

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



30th SESSION OF THE COMCEC

**25– 28 November 2014
Istanbul, Turkey**

TABLE OF CONTENT

	<u>Page</u>
A. TRADE FINANCE OVERVIEW	2
<i>1. Providing Solutions for Impact</i>	<i>3</i>
<i>2. Supporting Strategic Commodities</i>	<i>3</i>
<i>3. Access to SMEs and LDMCs</i>	<i>4</i>
B. TRADE COOPERATION AND PROMOTION PROGRAM (TCPP)	5
<i>1. Brief about TCPP</i>	<i>5</i>
<i>2. Preparation of Regional Programs under the theme of Aid for Trade</i>	<i>5</i>
<i>2.1. Aid for Trade Initiative for Arab States</i>	<i>5</i>
<i>2.2. Aid for Trade Initiative for SPECA Region</i>	<i>6</i>
<i>2.3 The Executive Program of the Road Map for Enhancing Intra-OIC Trade</i>	<i>6</i>
<i>2.4 Supporting Development of Trade related Human and Institutional Capacities</i>	<i>7</i>
<i>2.5. OIC Trade Development Forum</i>	<i>8</i>
<i>2.6. Arab Africa Trade Bridge Program</i>	<i>8</i>
<i>2.7. Other Involvements</i>	<i>9</i>

A. TRADE FINANCE OVERVIEW

ITFC celebrates its 7th year of establishment in 1435H (2014). Since inception remarkable transformation took place within the institution. Facility approvals doubled from US\$ 2.5 billion in 1429H to US\$ 5.1 billion in 1435H. In 1435H, ITFC achieved its objectives in several areas while adjusting itself to the challenging market environment. Since inception, upto 30/12/1435H, trade approvals reached USD 25.0 billion. 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.

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

Region	1433H Actual	%	1434H Actual	%	1435H Actual	%
ASIA/CIS	3,086	69	3,405	67	2,464	48
MENA	1,171	26	1,409	28	2,239	43
SSA*	209	5	234	5	452	9
Total Approvals	4,466	100	5,048	100	5,155	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 to record high of 74%. In 1435H, sovereign guarantee sustained its share of around 74% in ITFC portfolio. 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.

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 below.

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

Type of security	1433H	Share (%)	1434H	Share (%)	1435H	Share (%)
Sovereign	3,190	71.43	3,712	74	3,771	74
Bank Guarantee	257.5	5.77	124	2	399	8
Corporate	405	9.06	235	5	230	4
STF	611	13.68	977	19	720	13
Credit insurance	2.5	0.06	0	0	35	1
TOTAL	4,466	100%	5,048	100	5155	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.

In 1435H, ITFC embark on focusing export financing: Islamic discounting for export finance and Islamic export finance lines to banks have been developed.

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% (81% in the first 11 month of 1435H). 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. 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\$ 333 million facilities for supplying Agricultural input, staples food and export financing in Burkina Faso, Cameroon, Gambia, Mali, Nigeria, Senegal, Togo and Zimbabwe. 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 the first 11 month of 1435H, ITFC agricultural sector operations had aggregate financing amount of US\$ 386 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 and US\$ 3,690 has been major item in the portfolio in 1434H and the first 11-month of 1435H. 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. Also, figures for the first 11-month of 1435H is provided in the table below.

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

Country	1434H No.of Operations	1434H Total Amount	1435H No.of Operations	1435H Total Amount
Bangladesh	8	2,571	6	1,000
Burkina Faso	1	30	1	48
Cameroon	1	18		
Gambia	5	60	4	62
Maldives	1	40		
Mauritania	2	100	1	65
Mozambique	1	15		
Niger	-		1	20
Senegal	-		1	30
Sierra Leon	-			
Togo	-		1	20
TOTAL	16	2,818	15	1,245.00

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 which increased to US\$ 385 million in the first 11-month of 1435H. In 1435H, ITFC implemented the first syndicated 2-Step Murabaha export financing facility for an ECA in a member country. The new structure is expected to enhance ITFC intervention for export development.

B. TRADE COOPERATION AND PROMOTION PROGRAM (TCPP)

1. *Brief information 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.

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 implementation of the AFTIAS project is being undertaken by UNDP in close cooperation with ITFC. The members of UN Trade and Productive Capacity Cluster, namely ITC, UNCTAD, ILO, UNIDO are providing technical assistance to the project to design and implement projects. The expected outcomes of the project has concentrated in three focus areas:

Result 1: Capacity development of trade related organizations, institutions at national and regional level, particularly of those, LAS, GCC and AMU to implement regional integration processes.

Result 2: Enhancing Regional Economic Integration by removing NTMs, facilitating trade in and across the borders, modernizing customs gates, developing joint customs gate management model,

Results 3: 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 and approved. 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 was submitted to the second meeting of the Project Board, which was held in June 2014 in Geneva with the participation of the implementing agencies and donors. The Project Board decided to establish Review Committee to review the project proposals and ensure that project proposals address the needs and requirements of member countries. Four new projects are in the process of approval, which will be undertaken by UNIDO in the area of development of quality infrastructure in some selected MCs. 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, UNDP and UNECE are working together to prepare Project Document of the Aid for Trade Initiative for SPECA Region. The Project document and the Work Program of the Initiative are an ongoing process and it is expected to 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 mainly in agriculture, and agri-food industry.
- ii. Enhancement of the business environment through regulatory reforms, improved access to trade information and public/private sector cooperation.
- iii. Strengthening cross-border cooperation and regional integration through undertaking trade facilitation measures in and across the borders of the countries.

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 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. 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 organized in Member Countries.

2.4. Supporting Development of Institutional Capacities in Trade related areas

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 for SMEs as well as trade support institutions. Special training programs targeting TPOs and SMEs are being prepared on several issues including international trade, export marketing, trade finance.

In addition, 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.

2.5. OIC Trade Development Forum

ITFC attaches importance to knowledge and experience sharing among its MCs. In this context, ITFC closely working with trade authorities of UAE to establish a trade development platform, where MCs will exchange their knowledge and experience in promoting intra-OIC trade. Not only that, the fora will also bring private sector representative to explore business opportunities and develop business partnerships. The first version of the OIC Trade Development Forum is planned to be organized in Dubai in 2015.

2.6. Arab Africa Trade Bridge Program

Arab and African MCs 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. 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 match-making. It is designed to provide an effective platform to raise awareness of available business opportunities and increase trade and investment between the two regions.

2.7. Other Involvements

In its efforts to support countries to promote their SMEs products, 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 in cooperation with ITC organized a regional workshop on NTMs in Tunisia during 28-29 April 2014 with a view to analyze and identify NTMs hampering trade development among Arab Countries. The meeting was attended by the high-level representatives of eight Arabic speaking Member Countries.

Due to increasing volume of e-commerce in OIC MCs and its direct impact on reducing trade costs, ITFC is of the view that promotion of e-commerce along with e-logistics solution will facilitate trade and trade cooperation among OIC MCs. In this regard, ITFC explore possible partnership with regional, global players of this domain to channel the required expertise and knowledge to MCs to deploy such solution in MCs.

ITFC was requested by the Council of Arab Economic Union to support the project of establishing a fish processing & marketing company as a part of food security program for Arab Countries. ITFC involved in finalization of project document and attended a coordination meeting organized by Council of Arab Economic Union. Furthermore, ITFC communicated the proposal with Arab Federation of Chamber of

Commerce and Industry as well as Islamic Chamber of Commerce Industry and Agriculture with a view to promote project idea to business societies of OIC Countries.

ITFC regularly attends meeting of COMCEC Trade Working Group. Towards the implementation of the recommendations of trade working group, ITFC plans to prepare and submit Project Proposals to COMCEC Secretariat for the second batch of call for proposals, particularly on themes of trade facilitation and regional integration.
