validation workshop was organized in Istanbul, Turkey in mid -March with the participation of delegates of MCs and international development partners, which endorsed the findings and recommendations of the Program Document. The Program will be officially launched in May 2016.

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.

ITFC will actively involve in the implementation of the recommendations of the Program in the domain of trade. Sector specific work plan will be prepared in consultation with MCs and development partners following the official launching of the program.

2.3. 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.

Holistic approach in design and implementation of the program lead program partners to include some capacity development activities for SMEs and trade support institutions besides providing support to organizers of business matching activities. In 2015, soft launching of the program was undertaken by ITFC, while its efforts in resource mobilization were going on. Within the scope of the program, ITFC supported participation of African companies in two international exhibition organized in Amman, Jordan and Cairo, Egypt in November 2015.

Furthermore, the program partners aim to offer trade-financing options to trade deals as well as offering credit and investment insurance facilities within the scope of this program. Program partners consider extending technical assistance to Egypt and Morocco to undertake preliminary studies, which aims to identify physical and non-physical requirements for the development of Logistical platform to cover West and North African countries. Establishment of logistical platform will facilitate intra-regional trade between Arab and African MCs through providing better access to local companies for cross-border trade with lower trade and transportation cost. In 2016, ITFC will continue providing financial support for the organization of international exhibitions in the targeted countries and plans to collaborate with MCs in the organizational of regional trade caravan projects. Moreover, ITFC will organize some training programs in 2016 with its partners on international trade, finance and insurance to support development of better understanding of SMEs on these particular subjects.

3. Global Partnership for Trade and Knowledge Capacity Building

3.1. Trade Knowledge Bridge Program

Trade related capacity building activities such as trainings, establishment of trade training centres, knowledge creation and dissemination on trade related subjects are given high importance by ITFC/TCPP. Trade Knowledge Bridge Program is ITFC's flagship program for trade capacity development.

It has four building blocks, which comprise different sets of activities/initiatives. 1) Experience and knowledge sharing programs for government and semi-government trade institutions, 2) On line and in person training programs for SMEs on export marketing, international trade, entrepreneurship, business development etc., 3) Knowledge creation and dissemination through sponsoring preparation of analytical studies, research & policy papers etc and organization of workshop/seminars for awareness and consensus development on trade related subject, 4) Establishment of trade training centers along with the development of modular training programs/materials. TKBD is an umbrella program of ITFC consolidating ITFC's capacity building activities and materializing experiences and

know-how of its development partners to create sustainable trade capacities both in public and private sectors that will be the main source of sustainable trade development solutions.

3.2. Youth Training & Employment on International Trade

Lack of qualified labor with the right skill sets for international trade is a common challenge for all IDB MCs. Design and implementation of specific training programs for Youth is a proven option to address skill matching among the fresh graduates. Tailored made training program on international trade also improves SMEs market access to global market and bring them to expand their business beyond the local markets. With a view to address this important issue, AFTIAS Board decided to co-finance a special training program for youth with the Industrial Training Council of Egypt as a pilot project, which ITFC envisages the replicate in other MCs with the concerned government and private sector associations. Following the completion of the training programs, young graduates will be employed by the private companies, which are currently operating in international trade or in the process of extending their operations in other countries.

3.3. Other Trade Capacity Development Initiatives

In addition to its above mentioned efforts, ITFC is in the process of finalizing a partnership agreement with the Trade Facilitation Office (TFO) of Canada to explore the possibility of designing and implemented a modular training program to train the trainers on international marketing and multilateral trading system. There are two other training programs ITFC plans to conduct in 2016 with its development partners on trade facilitation measures and on trade mapping and market analysis. ITFC plans to invite concerned authorities from English speaking MCs for these training programs.

4. OIC Level Initiatives/Efforts

The Program continued to exert efforts in 1436H at OIC level to have active communication and cooperation among trade authorities of the OIC Institutions. On a wider scope, TCPP engaged actively in the preparation of the new OIC ten year Plan of Action by providing technical inputs to OIC Secretariat General. ITFC has provided technical support to the implementation of the new COMCEC Strategy through actively participating in the Trade Working Group Meetings. ITFC and COMCEC Coordination Office are exploring the possibility of developing multi-year joint programs and organizing several activities under the theme of the working groups to assist MCs implement policy recommendations of working groups.

4.1. First Meeting of Trade and Investment Sub-Committee (TISC)

First Annual Coordination Meeting of OIC Institutions (ACMOI), which was held at the OIC Headquarter in Jeddah, KSA on 7-8 December 2015, decided to established Trade and Investment Sub-Committee (TISC) as a coordination platform of OIC Institutions operating in the field of economic cooperation and development. ICDT was assigned as the Secretariat of the TISC. The first meeting of the TISC was held in Marrakesh in Morocco, during 16-17 March 2016 to discuss the Terms of Reference and working principle of the sub-committee. The Committee is expected to improve the coordination among OIC institutions and enhance synergy among the similar initiatives for the effective implementation of decisions and resolutions of the OIC Summit, Council of Foreign Ministers (CFM) and other ministerial meeting.

4.2. 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. ITFC is in final stage of concluding a partnership agreement with the host country, where the first edition of the Forum will take place.