

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



29th Meeting of the Follow-up Committee of the COMCEC

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TABLE OF CONTENT

| | | |
|-----------|---------------------------------------------------------------------------------|----------|
| A. | TRADE FINANCE OVERVIEW | 2 |
| | <i>1. Providing Solutions for Impact</i> | |
| | <i>2. Supporting Strategic Commodities</i> | |
| | <i>3. Access to SMEs and LDMCs</i> | |
| B. | TRADE COOPERATION AND PROMOTION PROGRAM (TCPP) | 5 |
| | <i>1. Change in TCPP's Business Model: a New Way of Trade Promotion</i> | |
| | <i>2. Leveraging External Partnership to Prepare Regional Programs</i> | |
| | 2.1. Aid for Trade Initiative for Arab States | |
| | 2.2. Aid for Trade Initiative for SPECA Region | |
| | 2.3. The Executive Program of the Road Map for Enhancing Intra-OIC Trade | |
| | 2.4. Supporting Strategic Commodities | |
| | 2.5. Supporting Development of Trade related Human and Institutional Capacities | |

A. TRADE FINANCE OVERVIEW

1433H marked the 5th year since ITFC's establishment and ITFC's continued support to Member Countries during these difficult times helped alleviate some of the negative impact stemming from the liquidity crunch brought on by the global financial crisis. Over the 5 year period, ITFC's strong and steady support to trade finance in OIC Member Countries is evidenced by the significant growth in approvals volume which nearly doubled reaching US\$ 4.5 billion in 1433H, up from US\$ 2.5 in 1429H. ITFC approval by regions for 1433 is compared to 1431H approvals as shown in the table below.

The regional breakdown for the approvals, in USD Million

| Region | 1432H Actual | % | 1433H Actual | % |
|--------------------|-----------------|-----|-----------------|-----|
| ASIA/CIS | 1,959 | 65 | 3,086 | 69 |
| MENA | 879 | 29 | 1,171 | 26 |
| SSA* | 195 | 6 | 209 | 5 |
| Total Approvals | 3,033 | 100 | 4,466 | 100 |
| Total Disbursement | 2,826 | | 3,999 | |

*SSA: Sub-Saharan Africa

In 1433H, trade financing approvals reached \$4,466 million, a remarkable increase of 47 percent compared to the \$3,033 million recorded in 1432H. On the other hand, utilization reached new highs with disbursements increasing by 42% from US\$2,826 million in 1432H to US\$ 3,999 million in 1433H. It is particularly noteworthy that in 1432H, the utilization of the approved operations has stayed around 90% level as substantial effort were exerted to follow up and expedited disbursement of approved operations. Overall, disbursement more than doubled over the past 3 years increasing from US\$ 1.8 billion in 1431H to US\$ 2.8 in 1432H and to US\$4 billion in 1433H.

In 1433H, some MCs particularly in the MENA region continued to face unprecedented challenges. During this turmoil, ITFC maintained its support to its MCs by availing more funds to help the MCs cope with these challenges. In 1432H, more than 50% of ITFC facilities were approved for sovereigns. In 1433H, the sovereign lending proportion in the portfolio increased to about 71%. This increase is reflection of ITFC efforts to support strategic sectors in turbulent regions. On the other hand, in 1433H unsecured operations witnessed substantial decrease, from 22% down to 9%, reflecting ITFC's strategic shift to focus more on secured as well as Structured Trade Finance (STF) based operations. In 1433H, the structured trade finance portfolio grew to US\$626 million, from US\$541 million.

ITFC Trade Approvals by Type of Security, in USD Million

| Type of security | 1432H | Share (%) | 1433H | Share (%) |
|------------------|--------------|-------------|--------------|-------------|
| Sovereign | 1,552 | 51.17 | 3,190 | 71.43 |
| Bank Guarantee | 285 | 9.40 | 257.5 | 5.77 |
| Unsecured | 663 | 21.86 | 405 | 9.06 |
| STF | 541 | 16.52 | 626 | 13.68 |
| Credit insurance | 32 | 1.05 | 2.5 | 0.06 |
| TOTAL | 3,033 | 100% | 4,466 | 100% |

ITFC kept expanding its operations to finance trade in a way to achieve mutual benefit among member countries in developing intra-trade. This expansion is accompanied by adequate precautions so that the ITFC resources could be preserved.

1. Providing Solutions for Impact

Staying true to its brand promise “Advancing Trade, Improving Lives”, ITFC strives to provide financing in countries where the interventions have strong potential to make a real difference in the peoples’ lives. Particularly, in rural communities creating value for agricultural output in early stages of production is essential for food security which has emerged as an important topic of late. Action Plan on the Recommendations of the 21st IDB Annual Symposium entitled: “Achieving Food Security in Member Countries in the Post-Crisis World” mandates ITFC with fostering significant increase in intra-OIC trade in agricultural commodities through adopting an integrated approach by all concerned entities within the IDB Group. As part of the synergy initiative within the IDB Group, ITFC is contributing to efforts to improve food security for a number of the LDMCs in Sub-Saharan Africa. In 1433H, ITFC approved 15 operations for agricultural sector amounting to US\$ 535 million; 39% increase from the US\$ 384 million approved in 1432H.

In order to provide customized solutions, ITFC is increasing its capacity to undertake further services particularly for L/C issuing/confirmation and STF transactions in order to enhance the responsiveness to entities in member countries.

2. Supporting Strategic Commodities

In 1433H, ITFC increased financing of strategic commodities such as oil, aluminum, rice, groundnut, coal, coffee, sugar, wheat, maize, palm oil, sunflower, soybean and others in several countries. During the year, about US\$ 525 million financing was allocated for strategic commodities excluding oil. In 1433H, new operations have been approved, for Rice in Burkina Faso for US\$ 15 million; Coal in Indonesia for US\$ 15 million; Sugar, Vegetable Oil, Wheat, Rice, Powder Milk and Fertilizers in Mauritania for US\$ 15 million; Rice, Maize and Other Essential Foods and Agriculture Inputs in Niger for US\$ 20 million and Rice in Senegal for US\$ 10 million. Big ticket/quick disbursed oil financing operations have long been crucial contributor to ITFC portfolio. In 1433H, Crude Oil and Refined Products continued to comprise the largest in the portfolio with a total of US\$ 3,666 million.

3. Access to SMEs and LDMCs

The Framework Agreement on Trade Preferential System among the Member Countries of the Organization of the Islamic Conference (TPS-OIC) identifies trade finance as a tool for promotion of trade among OIC countries. Although some Member Countries are better positioned with regards to liquidity and access to funding, lack of access to trade finance still remains a major hindrance in many Member Countries, particularly the least developed member countries (LDMCs). As such, it remains one of ITFC’s priority areas to continue its efforts to increase direct operations and enhance implementation of 2-Step Murabaha Lines for Banks in LDMCs. In 1433H, the financing to LDMCs increased from US\$1,495 million in 1432H to about US\$2,264.

ITFC Trade Finance Approvals for LDMCs in 1433H

| Country | No. of Operations | Total Amount |
|--------------|-------------------|-----------------|
| Azerbaijan | 1 | 1.50 |
| Bangladesh | 5 | 2,090.00 |
| Burkina Faso | 1 | 15.00 |
| Gambia | 2 | 24.00 |
| Mauritania | 2 | 18.85 |
| Niger | 1 | 20.00 |
| Senegal | 1 | 10.00 |
| Sierra Leone | 1 | 5.00 |
| Tajikistan | 1 | 40.00 |
| Togo | 1 | 40.00 |
| TOTAL | 16 | 2,264.35 |

In addition to member countries, ITFC approved operations in non-member LDCs of Ghana and Rwanda under BADEA export financing scheme.

Supporting SMEs is one of the pillars of ITFC's strategy as part of the high level OIC mandate. To fulfil this mandate, ITFC extends Line of Financing and 2-Step Murabaha Financing (2SMF) to local banks who in turn provides the funding to the SMEs for specific trade finance transactions. In 1433H, ITFC continued its focus on these mechanisms for SME financing and provided US\$143.9 million as aggregate amounts are shown below:

ITFC 2-Step Murabaha Lines for SMEs in 1433H

| Country | Amount |
|--------------|---------------|
| Azerbaijan | 1.50 |
| Ghana | 5.00 |
| Mauritania | 3.85 |
| Nigeria | 35 |
| Togo | 40 |
| Turkey | 60.00 |
| Total | 143.85 |

As a future strategy to expand ITFC intervention in Sub-Saharan Africa, ITFC gives special emphasis to develop partnership and provide support to local banks targeting SMEs in the region.

B. TRADE COOPERATION AND PROMOTION PROGRAM

1. Change in TCPP's Business Model:

ITFC conducts the trade promotion activities through the Trade Cooperation and Promotion Program (TCPP). Activities undertaken by the TCPP 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, there has been a change in the conventional modus operandi of TCPP. The program has moved away from the event-based planning approach to a program-based approach. This has been done to achieve the objective of developing comprehensive regional trade development program through close consultation and cooperation with MCs as well as trade development partners, and secure financial resources through designated resource mobilization programs and be actively involved in the implementation of such programs.

Two main objectives were pursued by this transitional change: first, to increase significantly the field level impact of the program on the member countries' economic development; and second, focus on partnership to develop and implement joint programs with the partners for the same group of stakeholders.

2. Leveraging External Partnership to Prepare Regional Programs

2.1. Aid for Trade Initiative for Arab States:

The first example of this new approach is the Aid for Trade (Aft) Initiative for Arab States. It is a partnership of 22 Arab countries, regional economic organizations, specialized trade related organizations and international donors. Project document for Aid for Trade Initiative for Arab States was prepared through intensive consultation with the partners and beneficiary countries. IDB, ITFC, UNDP, Government of Kuwait, Kingdom of Saudi Arabia, Swedish International Development Agency (SIDA) are among the donors, who contributed to the project budget

The Aft for Arab States project is organized around four main result areas and will be executed by ITFC and four other agencies participating in the UN Trade and Productive Capacity Cluster. These four results can be formulated as follows:

- ✓ **Result 1:** Capacity gaps and priorities for technical assistance in relation to trade and productive capacity-development are diagnosed at the national, sub-regional and regional levels. Action-oriented road maps are formulated to develop trade-related aspirations expressed in the outcome documents of Arab Economic and Social Summit.
- ✓ **Result 2:** Capacities of the LAS, GCC and AMU to implement regional integration processes and the Pan Arab Free Trade Area (PAFTA) are enhanced.

- ✓ **Result 3:** A regional platform and country-tailored solutions are provided for trade reform including non-tariff measures, technical barriers to trade, and for enhancing the capacities of trade support institutions,
- ✓ **Result 4:** Skills development strategies to support growth and decent employment creation for men and women in sectors that have the potential to increase exports and to contribute to economic diversification.

The consolidated work program is being prepared by the UN Agencies in consultation with MCs, which will be submitted to Project Board for its consideration and approval. The Project launch is expected to be in the second half of 2013.

2.2. Aid for Trade Initiative for SPECA Region

As stated in previous ITFC Progress Report on Enhancing Intra-OIC Trade, submitted to previous COMCEC Meetings, ITFC remains committed to be part of this important initiative and continue to exchange views and thoughts with UNECE, Secretary of SPECA AfT Council to identify the means and ways for the implementation of projects/activities developed during the first phase of the initiative. ITFC favors the idea of working together with OIC Institutions and UN Agencies to study the outcomes of the first phase of the project to identify joint interventions, to be implemented together with OIC Institutions and UN Agencies to accomplish already identified targets, priorities, including raising the international competitiveness of enterprises through **i)** productive capacity and market development within selected sectors such as agriculture, manufacturing and tourism in the services sector, **ii)** establishment and/or reinforcement of existing trade support institutions and services, **iii)** enhancement of business environment through regulatory reforms, improved access to trade information.

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

In pursuance of COMCEC resolutions since 2008, towards accomplishment of intra-OIC trade target through cooperation and collaboration among OIC institutions, ITFC has consolidated its trade promotion and capacity building activities within the Executive Program of the Road Map. ITFC's trade-related technical assistance program under the four business lines of the Executive Program now account for 33 percent of total activities carried out by OIC institutions.

Moreover, ITFC co-organizes the annual meetings of the Consultative Group with ICDT in Casablanca to review the implementation of the program together with OIC Institutions, MCs and regional economic organizations. In this regard, 5th Meeting of Consultative Group on the implementation of the Executive Program was held in 27-28 February 2013, in Casablanca, Morocco, which was attended by the members of the consultative group, 10 MCs, 5 regional economic cooperation organizations. The Meeting reviewed the implementation and recommended to continue the activities of the Consultative Group in coherence with Trade Working Groups to be established by the COMCEC with a view to achieving 20 % intra-OIC trade target by 2015, as set by the 2005 Makkah Declaration. The meeting report will be submitted to COMCEC Meetings by ICDT as the secretariat of the Consultative Group.

In pursuance of the relevant COMCEC resolution of 28th session of COMCEC Ministerial Meeting, ITFC and ICDT jointly organized the “OIC High Level Forum on Trade Facilitation (TF) and Single Window for Enhanced Regional Economic Cooperation” in Casablanca Morocco during 25-26 February 2013 in cooperation with the Ministry of Industry Commerce and New Technologies of Morocco. The Forum was attended by customs administrations, trade ministries from 25 MCs, 8 regional and international organizations and OIC institutions.

The objectives of the forum were to share knowledge and experiences, best practices among the participants on the implementation of national trade facilitation programs, and discuss various trade facilitation projects to be implemented at national and regional level, which includes: 1) The Feasibility Study on Establishing OIC Single Window System (at the initial stage for 10 OIC MCs which signed and ratified OIC PRETAS Agreement); 2) Replication of successfully implemented trade facilitation measures in other OIC MCs through twinning projects, institutional capacity development programs.

The Forum Presentations have indicated that MCs have developed substantial amount of experience and know-how in Trade Facilitation and Single Window, which could be an input to develop and implement regional trade facilitation Programme. After the discussions on the proposals, the Forum made various recommendations including the establishment of a steering committee, responsible for overseeing the implementation of the feasibility study and holding an expert group meeting for the endorsement of the study.

2.4 Supporting Strategic Commodities

Besides providing structured trade finance solutions covering all value chains of commodity trade, particularly those of cotton, which plays an important role in the socio economic development of many of the OIC MCs, ITFC in cooperation with relevant IDB departments and entities is currently working on a pilot project to address problems identified by the need assessment studies for Cotton Industry in Mali and Burkina Faso. The pilot project aims at enhancing yield by mechanizing the farming, developing better quality of cotton seeds, improving cotton quality, constructing warehouse for seeds and crops as well as providing additional finances for agricultural inputs. Based on the success of the pilot project, IDB Group has plan to implement such projects at national and regional level.

2.5. Supporting Development of Trade related Human and Institutional Capacities

Apart from ITFC’s interventions pursued within the framework of Aid for Trade Initiatives in the domain of capacity development, and conventional capacity building programs organized both at national and regional levels in the form of customized training programs on export marketing for SMEs, familiarization and knowledge sharing programs for government officials, training courses on multilateral trading systems, ITFC plans to work on establishing a regional trade centre in one of the African MCs, which will conduct trade related training programs with a view to develop national capacities serving SMEs by providing consultancy services in trade related matters.