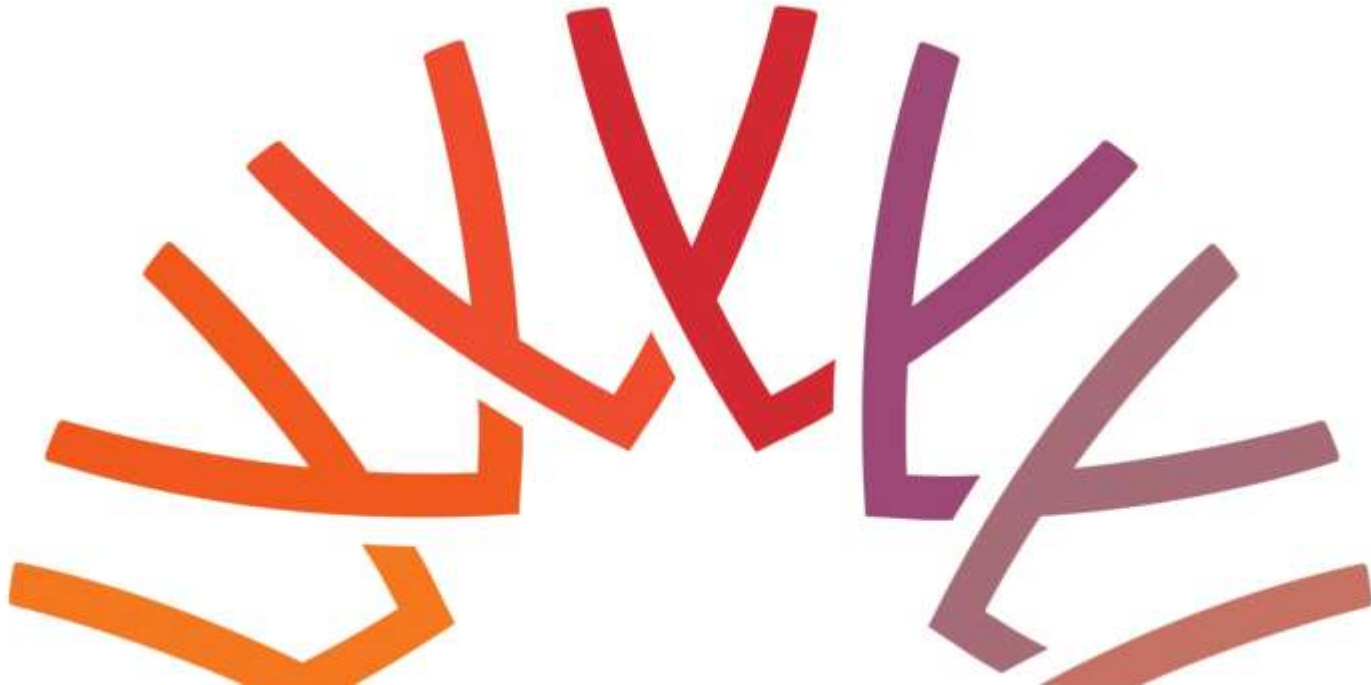


ITFC Role in SME Financing



itfc

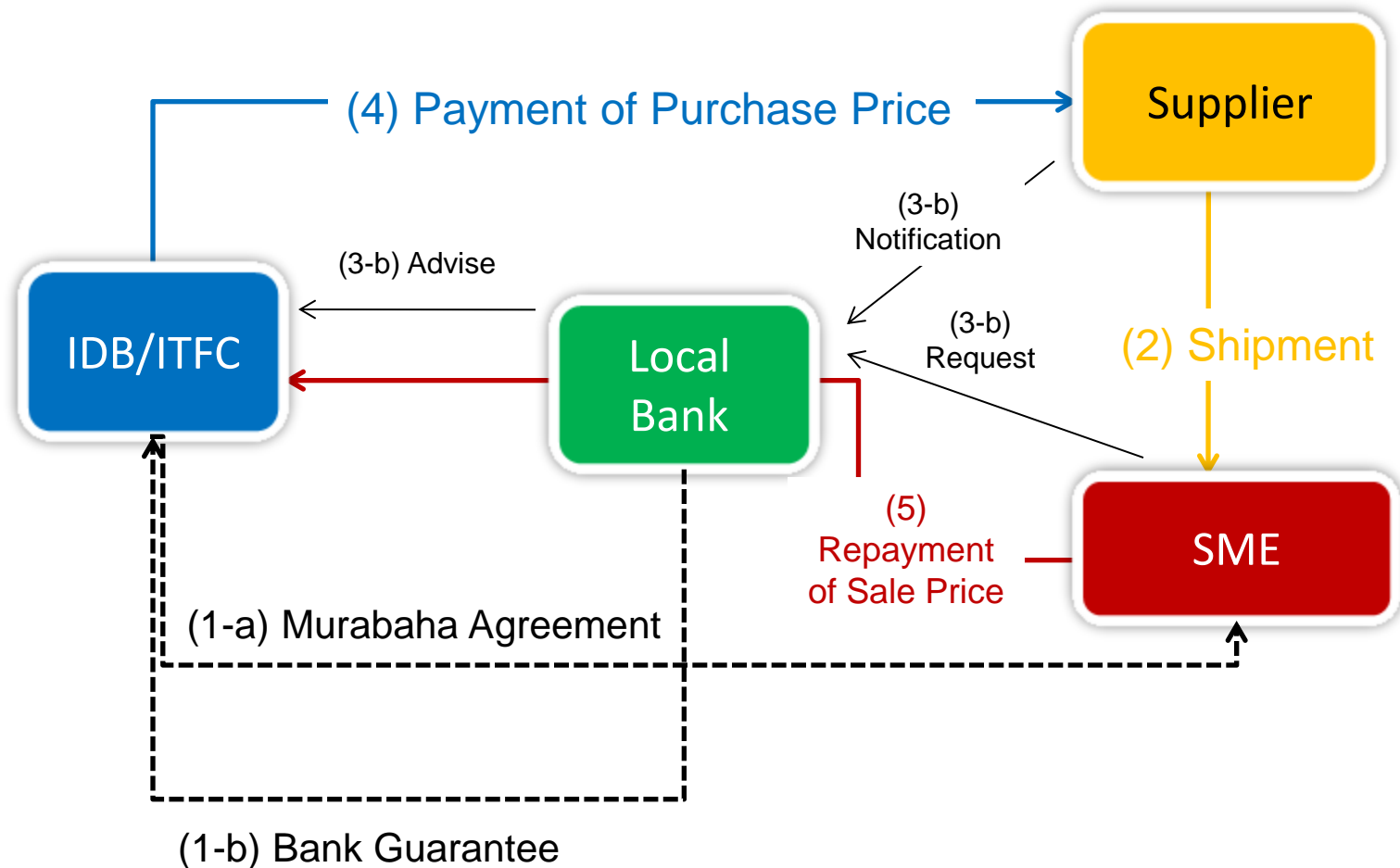
International
Islamic Trade
Finance Corporation



CONTENT

1. Line of Trade Financing
2. Two-Step Murabaha
3. Structured Trade Finance for Agro SMEs
4. ITFC Recommendations for Improving SME Access to Trade Finance

1. Line of Trade Financing



1. Line of Trade Financing

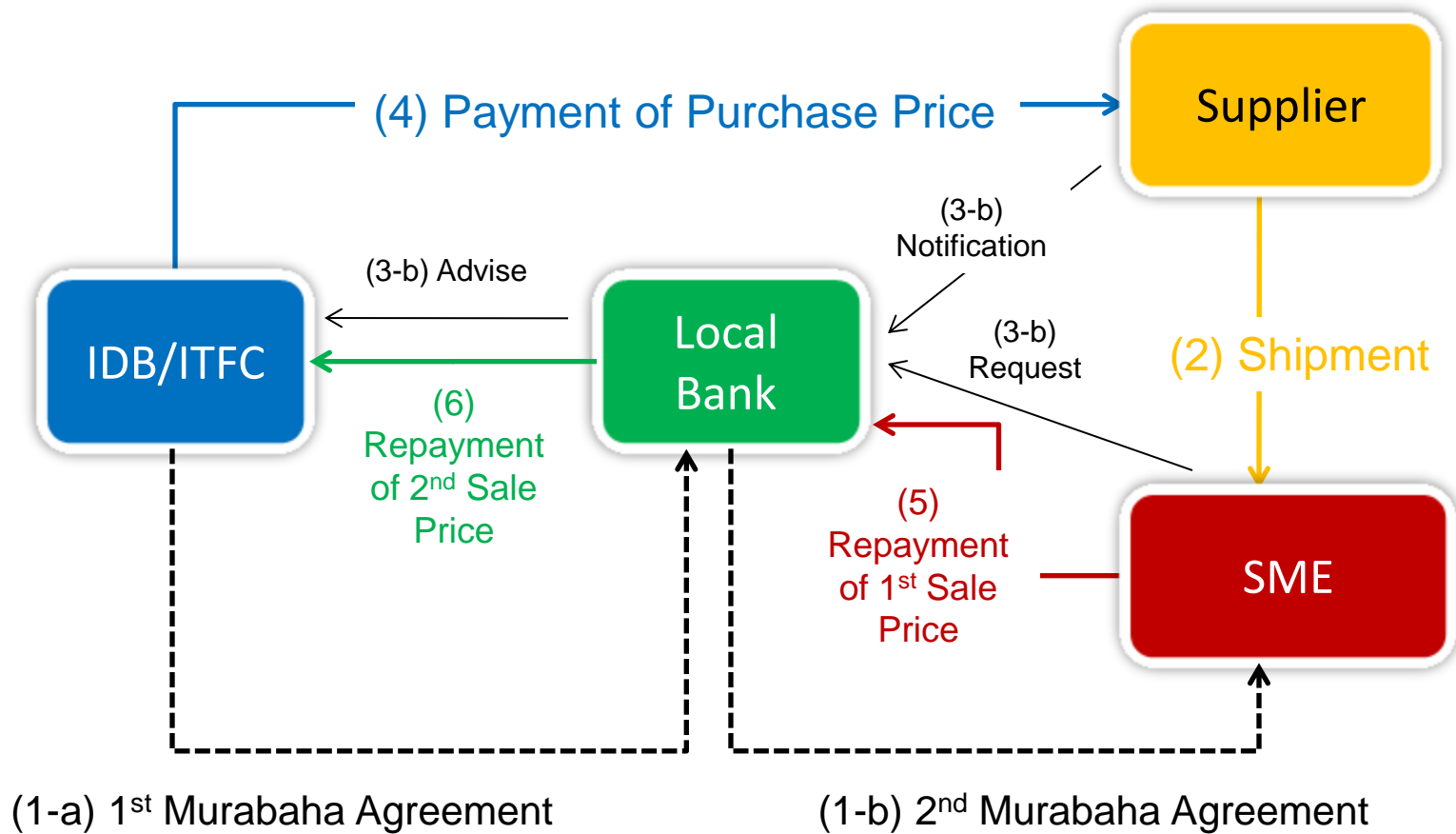
- *Pros:*

- *Help to comply with local banking rules and regulations*
- *SMEs get ITFC pricing*

- *Cons:*

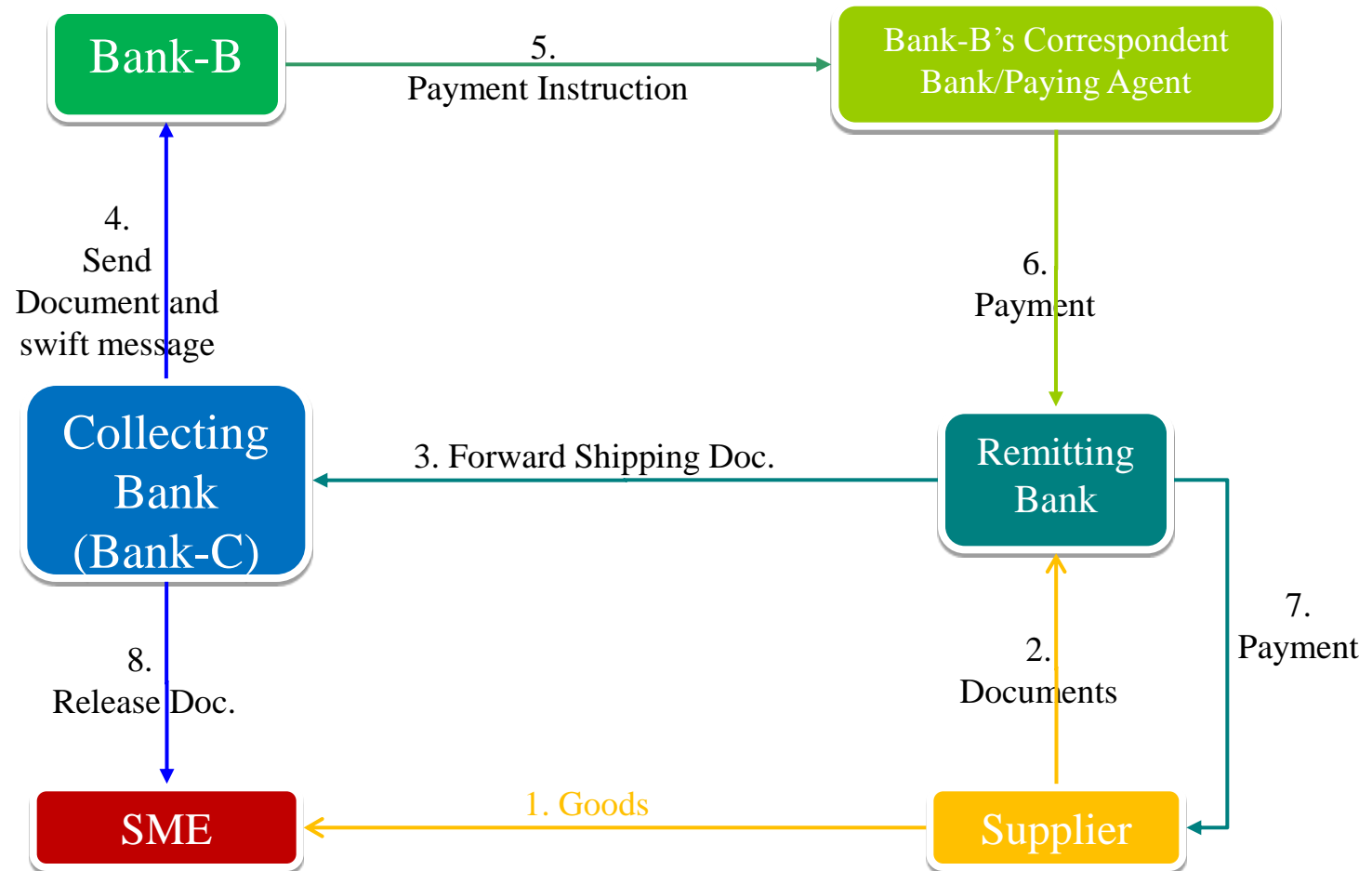
- *Signing of financing agreement with many/small sized SMEs*
- *Time consuming*
- *SMEs need to obtain Bank Guarantee from Local Bank*

2. Two-Step Murabaha



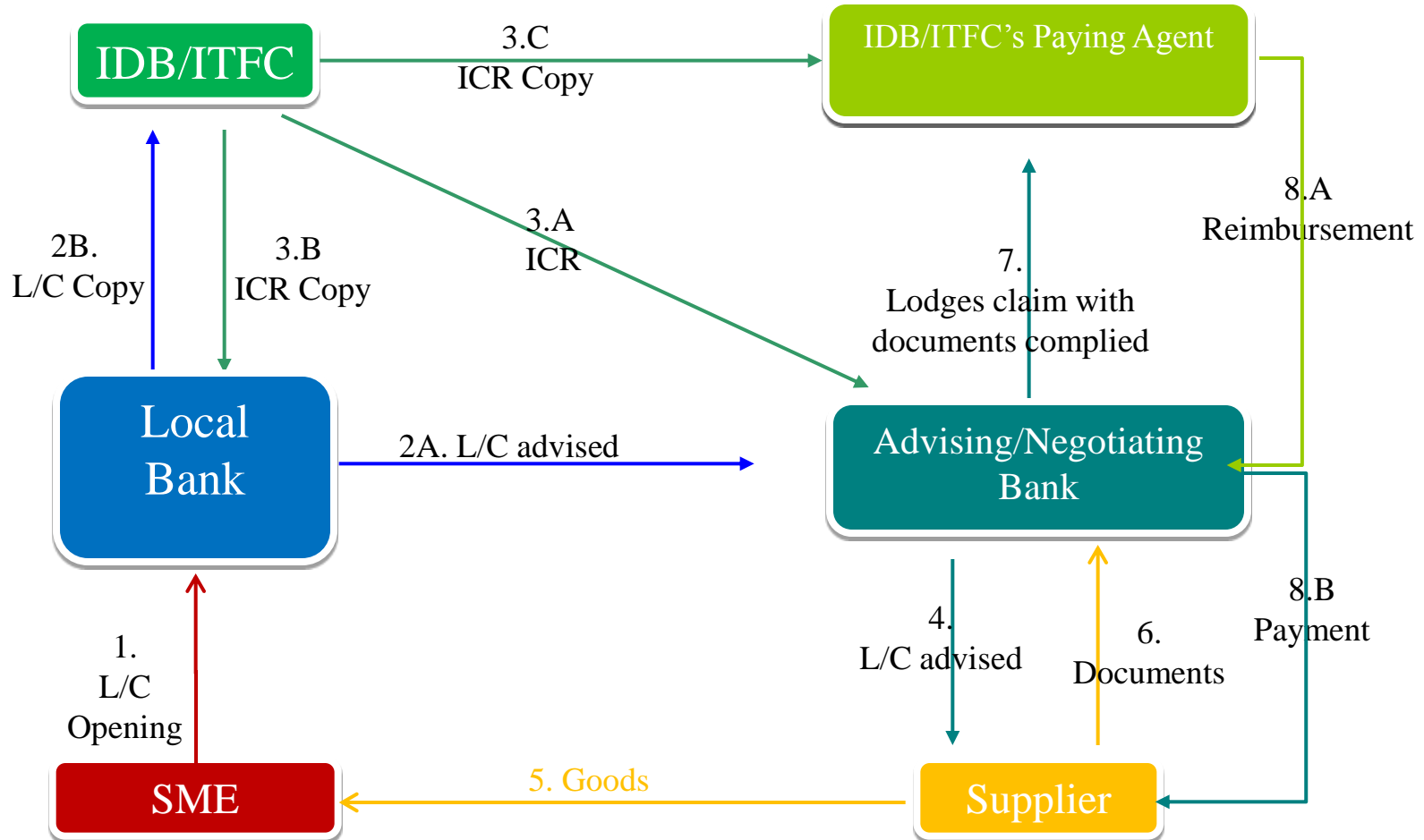
2. Two-Step Murabaha

- Disbursement Mechanism (Documentary Collection)



2. Two-Step Murabaha

- Disbursement Mechanism (L/C)



2. Two-Step Murabaha

■ Modifications in L/C

47A: Additional Conditions

- 1) SHIPMENT ON/FROM SERBIA, MONTENEGRO, IRAQ FLAGGED VESSEL/PORT PROHIBITED.
- 2) DISCREPANT DOCUMENTS MUST NOT BE NEGOTIATED
- 3) L/C NO. ILCTL77011000364 MUST BE QUOTED ON ALL DOCUMENTS
- 4) SHIPPING MARK:
- 5) THIS L/C IS UNDER THE TRADE FINANCING MURABAHA AGREEMENT (OPERATION NO. DATED 29JULY2009) SIGNED BETWEEN THE INTERNATIONAL ISLAMIC TRADE FINANCE CORPORATION AND
- 6) EACH NEGOTIATION MUST BE ENDORSED ON THE REVERSE SIDE OF THE ORIGINAL CREDIT INSTRUMENT

78: Instr to Payg/Acceptg/Negotg Bank
THE NEGOTIATING BANK IS KINDLY REQUESTED TO APPROACH ISLAMIC DEVELOPMENT BANK (IDB) (SWIFT CODE: ISLDSAJE) FOR THE IRREVOCABLE COMMITMENT TO REIMBURSE (ICR) UPON WHICH ISLAMIC DEVELOPMENT BANK (IDB) WILL NOMINATE A SPECIFIC PAYING BANK / REIMBURSING BANK FOR HONOURING ALL CLAIMS DRAWN UNDER THE LC

2. Two-Step Murabaha

- *Irrevocable Commitment to Reimburse (ICR)*

:79: Narrative
Free Format:

```
ATN: TRADE FINANCE SERVICES
WE HAVE ADVISED BANK OF (name ) AS FOLLOW:
QUOTE
ATN : DOCUMENTARY CREDITS DEPT.
OUR REF: DS/TFC/ (PLS QUOTE IN ALL
CORRESP.) WE HEREBY ISSUE OUR IRREVOCABLE
COMMITMENT FOR REIMBURSEMENT OF CLAIMS UNDER
FOLLOWING L/C PRESENTED TO ████████ BANK ██████ BERHAD
(UK) LONDON, UPTO A MAXIMUM OF USD ██████ (USD
EIGHT HUNDRED SEVENTY FIVE THOUSAND FOUR HUNDRED
ONLY),
PROVIDED THE NEGOTIATING BANK CERTIFIES TO THEM
BY AUTHENTICATED MESSAGE THAT ALL TERMS AND
CONDITIONS OF L/C HAVE BEEN COMPLIED WITH. WE HAVE
SENT A COPY OF THIS MESSAGE TO ████████ BANK ██████
BERHAD (UK) LONDON AUTHORIZING THEM TO HONOUR
CLAIMS FROM THE NEGOTIATING BANK AFTER 3 (THREE)
WORKING DAYS OF RECEIPT BY THEM OF THE NEGOTIATING
BANK'S CERTIFICATE AS NOTED ABOVE.
L/C DETAILS:-
1.L/C NO. :
2.ISSUED BY :
3.BY ORDER OF :
4.FAVOUR :
5.AMOUNT :
```

2. Two-Step Murabaha

- *Pros:*
 - *Signing of financing agreement with Local Banks*
 - *Very Efficient*
 - *ITFC takes Bank Risk*
 - *Best alternative for SME trade financing*

- *Cons:*
 - *May not be possible due to local banking rules and regulations*
 - *SMEs get pricing quotation from local banks*

3. Structured Trade Finance for Agro SMEs

- **Facility:** (€ 18m input financing + € 5m post harvest financing)
- **Prompt payment to Farmers:** immediately after harvest & delivery → contributing to poverty alleviation by sustaining rural income
- Cotton is Major cash crop covering 60% of the total cultivated land in Cote d'Ivoire → Livelihood directly and indirectly to 3.5 million people
- Reviving the cotton sector → post-conflict reconstruction programme of Côte d'Ivoire



High Economic & Social Impact

3. Structured Trade Finance for Agro SMEs

- *Village Market: Raw Cotton Being Gathered By Farmers to Be Delivered to Ginneries in Burkina Faso*



3. Structured Trade Finance for Agro SMEs

- *Coffee Beans Depulped in Indonesia*



3. Structured Trade Finance for Agro SMEs

- *Meeting with Farmers in Indonesia*



3. Structured Trade Finance for Agro SMEs

- *Farmer's Livelihood in Indonesia*

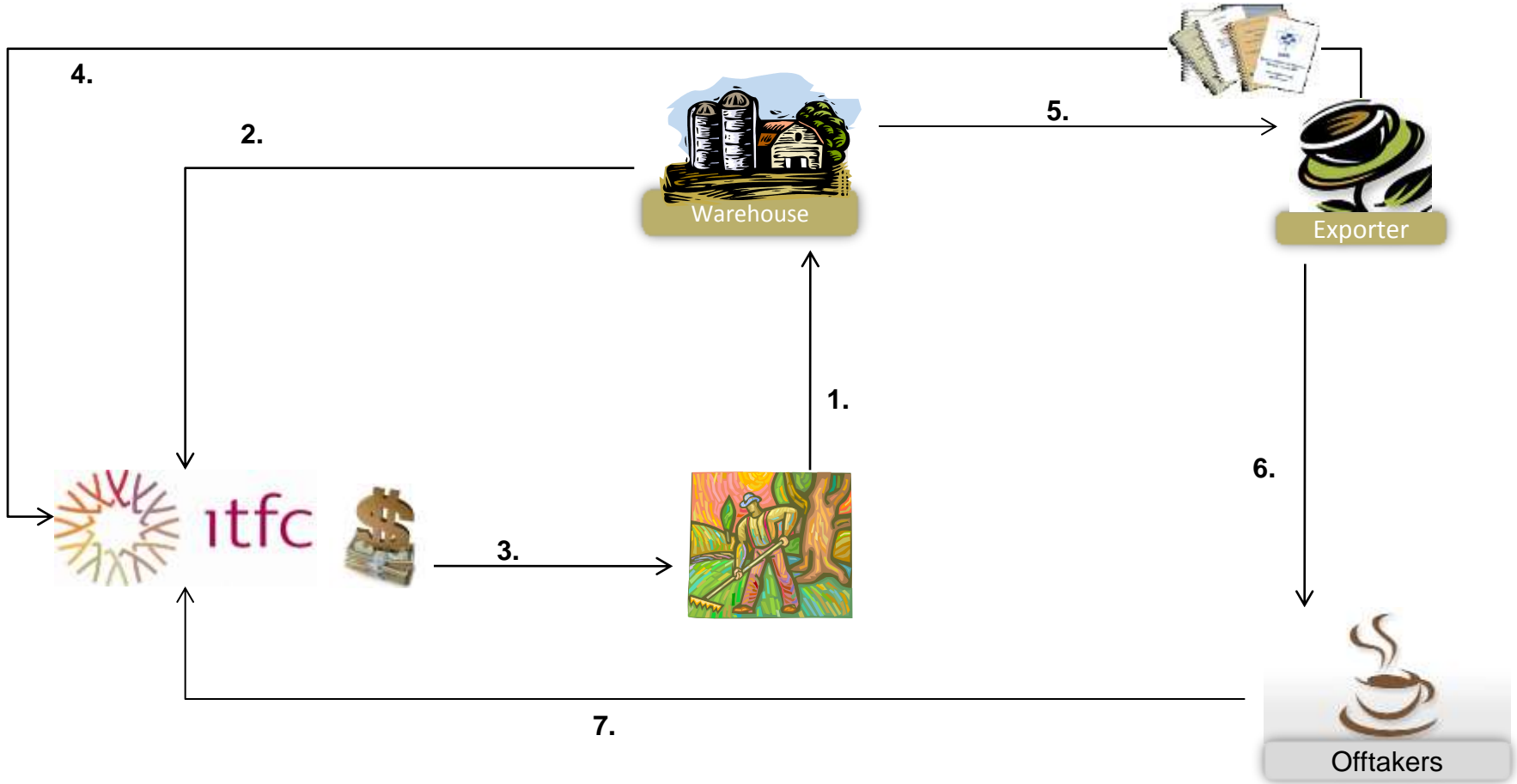


3. Structured Trade Finance for Agro SMEs

- **Facility:** Two STF operations (2 x \$1 million) in favor of two Coffee Cooperatives in Indonesia
- **Prompt payment to Farmers:** cooperatives received cash against delivery of the coffee beans
- Small amount with big impact on lives of the farmers and their families

“ITFC’s financing played a catalytic role in building the trust among the coffee producers and cooperatives. More importantly, it directly impacted the livelihood of the farmers and their families as they were able to overcome their cash flow challenges.”

3. Structured Trade Finance for Agro SMEs

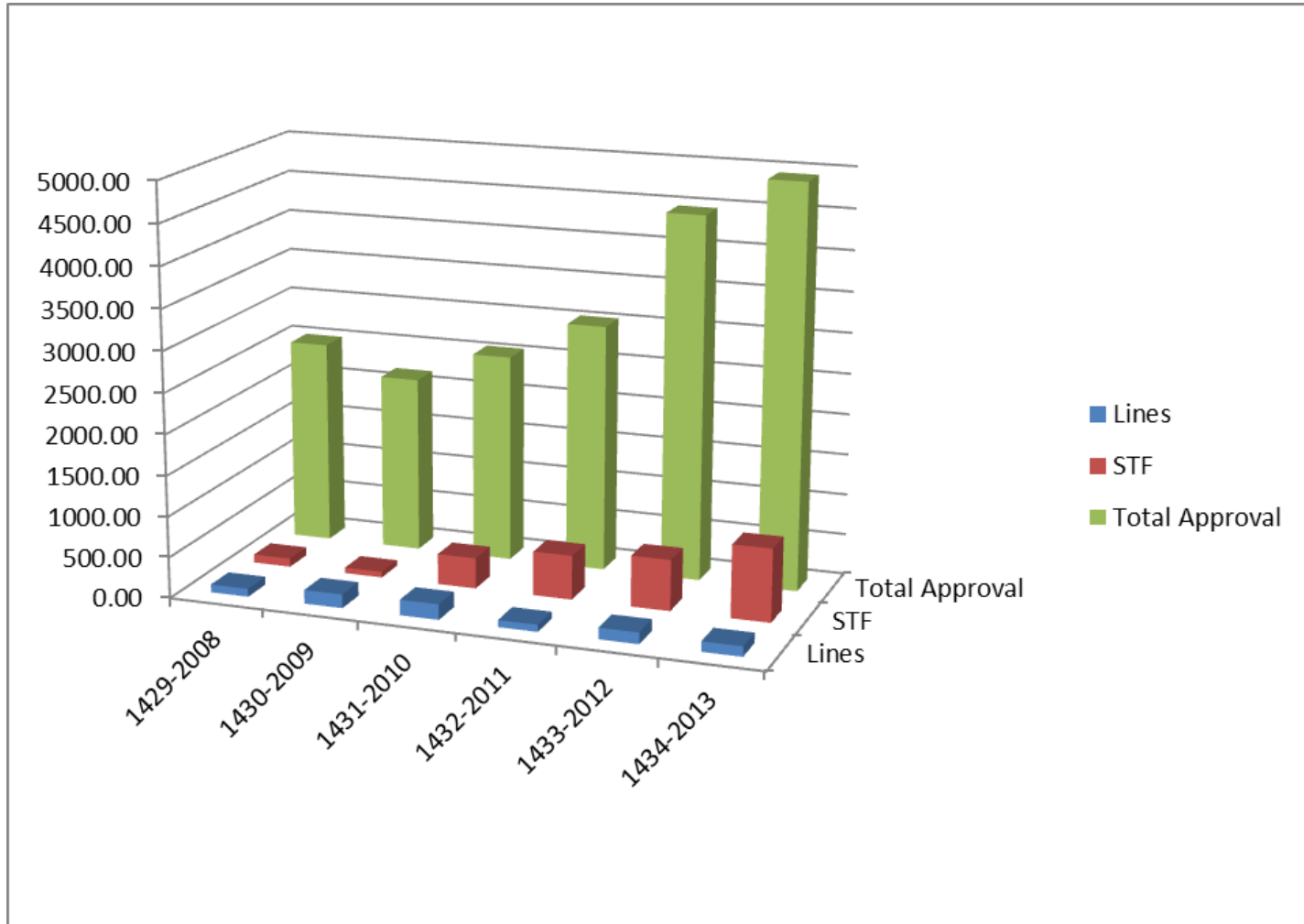


7. Offtakers pay itfc (represented by a dollar sign icon), then itfc sends amount to the Warehouse.

3. Structured Trade Finance for Agro SMEs

- *Pros:*
 - *Alternative to conventional repayment guarantees (SMEs do not need to provide any guarantee); off-balance sheet*
 - *Transfer Credit Risk to Performance Risk*
 - *Increases exposure limits which is needed for rising commodity prices*
 - *Can handle higher risks in emerging markets*
 - *Source of repayment is transaction so self liquidating (Ownership/pledge)*
 - *Customized solutions*
 - *SMEs get pricing quotation from ITFC*
 - *Cons:*
 - *May not be possible due to warehouse receipt regulations*
 - *ITFC takes performance risk of farmers/cooperatives and commodity price risk*
-

4. ITFC Proposals for Improving SME Access to Trade Finance



4. ITFC Recommendations for Improving SME Access to Trade Finance

- 1) Support from member countries to enable ITFC to sign Two-Step Murabaha Agreement with Local Conventional Banks (Legal Infrastructure)
- 2) Regulations to streamline implementation of STF facilities in Member Countries(Legal Infrastructure)
- 3) Banking transaction tax exemption for SME financing (Legal Infrastructure)
- 4) Increase awareness on Two-Step Murabaha Lines within Finance Community in OIC countries for diffusion of SME financing

< advancing trade, improving lives >

THANK
YOU!

