

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



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CONTENTS

A.	TRADE FINANCE OVERVIEW	2
	<i>1. Providing Solutions for Impact</i>	
	<i>2. Filled Presence</i>	
	<i>3. Expanding Access to Finance for Strategic Commodities, LDMCs, SMEs</i>	
B.	TRADE COOPERATION AND PROMOTION PROGRAM (TCPP)	5
	<i>1. Brief about TCPP</i>	
	<i>2. Regional Trade Development Initiatives</i>	
	<i>2.1. Aid for Trade Initiative for Arab States</i>	
	<i>2.2. Aid for Trade Initiative for SPECA Region</i>	
	<i>2.3. Regional Workshop on Reducing Trade Costs for inclusive, Sustainable Growth</i>	
	<i>2.4. Arab Africa Trade Bridge Program</i>	
	<i>3. OIC Level Initiatives/Efforts</i>	
	<i>3.1. The Executive Program of the Road Map for Enhancing Intra-OIC Trade</i>	
	<i>3.2. OIC Trade Development Forum</i>	
	<i>4. Global Partnership for Trade and Knowledge Capacity Building</i>	

A. TRADE FINANCE OVERVIEW

Over the last 3 years, ITFC has successfully stood up to the uncertainties of the global economy since entering into the era of slow growth and constant geopolitical changes, particularly in many member countries. Despite these major challenges, it is important to ponder on ITFC significant achievements in the recent years, creating a robust institution, and setting the pace for an ambitious goal for ITFC to become the preferred trade finance institution in its member countries.

ITFC continues to expand its coverage in several areas while implementing the strategic objectives set for enhancing intra-OIC trade. ITFC collaborated with new players in its trade finance business and attracted new clients in new sectors. Trade approvals reached USD 5,155 million in 1435H and **USD 5,673 million by the end of Month 11 of 1436H** (for the full year 1436H, approvals are on track to reach USD 6,200 million).

Approvals for the year are already higher than last year. This achievement is remarkable considering the prevailing global market conditions and the impact on trade volume. On the other hand, geographical distribution of ITFC interventions improved for the year with more reliance on business opportunities in MENA region and Sub-Saharan Africa region and more diversified business of Asia region. 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 11 months
ASIA/CIS	3,405	67	2,464	48	3,110
MENA	1,409	28	2,259	44	2,058
SSA*	234	5	432	8	505
Total Approvals	5,048	100	5,155	100	5,673

*SSA: Sub-Saharan Africa

ITFC continues to achieve its strategic objective to reduce concentration not only country-wise but also sector-wise. Thanks to the efforts exerted to reduce concentration, ITFC made significant achievements by attracting new countries to the portfolio. Given the need of member countries, ITFC sustained its operations for sovereigns for the year. Sovereign lending constituted around 70% of total approvals. The concentration in sovereign lending is derived from demand from member countries for energy imports. Energy sector accounted for the largest approvals, representing about 80% of the portfolio. In this regard, efforts will continue to be made for the coming years to reduce the proportion of energy in the portfolio.

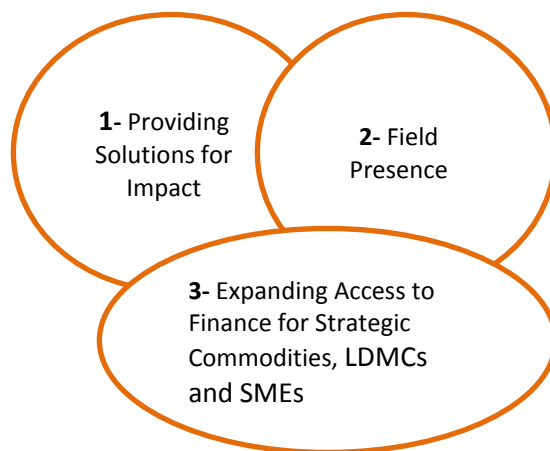
Table 2: ITFC Trade Approvals by Type of Security (US\$ Million)

Type of security	1434H	Share (%)	1435H	Share%	1436H 11 months
Sovereign	3,712	74	3,771	73	4,480
Bank Guarantee	124	2	399	8	610
Unsecured	235	5	230	4	125
STF	977	19	720	14	435
Credit insurance	0	0	35	1	23

TOTAL	5,048	100	5,155	100	5,673
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Up until now, ITFC implemented asset backed STF (Structured Trade Finance) operations in which ITFC assumes the ownership of commodities financed. This is a unique opportunity offered for Islamic finance to distinguish itself from conventional trade finance and ITFC is proud to say that it has pioneered a number of structured products in view of reaching to the least developed member countries. Indeed, a new ITFC initiative for asset based STF is expected to take off in upcoming years. This expansion is accompanied by adequate securities in order to enhance the risk profile of ITFC financed operations.

The rapid growth in approvals, a measure of ITFC’s business activity, is well in-line with its growth strategy. More remarkably, this organic growth has been built up steadily and sustainably. ITFC has shown resilience in very adverse economic conditions, and is very well prepared to take the challenge to further contribute and enhance intra OIC trade by capitalizing on its strength and that of the IDB Group. Over the past 3 years, ITFC’s activities for enhancing the OIC intra-trade focused on the 3 priority areas as captured in the graph below:



1. Providing Solutions for Impact

Compared to any other form of financing 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 based 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 developed in-house and implemented across the member countries. This required partnering with collateral managers, agent banks and insurance brokers & underwriters to provide tailored solutions to entities in member countries to fit their business models. For example, necessary arrangement were worked out with a bonded warehouse operator to provide Collateral Management services. ITFC also embarked on STF line of financing with a banks and the first STF operation for a private client in Bangladesh.

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 demonstrated a lot of resourcefulness to face the challenges in the face of stiff competition for entering new markets and sectors. ITFC has made the strategic shift to move away from unsecured “clean” financing to structure

commodity trade based financing. 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.

2. Field Presence

1436H was a remarkable year for regional presence. ITFC made good progress on its regional presence strategy with the relocation of some of its staff to IDB Group Regional Offices (RO) and Country Gateway Offices (CGOs). In 1436H, ITFC staff were successfully relocated from headquarter to IDB Group offices in Dakar, Istanbul, Jakarta, and Dhaka. The new initiative enhanced efficiency and improved ITFC engagement and proximity with Member Countries. The IDB Group ROs & CGOs 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 further advance IDB Group mandate. The local presence will allow ITFC to increase its accessibility in the local market, leading to business expansion while speeding up implementation of approved operations and allowing for better monitoring. Local presence will help 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 Member Country's needs". Hence, the focus will be on the following:

- Better market intelligence
- Increased Approvals and Disbursements
- Increased Income
- Better monitoring of clients
- Diversification
- Innovation and Trade Solutions
- Branding

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

Commodity	1435H	1436H (11 months)
Grains & Oilseeds	155	255
Other	350	625
Machinery & Equipment	72	23
Cotton	153	169
Other Foodstuff	83	10
Sugar	60	120
Metals	60	30
Fertilizers	68	75
Plastics	25	0

Other Chemicals	10	0
Pharmaceuticals	6	0
Other Minerals	0	50

The Framework Agreement on Trade Preferential System among the Member Countries 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 1,734 million in the first 11 months of 1436H.

Table 4: ITFC Trade Finance Approvals for LDMCs (US\$ millions)

Country	1435H	1436H 11 months
Bangladesh	1,450	1,100
Benin	0	30
Burkina Faso	147	153
Comoros Islands	20	40
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	22
TOTAL	1,865	1,734

As for SMEs, ITFC does not deal directly with SMEs as significantly large number of small disbursements are needed and credit is difficult to assess in many local markets. However, in order to fulfil its 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, with approvals under 2SMF reaching to date US\$610 million. This represents a considerable increase over the US\$399 million approvals recorded in 1435H.

B. TRADE COOPERATION AND PROMOTION PROGRAM (TCPP)

1. Brief about TCPP

TCPP is the trade development and cooperation program of ITFC that aims at complementing and supplementing ITFC's efforts in enhancing trade and trade cooperation among its MCs. 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. The operational business lines are Trade Promotion, Trade Facilitation, Capacity Building, Development of Strategic Products, Trade Mainstreaming, and Trade Finance Support.

As result of this new business approach in providing trade related technical assistance programs, TCPP's primary objective in 1435H was to expand its partnership network to be able to address trade development challenges of OIC MCs in a more holistic, inclusive and comprehensive manner. The following sections give brief information about ITFC's trade development and cooperation initiatives being undertaken by TCPP.

2. Regional Trade Development Initiatives

2.1. Aid for Trade Initiative for Arab States:

The Aid for Trade Initiative for Arab States (AfTIAS) was developed by ITFC in cooperation with international organizations, namely UNDP, ILO, ITC, UNCTAD, and UNIDO, as part of the global Aid for Trade initiatives. It is a partnership program of 22 Arab countries, regional economic organizations, specialized trade related organizations and international donors. The programme was launched on 6 November 2013 and activities started in March 2014. AfTIAS aims at contributing to the development of inclusive economic growth with increased employment opportunities and greater competitiveness in the Arab Region through improving business environment in and across the borders of Arab countries and addressing supply side constraints of the local economies.

Among the important projects that benefitted from AfTIAS resources since the operationalization of the program includes followings:

- Support to the League of Arab States in promoting regional trade integration, through the strengthening of the capacity of the Department of Economic integration, Economic Affairs at the Secretariat of the Arab League (implemented by the United Nations Development Programme (UNDP);
- Performance improvement of the trade and transport corridors between Sudan and Egypt, Egypt and Saudi Arabia, Saudi Arabia and Jordan, through the enhancement of customs procedures and the equipment of the border centres (implemented by the United Nations Development Programme (UNDP);
- Improvement of regional competition by addressing non-tariff measures in Egypt, Jordan, Morocco, Palestine, Tunisia and Sudan and identifying concrete actions at national and regional levels to eliminate non-tariff restrictions (implemented by the International Trade Centre (ITC);
- Support to the accession of Sudan and the Comoros to the World Trade Organization (WTO) by providing technical support and capacity building in the field of trade policy, institutional and legal frameworks related to trade reform (implemented by the United Nations Conference on Trade and Development (UNCTAD);
- Enhancing the skills of workers in selected export sectors in Egypt 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 (implemented by the International Labour Organization (ILO);

- Strengthening of trade support institutions in Algeria, Egypt, Kuwait, Lebanon, Oman and Saudi Arabia (implemented by the International Trade Centre (ITC));
- Support to small and medium-sized companies in the Gulf Cooperation Council for access to foreign markets project (implemented by the International Trade Centre (ITC));
- Rehabilitation and employment of young people in Egypt through , to training new graduates and preparing them for suitable jobs in the export industries (implemented by the Foreign Trade Training Center (FTTC), Egypt);
- Strengthening the capacity of the Department of Transport and Tourism at the League of Arab States secretariat, Economic affairs, through providing technical advice and institutional support (Implemented by ITFC and LAS);

Overall project management and fund administration functions along with the coordination task was transferred from UNDP to ITFC as per the decision of the 3rd Project Board Meeting, which took place in Jeddah, KSA during 3-4 December 2014. The said Project Board meeting also reviewed and approved the Consolidated Work Program of the Initiative for 2015, 2016, which includes new projects proposals generated as the results of the works undertaken during the first phase. Through such projects, details works will be undertaken by implementing partners to develop institutional capacities of Trade Support Institutions and carry out reform studies at border gate levels to facilitate regional/cross border trade.

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 components 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. ITFC in cooperation with other concerned departments in IDB Group will organize a consultative meeting in December 2015 to present the project document to main stakeholders, Member Countries and possible donors and implementing partners to finalize project documents with the feedbacks and comments of the participants.

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 was submitted to the 5th Global Review of Aid for Trade. During the seminar, participants delivered 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.

Furthermore, on the occasion of the 5th Global Review of Aid for Trade, a dedicated session was held by ITFC in WTO premises in Geneva in 4th July 2015 to present the conclusions and recommendations of the Amman Seminar. As per the recommendations of the two Consecutive events, follow-up actions have been coordinated by ITFC in the IDB Group, which includes formulation of TRTA program to assist MCs in implementing WTO Trade Facilitation Agreement (TFA), designing new project proposals to benefit from the facilities offered by Enhanced Integrated Program for poverty alleviation.

2.4. Regional Trade Promotion Program: Arab Africa Trade Bridge

Arab and African MCs are rich in natural resources with increasing trade volume present great opportunities for inter and intra trade. Sectors such as agro-food industries, health and pharmaceutical industries, agricultural inputs and machinery, electrical equipment have high potentials for commercial & investment partnership between two regions. However, the intra-regional trade between Arab States and African MCs of OIC do not reflect the trade potentials between both regions.

As 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), members of the Coordination Group agreed to work together to develop a regional trade promotion program with a view to boost intra-trade between Africa and Arab Countries. The initiative aims to bring together businesses (exporters and importers) from the member countries of the League of Arab States and Sub-Saharan African countries for business matchmaking.

It is designed to provide an effective platform to raise awareness of available business opportunities and increase trade and investment between the two regions. Implementation has given start in 2015. ITFC provides technical and financial support to the organizers of the international exhibitions, which aims at enhancing trade relation between two regions. In this context, two international exhibitions, which will be organized in November 2015 in Jordan and Egypt, are included in the program.

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 TCPPE are:

3.1. The Executive Program of the Road Map for Enhancing Intra-OIC Trade

In compliance with the relevant resolution of 30th Session of COMCEC, International Islamic Trade Finance Corporation (ITFC) and Islamic Centre for Development of Trade (ICDT) organized the 7th Meeting of the Consultative Group (CG) for enhancing intra-OIC trade during 2-3 March 2015 in Casablanca, Morocco. The main objectives of the Meeting were reviewing the Assessment Report on the implementation of the Executive Programme, which was prepared as per the resolution of the last COMCEC session. The meeting also discussed the roles of the OIC Institutions in the implementation of the OIC Ten Year Plan of Action for 2016-2025 and the way forward for enhancing coordination between OIC Institutions in the implementation of the new Action Plan.

The meeting took note of the progress reports presented by OIC Institutions concerning implementation of the Executive Program. As per the ICDT presentation, during the seven years implementation period, within the framework of Executive Program, 1,012 activities were conducted by the different entities such as ITFC (295), ICDT (226), SESRIC (168), and ICIEC ((97) etc. These activities were classified as

capacity building, trade facilitation, trade financing and export credit insurance, trade promotion and development of strategic goods.

After the deliberations on the roles of OIC Institutions in the implementation of the new OIC 10 Years Plan of Action and enhancing coordination among OIC Institutions for its effective implementation, the meeting recommended the following:

- Establish inter-agency coordination mechanism to enhance the cooperation of OIC institutions.
- Propose the establishment of OIC Investment and Trade Agencies Forum with a view to enhancing the involvement of MCs and private sector
- Design common Key Performance Indicators(KPIs) for monitoring the implementation of the activities conducted under the Executive Programme
- Encourage the investment for trade initiatives in parallel with trade promotional activities
- Encourage the launching of a new generation of regional integrated sector-based projects involving relevant OIC Institutions
- Encourage OIC Institutions to better use the existing funding mechanisms
- Revisit the guiding principles for cooperation adopted by the 2nd OIC Consultative Group Meeting in 2010 for future cooperation between the OIC Institutions.

On a wider scope, ITFC 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 continued to work closely with OIC Institutions, mainly with ICDT and COMCEC. In that regard, ITFC has provided technical support to the implementation of the new COMCEC Strategy through the Trade Working Group and the Project Cycle Management. In the same context, ITFC provided partial financial support to ICDT for the organization of some of its activities such as OIC Private Sector Business Forum and Exhibition, which will be organized in Riyadh, KSA, in November 2015.

3.2. OIC Trade Development Forum

Another partnership program of ITFC/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. The first edition of the Forum is expected to be organized in 2016 in United Arab Emirates.

4. Global Partnership for Trade and Knowledge Capacity Building

Trade related capacity building activities such as trainings, establishment of trade training centers, knowledge creation and dissemination on trade related subjects are given high importance by ITFC/TCPP. TCPP is currently exploring with its development partners the possibility of establishing a regional trade centre in one of the African MCs, which will conduct trade related training programs for SMEs as well as trade support institutions. Towards this end, ITFC entered into various partnership works with international organizations, one of which is with Trade Facilitation Office (TFO) of Canada, where the objective is to establish such a training center in one IDB MCs in Africa. Partnership modalities with some possible national partners are being undertaken along with the need assessment

exercise to detail the scope of the training programs, which will be delivered in the initial stage of the project.

Second partnership undertaken by ITFC/TCPP is with UNECE in translating Trade Facilitation Implementation Guide in Arabic. ITFC sponsored the translation of the Guide into Arabic and its web-publishing in the dedicated web-site of the Guide. ITFC plans to organize several training programs with UNECE on trade facilitation measures to enable MCs to use and utilize tools and methodologies developed by international organizations.

Another global partnership initiative ITFC involved in 2015 is the “Deep Dive Initiative of WB Group and IDB Group, which aims at addressing development challenges of common MCs through launching joint projects and programs. Within the framework of this initiative, ITFC is taking the lead in trade and transport facilitation field. The parties agreed to work closely to modernize border crossings and harmonize custom regulations and related procedures to improve trade and transport facilitation and reduce border crossings delays. Joint analytical studies, workshops, seminars will be carried out together by IDB Group and WB Group, which are expected to develop more detailed capacity building programs. The primary objective of the joint efforts is to contribute the regional economic cooperation by addressing trade facilitation challenges faced at national and regional levels.
