

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



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A. TRADE FINANCE OVERVIEW

ITFC celebrated its 6th year of establishment in 1434H (2013). Since inception, remarkable transformation took place within the institution. Facility approvals doubled from US\$ 2.5 billion in 1429H to US\$ 5 billion in 1434H. In 1434H, ITFC achieved its objectives in several areas while adjusting itself to the challenging market environment. Trade approvals reached USD 5,048 million and ITFC was able to attract new clients and new countries were penetrated as an alignment to diversification strategy of ITFC for reaching more customers and expanding its coverage. Approvals achievement is commendable and represents a remarkable increase of 13% compared to 1433H. Besides, utilization reached new heights with disbursements to US\$ 4,001 million in 1434H. The breakdown of approvals for the last 2 years by region is provided in the table below.

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

Region	1433H Actual	%	1434H Actual	%
ASIA/CIS	3,086	69	3,405	67
MENA	1,171	26	1,409	28
SSA*	209	5	234	5
Total Approvals	4,466	100	5,048	100
Total Disbursement	3,999		4,001	

*SSA: Sub-Saharan Africa

Sovereign guarantee, as type of security, is still on the top of ITFC's approval list. In 1431H, about 40% of ITFC facilities approved were for sovereigns. Since then the sovereign lending proportion has been increasing. In 1434H, sovereign financing increased from 71% to record high of 74%. The increase in sovereign lending mainly came from higher demand from member countries. On the other hand, Bank guaranteed and unsecured operations have substantially decreased for the same period.

This reflects ITFC's strategic shift to focus more on STF operations which provide a win-win solution and a more secure alternative for reaching out to SMEs and the private sector in emerging markets. STF operations increased by 60% from 1433H to 1434H and reached to record high level of about US\$ 1 billion as highlighted above.

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

Type of security	1433H	Share (%)	1434H	Share%
Sovereign	3,190	71.43	3,712	74
Bank Guarantee	257.5	5.77	124	2
Unsecured	405	9.06	235	5
STF	611	13.68	977	19
Credit insurance	2.5	0.06	0	0
TOTAL	4,466	100%	5,048	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 guarantees so that the ITFC resources could be preserved.

1. Providing Solution for Impact

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.

Compared to any other form of lending or investing in the emerging markets, structured trade finance (STF) has demonstrated a solid track record 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 STF operations increased almost 14 folds in the last 5 years. In 1434H alone, the Structured Trade Finance portfolio grew to US\$977 million.

2. Supporting Strategic Commodities

Energy sector, particularly oil, has traditionally been major intervention area for ITFC. In terms of portfolio breakdown, oil continues to dominate ITFC portfolio, the share of which rose in 1434H from 82% to 84%. Nevertheless, as part of ITFC strategy which calls for intervention in other sectors, a lot of efforts have been exerted to break into new markets and new sectors. In 1434H, ITFC carried out operations in Sub-Saharan Africa as per IDB's Food Security mandate. It is within ITFC's mandate to provide financing in countries where the interventions have strong potential to make a difference in the lives of people who benefited from such financing. In rural communities in particular, creating value for their agricultural output in early stages of production endeavour is essential for food security which has emerged as an important agenda matter since 2008. 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 increases in intra-OIC trade in agricultural commodities through adopting an integrated approach by concerned entities in the IDB Group. In this regards, ITFC approved an aggregate of US\$ 90 million facilities for supplying Agricultural input, staples food and export financing in Cameroon, Gambia, Mozambique, and Benin. Provision of STF facilities was an added advantage to structuring tailor made products in each case. In 1434H, ITFC approved 19 operations for agricultural sector amounting to US\$ 566 million, slightly higher than previous year amount of US\$ 535 million.

In other member countries, ITFC financed soybean, soybean meal, soybean oil, wheat, corn, DDGS, rice, coffee, palm oil and sugar. In addition to agricultural commodities, ITFC continued to support member countries for supply of other strategic commodities such as polyethylene, polypropylene, oil etc. Oil with US\$ 3,909 has been major item in the portfolio in 1434H. Big ticket/quick disbursed oil financing has long been crucial contributor to the portfolio.

3. Access to SMEs and LDMCs

Although some Member Countries are better positioned with regards to liquidity and access to funding, the 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 to finance institutions for LDMCs. In 1434H, the financing to LDMCs increased from US\$2,264 million to about US\$2,818 million.

Table 3: ITFC Trade Finance Approvals for LDMCs in 1434H (US\$ millions)

Country	No. of Operations	Total Amount
Bangladesh	8	2,571.00
Burkina Faso	1	30.00
Cameroon	1	18.00
Gambia	5	60.00
Maldives	1	40.00
Mauritania	2	100.00
Mozambique	1	15.00
TOTAL	16	2,818.00

Supporting SMEs is one of the key 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 1434H, ITFC continued its focus on these mechanisms for SME financing and provided US\$ 125 million. In 1434H, ITFC implemented the first 2-Step Murabaha export financing facility. The new structure is expected to enhance ITFC intervention for export development.

B. TRADE COOPERATION AND PROMOTION PROGRAM (TCPP)

1. *Brief info 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, due to the limited impacts created by TCPP activities on MCs' trade development, the program has moved away from the event-based planning approach to 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 following sections give brief information about ITFC's trade development and cooperation initiatives being undertaken by TCPP.

2. Preparation of Regional and Thematic Trade Development Programs

2.1. Aid for Trade Initiative for Arab States:

It is a partnership program 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 five other agencies participating in the UN Trade and Productive Capacity Cluster, namely ITC, UNCTAD, ILO, UNIDO and UNDP. These four results are 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.

Aid for Trade Initiative for Arab States was officially launched on the occasion of the first meeting of Project Board Meeting, which was held at ITFC Headquarter on 6-7 November 2013. At the meeting the Fast Track Work Program of the Initiative was finalized. The Partnering UN agencies, are in the process of implementing the activities of the Fast Track Program. Activities of the Fast Track Program include:

- i. Studies and regional workshops on Non-Tariff Measures (NTMs) and How to address them,
- ii. Studies and projects on joint border gate management, multi-modal transport infrastructure and trade logistics to improve smooth flow of intra-Arab trade,
- iii. Skill development Programs and trainings for Trade and Economic Diversification,
- iv. Technical and institutional support to League of Arab States for promoting regional trade integration and formulating policy recommendation,
- v. Technical support to selected MCs for WTO Accession process

Consolidated Work Program of the Initiative is under preparation and is expected to be approved by the second meeting of Project Board, which will be held in June 2014. Furthermore, ITFC is closely working with its development partners with a view to develop project proposals on the following subjects:

- i. Enhanced regional integration and Export Diversification in the Arab Region through improved SME Competitiveness and value-chain integration
- ii. Programme for Promoting Export of Services in Arab States
- iii. Sectoral Export Development Programmes
- iv. Development of IT Business support services for SMEs

2.2. Aid for Trade Initiative for SPECA Region

ITFC is in close cooperation and collaboration with UNDP and UNECE towards preparation of Aid for Trade Initiative for SPECA Region, in the light of the Ministerial Declaration endorsed by the Aid-for-Trade (Aft) Roadmap for SPECA Ministerial Conference, held in Baku, Azerbaijan on 1-2 December 2010.

The Project Concept Note and the Work Program of the Initiative, which are expected to finalize by the end of 2014 through close consultation and cooperation with the MCs, will focus on the priority areas as formulated in the Baku Declaration:

- i. Enhancing international competitiveness of the region's economies, enterprises, products and services in the selected sectors including agriculture, manufacturing and tourisms with a view to diversifying and increasing the value-added of exports
- ii. The establishment and/or reinforcement of existing trade support institutions and services so that they can effectively contribute to productive capacity development and increased exports of goods and services;
- iii. Enhancement of the business environment through regulatory reforms, improved access to trade information and public/private sector cooperation.
- iv. Cross-border cooperation to harness the potential for mutually beneficial trade among the SPECA countries and with other neighbors by improving: (i) Physical infrastructure; (ii) Institutional trade infrastructure, with a focus on trade facilitation; and, (iii) Market access, iv) Supporting SPECA countries during the process of their accession to the WTO

Following to finalization of the said programming documents, ITFC will present the documents to concerned OIC Institutions and foras for their review and endorsement, which will be followed by a dedicated resource mobilization program to secure required financial and technical support towards implementation of the program.

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

In compliance with the relevant resolution of 29th session of COMCEC Ministerial Meeting, International Islamic Trade Finance Corporation (ITFC) and Islamic Centre for Development of Trade (ICDT) organized the 6th Meeting of the Consultative Group for enhancing intra-OIC trade during 3-4 February 2014 in Marrakech, Morocco.

The main objectives of the Meeting were following:

- Revising and evaluating the implementation of the Executive Program
- Exchanging views on the possible roles of the OIC institutions in the implementation of the COMCEC Strategy
- Elaborating on the shortcomings and barriers limiting the efforts of The Consultative Group in promoting the intra-OIC trade within the framework of the Executive Programme
- Examining the logistical and technical ways forward for the Consultative Group Meeting and Executive Programme

After the deliberations of the participants, the meeting recommended to expedite enhanced cooperation among OIC institutions in the implementation of the identified activities in the following areas:

- Aid for Trade at OIC sub-regional level,
- Enhancing access to financing and strengthening SMEs competitiveness,
- Establishing the Global Network of TPOs within the OIC,
- Assisting and coaching SMEs for a better and more effective preparation and participation in Islamic Trade Fairs,
- Funding of existing projects on cotton action plan and determine assistance available to OIC project owners in repackaging their projects.
- To encourage Member States who did not do so, to submit the list of concessions to the Trade Negotiation Committee (TNC)

The Consultative Group underlined the importance of working closely with COMCEC Coordination Office towards the effective implementation of COMCEC's new Strategy and agreed on the preparation of a comprehensive evaluation report, which will include the shortcomings and the achievements recorded so far and recommend ways and means to further enhance the terms of reference and cohesion of the Group in order to ensure its effectiveness. In this regard, A "Task Force" within the Consultative Group will be formed to undertake above defined task.

In light of the outcomes and recommendations of last meeting of Consultative Group, ITFC continues to provide support for trade promotion activities of OIC institutions. In this regard, ITFC extended its financial support to ICCIA to facilitate the participation of SMEs from LDMCs in 16th Private Sector Meeting, which was organized in Sharjah, UAE on 16-17 March 2014. Similarly, ITFC will organize and sponsor the participations of TPOs from LDMCs in the 15th MUSIAD International Fair, which will be organized in Istanbul, Turkey during 30th COMCEC Ministerial Meeting, between 26-30 November 2014.

ITFC attaches utmost importance to the implementation of COMCEC Strategy through collective efforts of concerned OIC institutions. Towards that objective, ITFC represented and actively participated in the 3rd meeting of COMCEC Trade Working Group, which was organized in Ankara, Turkey on 27 February 2013. ITFC plans to align work program of TCPP in the light of the recommendations of the meetings of Trade Working Group and accordingly will prepare and submit Project Proposals to COMCEC Secretariat for the second batch of call for proposals, which is expected to be launched during September 2014.

4. Supporting Development of Trade related Human and Institutional Capacities

Trade related capacity development through training programs and knowledge creation and dissemination is given high importance by TCPP of ITFC. 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 with a view to develop national capacities serving SMEs by providing consultancy services in trade related matters. Moreover, special training programs targeting TPOs and SMEs are being prepared on several issues including international trade, export marketing, trade finance, which is planned to be organized by the end of 2014. In addition to that ITFC is working on and sponsoring the translation of Trade Facilitation Implementation Guide into Arabic which was prepared by UNECE. Following the completion of the translation of the Guide, ITFC will organize in coordination with UNECE a training program on Trade Facilitation and will sponsor web-publishing of the Guide.
