

**ITFC PROGRESS REPORT ON  
THE EXPANSION OF THE INTRA-OIC  
TRADE**

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**28<sup>TH</sup> SESSION OF THE COMCEC FOLLOW-UP MEETING**

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## A. Trade Finance Overview

In 1432H, ITFC achieved its objectives in several areas while adjusting itself to the continuing global turmoil. Trade approvals reached USD 3,033 million for the year. 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 to include more member countries. Approvals achievement is commendable and represents a remarkable increase of 18.75% compared to 1431H approvals as shown in the table below.

### The regional breakdown for the 1431H approvals, in USD Million

Region	1431H Actual	%	1432H Actual	%
ASIA/CIS	1,544	61	1,959	60
MENA	849	33	879	30
SSA*	161	6	195	10
<b>Total Approvals</b>	<b>2,554</b>	<b>100</b>	<b>3,033</b>	<b>100</b>
<b>Total Disbursement</b>	<b>1,800</b>		<b>2,826</b>	

\*SSA: Sub-Saharan Africa

In 1432H, disbursement level exceeded USD 2.8 billion, registering an increase of 55% over the previous year. Substantial improvement in disbursement for 1432H can be attributed to the successful implementation of the business plan to focus on short tenor financing and enhancing internal business processes. Quick disbursement of big ticket operations in Asia and North Africa (Egypt and Morocco) helped achieve these results. 1432H was an unprecedented year which marked social and economic changes across the globe. As a reflection of these changes, ITFC business dropped in some countries. The drop in business in these countries has been compensated by marketing initiatives in other countries. Notwithstanding the above, the achievements of ITFC in the MENA region, despite the transformation the region is going through, are admirable.

### 1. *Providing Solutions for Impact*

ITFC, as a part of multilateral development bank group, has mandate to create a developmental impact which might differ from other commercial financial institutions operating in trade finance sector. It is within ITFC mandate to provide financing in countries where the interventions have strong potential to make difference in the lives of people who benefited from financing. Particularly, in rural communities creating value for 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 1431H, ITFC approved 14 operations for agricultural sector amounting to US\$ 384 million increase from US\$ 90 million in 1430H. Sector & Commodities financed were cotton, wheat, sugar, fertilizer, palm oil, soy beans and sunflower. In 1432H, ITFC has continued to exert efforts to provide input financing for agriculture sector. The main motivation is availing funds for farmers as early as possible at the upstream stages of production cycle. In this approach farmers' hard work is acknowledged by effecting payment immediately upon delivery of products instead of pending income

for farmers until proceeds from final sales arrive. In this regard, US\$ 303 million financing is provided for agricultural sector for 1432H. The financing provided not only utilized for providing fertilizer and agricultural inputs but also farmers products has been purchased upstream to provide them with needed funds as soon as after harvest. Such value chain operations have been approved for input financing in Cameroon and Zambia. Besides, In Gambia, Indonesia and Kazakhstan post-harvest financing operations has been conducted for purchase of groundnut, wheat and coffee. On 08/03/2011 ITFC signed a financing agreement with the government of the Gambia to support agricultural sector. The agreement will avail funds for exports of strategic groundnut which contributes by 35% of the Gambia's GDP and employs 75% of the rural population in the Gambia.

A unique transaction that ITFC undertook this year was the financing for two coffee exporters in Indonesia under the Fair Trade scheme (Fair Trade USA, a leading certifying body that aims to assure fair return for farmers). ITFC had the opportunity to facilitate financing for the 13 cooperatives in the Takegon region in Medan, Indonesia by a structure that would help the cooperatives. Under this initiative two structured trade finance operations were approved in favor of two exporters in Medan, Indonesia. With ITFC's financing, the cooperatives are now receiving cash against delivery of the coffee beans in the warehouse. The cooperatives have cut out the middleman and they are getting the right price for their coffee with the financing structure. One of ITFC's smallest approved operations in amount for just US\$1.0 million has touched the lives of 12,000 farmers and their families. In addition, the exporters are delighted that the financing arrangement has brought in 15 new buyers and hence they are able to expand their business operations.

## ***2. Supporting Strategic Commodities***

In 1432H, ITFC registered sizeable increase in financing commodities which are considered as strategic in nature for the concerned countries. As part of ITFC strategy for developing resilience at the aftermath of global financial crisis and during the sustained effects of on-going turbulence, ITFC keeps supporting strategic commodities such as oil, cotton, wheat, and others in several countries. The focused commodities are vital for the sustainability of such economies. In 1432H, "Crude Oil and Refined Products" has sustained its place as a major item in the portfolio as total of US\$ 2,177 registered for this commodity. Big ticket/quick disbursed oil financing has long been crucial contributor to portfolio. In 1432H, new strategic operations have been approved, for the Coal Sector in Turkey for US\$ 20 million, Corn, Soybean and Wheat in Egypt for US\$48 million and Sugar in Syria and Mauritania for US\$42 million. In addition, ITFC has, as always, maintained its support to its member countries in their requirements despite difficult circumstances, the US\$ 356 million oil financing to Egypt testifies on the type of commitment that ITFC has towards its member countries.

## ***3. Providing Privileged Solutions***

As part of strategy to accommodate business environment needs after the global financial crisis ITFC aligned its strategy to providing total trade solutions to customers rather than providing mere funds based on conventional securities. New business practices goes beyond relying upon balance sheet as part of credit control function and stretches to ensure relevant use of funds and linking credit assessment to primary source of repayment from transaction. Accordingly, in 1432H, ITFC has successfully increased the size of Structured Trade Finance (STF) deals in its total portfolio to provide privileged solutions to the customers which is now a parameter highlighted within ITFC strategy. In

1431H, total 10 structured trade finance operations amounting to \$ 376 million were approved. In 1432H, STF operations have been further expanded both in number and in amount as 17 operations were approved with an aggregate amount of US\$ 501 million. Besides, ITFC approved operations in Kuwait and Syria based on Credit Insurance, in cooperation with ICIEC, as an alternative security mode for US\$ 32 million.

#### ***4. Diversifying Further the Business Portfolio***

In 1432H, a lot of efforts have been exerted to break into new sectors and new markets. Such efforts are in line with ITFC strategy which calls for the diversification of the trade finance portfolio. In 1431H, 24 new clients with a total amount of US\$ 515.5 were attracted. In 1432H, 23 new clients were attracted with a total amount of US\$ 449 million. Some new sectors, particularly in the non-oil sectors, such as coffee, bauxite, aluminium have been penetrated. The new sectors gave rise to a more healthy and diversified portfolio in line with the agreed high level change agenda. In addition to member countries, ITFC registered two operations, totalling US\$ 75 million, in Malawi and Zambia under BADEA Export Finance scheme. Oil still sustains its importance in the portfolio as approval amount for this commodity hit US\$ 2,177 million in 1432H. This indicates an increase from 63% share in portfolio to 72% from 1431H to 1432H. On the other hand, public-private sector financing ratios are stable. In 1431H, US\$1,555 million, representing 61% of approvals, and in 1432H, US\$ 1,928 million, presenting 64% of approvals, were registered for public sector.

Approvals by Sector(Private/Public)				US\$
Million				
SECTOR	Amount 1431H	Percentage 1431H	Amount 1432H	Percentage Amount 1430H
<b>Public</b>	1,555	61%	1,938	<b>64%</b>
<b>Private</b>	999	39%	1,095	<b>36%</b>
<b>Total</b>	<b>2,554</b>	<b>100 %</b>	<b>3,028</b>	<b>100</b>

#### ***5. Access to SMEs and LDMCs***

The Framework Agreement on Trade Preferential System among the Member States of the Organization of the Islamic Conference (TPS-OIC), which has been drafted in 1980s, identifies, in Article-2, trade finance as a tool for promotion of trade among OIC countries. Unlike 1980s, today several member countries, though negative effects of global financial crisis prevails, appear to cope with accessing funds for financing their trade. However, the lack of trade finance still seems to be problem need to be addressed for least developed member countries (LDMCs). In this regard, in 1432H, efforts were under way to increase direct operations and enhance implementation of Lines in LDMCs. The financing amount to LDMCs increased from US\$1,140 million in 1431H to US\$1,495 million in 1432H.

### ITFC Trade Finance Approvals for LDMCs in 1432H

Country	No.of Operations	Commodity	Total Amount
<b>Bangladesh</b>	10	Crude Oil and Petroleum Products	1,370.0
<b>Cameroon</b>	1	Fertilizer and agricultural Inputs	18.0
<b>Gambia</b>	4	Petroleum Products and groundnuts	42.0
<b>Mauritania</b>	3	Seeds and Fertilizer	75.85
<b>TOTAL</b>	<b>18</b>		<b>1,505.85</b>

In 1432H, Maldives graduated from Least Developed countries list. In addition to member countries, ITFC approved operations in non-member LDCs of Malawi and Zambia for US\$ 75 million under BADEA export financing scheme as highlighted above. ITFC does not have direct facilities to SMEs as significantly large number of small disbursements needed and credit control is difficult to assess in many local markets. However, accessing SMEs is one of the pillars of ITFC strategy as part of high level OIC mandate. In order to fulfil this mandate, ITFC extends Line of Financing and 2-Step Murabaha Financing (2SMF) to local banks to overcome such shortcomings. These local banks are in better position to access to information on SMEs, hence evaluate credit worthiness, and can handle small disbursement amounts. 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 1432H, ITFC continued its focus on these mechanisms for SME financing and provided US\$86.35 million as aggregate amounts are provided below:

### ITFC 2-Step Murabaha Lines for SMEs in 1432H

Country	Amount
<b>Azerbaijan</b>	2.50
<b>Bahrain</b>	20.00
<b>Mauritania</b>	3.85
<b>Turkey</b>	60.00
<b>Total</b>	<b>86.35</b>

In addition to availing facility, in 1432H, ITFC managed to forge a strategic alliance with Albaraka Banking Group one of the biggest and widely existing Islamic bank with a formal MoU signed at the beginning of the year. This alliance will allow ITFC to access to market intelligence in all 19 markets where Al Barak operates as well as provides real time collaboration among both institutions.

## **B. TRADE COOPERATION AND PROMOTION PROGRAM**

Following is the brief information about the main activities/programs implemented after 27th Session of COMCEC Meeting organized in Istanbul, Turkey during 17-20 October 2011.

### **1) Supporting trade promotion activities of TPOs and OIC Organs**

1. After the 27th Session of COMCEC Ministerial Meeting, ITFC through its TCPP supported two important trade promotion events; 1) Forum on trade and investments expansion among the CIS MCs and the other OIC MCs is organized by ICDT in Kazakhstan during 21-23 November 2011 with the objective of Enhancing trade and investment relations among CIS countries and the rest of OIC MCs. 2) Arab-Turkish Industrial Cooperation Conference organized by AIDMO and TOBB in 4-5 December 2011 to promote trade and investment relations among Turkish and Arab businessmen.

### **2) Identification of Trade Facilitation and Trade Development Needs of MCs :**

2. **SPECA Aid for Trade Initiative:** Following the Ministerial Meeting on AfT Initiative for SPECA Countries organized in Azerbaijan in December 2010, ITFC remained committed to be part of this initiative and continued to exchange views and thoughts with UN organizations to identify its roles in the implementation of projects/activities developed during the first phase of the initiative, which was the identification of needs in trade development at national and regional level.
3. Ministerial Meeting agreed on the following priority areas for trade development in the region stated in Baku Ministerial Declaration: 1) Within-border supply side measures, at the country level, to raise 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) Cross border cooperation by improving i) physical infrastructure, ii) institutional trade infrastructure with a focus on trade facilitation; and iii) market access, 3) Matters related to the multilateral trading system to facilitate the beneficial integration of SPECA countries into multilateral trading system by i) building awareness and knowledge, ii) supporting SPECA countries during the process of their accession to the WTO, taking into account their development objectives, trade facilitation efforts and their specific needs as developing landlocked countries.
4. Currently, TCPP/ITFC is actively following up the progress with SPECA Aid for Trade Implementing and Monitoring Council, "SPECA AfT Council", established after Baku Ministerial Meeting by UNECE and also includes major donors and implementing agencies with high level national input being provided by the SPECA Project Working Group on Trade. The project proposals submitted to Baku Ministerial Meeting are being reviewed by "SPECA AfT Council", which will be submitted to Donor Conference scheduled to be organized last quarter of 2012. TCPP/ITFC plans to integrate some of the project proposals to the Executive Program of OIC Plan of Action for Cooperation with Central Asian Member States.

5. **Aid For Trade Initiative for Arab States:** ITFC has launched the Aft Initiative for Arab States in collaboration with Arab League, the United Nations Development Programme (UNDP), the International Trade Centre (ITC), United Nations Industrial Development Organization (UNIDO), United Nation Economic Commission for Europe (UNECE) and United Nation Conference on Trade and Development (UNCTAD). Program Document prepared in consultation with the partners and several consultative meetings among possible partners of the initiative are being held to discuss roles and responsibilities of partners in the implementation.
6. Since the preparation of the first program document, the ITFC, on behalf of the IsDB Group, initiated an extensive consultation process through a number of meetings to discuss and reach a consensus on the main elements of an Aft Initiative for the Arab region including the League of Arab States (LAS), Arab Maghreb Union (AMU), Gulf Cooperation Council (GCC), Arab Industrial Development and Mining Organization (AIDMO), Arab Union of Land Transport (AULT), Council of Arab Economic Unity (CAEU), the Arab Regional Accreditation Commission (ARAC). The programme document was also submitted to Arab Group at the WTO for their review and feedback in a meeting held in Geneva on 29 February 2012. During UNCTAD XIII in Doha, Qatar, in April 2012, Aft Initiative for Arab States was presented as an example of collectively work of UN UN Cluster on Trade and Productive Capacity.
7. ITFC submitted the initiative to ITFC Board and IDB Board of Executive Director for their consideration and financial support. The initiative was supported by both Board and received total of 2 million USD\$ for its implementation. Following the finalization of the project document, and receiving IDB Group financial support for the project budget, ITFC in close partnership with UNDP has launched an external resource mobilization program in order to guarantee the availability of required funds for the project implementation. The project document, along with its budget and implementation arrangement has been presented to International development funds and agencies from some of the OPEC countries and GCC countries. Project is expected to be launched in January 2013.
8. The project is organized around 4 main result areas and will be executed by ITFC, on behalf of the Islamic Development Bank Group, and the agencies participating in the UN Trade and Productive Capacity Cluster (including ITC, UNCTAD, UNDP, and UNIDO). The initiative will include a subsequent phase of the project to scale up and extend the operational programmes (2014 and beyond) in a sequential and coordinated manner. The initiative aims to:
  - Assess and where feasible develop into actionable interventions for investment and resource mobilization the trade-related aspirations on energy, transport, communication and pipeline infrastructure, food security, water, SME financing and support, trade-facilitation and customs reform, expressed in the outcome documents of the Arab Economic and Social Summit 2009 and 2011 held in Kuwait and Egypt respectively.
  - Enhance the capacities of the League of Arab States (LAS), Gulf Cooperation Council (GCC), Arab Maghreb Union (AMU) and the Agadir Agreement to implement regional integration processes and the Pan- Arab Free Trade Area (PAFTA).
  - Provide a platform for trade reform including non-tariff measures, technical barriers to trade, and for enhancing the capacities of trade support institutions, to foster the regional trade integration programmes of the member countries of the League of Arab States.
  - Enhance the employment effects of trade and trade-related policies by ensuring the alignment of human resource related policies with policy changes in the area of trade.

- Mobilize Aid for Trade (AFT) resources to finance and implement country, sub-regional and regional priorities that will contribute to broader trade development outcomes.
9. In addition to these initiatives, ITFC in cooperation with Ministry of Custom and Trade of Turkey and TOBB organized a regional workshop In Ankara, Turkey during 21-23 November 2011, on trade facilitation with an emphasis on roles of custom administration. The workshop was attended by 16 MCs, 4 OIC organs, 2 regional organizations and 5 international institutions. The Workshop covered the following Trade Transport and Custom Facilitation issues: (i) Concepts and Components of Trade and Transport Facilitation, (ii) Ways and means for efficient collaboration at national, regional and international level for the development of collaborative programs (iii) Roles, Functions and Structure of National Trade and Transport Facilitation Committees (NTTFCs) (iv) Use of ICT in trade facilitation and Customs modernizations such as ASCYUDA and other Customs processing systems (v) Developing and operating single window systems & using Business Process Analysis Guidelines in identification of Trade and Transport Facilitation Measures. National Custom Authorities shared their programs and projects on the theme of the workshop. International institutions including UNCTAD, WCO, UNECE, UNESCAP presented their works, tools and measures in the area of trade facilitation and custom modernization. TCPP/ITFC plans to organize similar workshops, seminars and capacity building activities on Single Window, Business Process Analysis, Custom Clearance Time with a view to contribute to improving national capacities for the design and implementation of national trade and transport facilitation program.
  10. In 2012, ITFC in cooperation with ICDT will organize 2<sup>nd</sup> OIC High Level Forum on Trade Facilitation & Single Window Initiative for Enhanced Regional Economic Integration, in Casablanca, Morocco during 19-23 November 2012. This time, Forum targets African MCs and Arabic Speaking MCs. Participation of 42 MCs from these regions are expected. The Forum will be a platform for information sharing among the participants on their trade facilitation programs, particularly on single window initiatives. The forum will examine the current situation in data exchange among agencies and across the borders; what policies, legal frameworks and technologies have been put in place and are needed for optimized information sharing across the borders. More importantly, the forum will advocate the benefits of customs system interconnections, data harmonization and development of regional data center and aims at identifying steps in building an enabling environment for interoperable single window systems among OIC MCs. A framework for cooperation for the implementation of single window initiatives at sub-OIC level is expected to be developed by the Forum.
  11. In the context of the implementation of COMCEC resolutions within the framework of Executive Program for Enhancing Intra-OIC trade, ICDT and ITFC jointly organized Fourth Meeting of Consultative Group for Enhancing Intra-OIC trade” in Marrakesh, Morocco on 21st and 22nd February 2012. The meeting was attended by OIC organs and government officials and representatives of Trade ministries, and Trade promotion organizations from Morocco, Tunis, representatives of Business Owners Union of the OIC, Arab Maghreb Union and international organizations including UNCTAD, UNIDO, UNDP, and ITC. The meeting reviewed the implementation and accordingly revised the Executive Program based on the information

provided by OIC Organs. Among other recommendations main recommendations of the meeting are following: (i) establish a monitoring framework for intra-OIC trade including KPIs for impact measurement, (ii) set-up a consultation and monitoring mechanism among the regional economics groupings in order to enhance cooperation and harmonize their regulations (ECO, GCC, AMU, Agadir Agreement) with a view to inviting them to join the Consultative Group Meeting, (iii) invite relevant OIC and IDB Group institutions to continue mobilizing necessary funds in order to expedite the implementation of the Executive Programme (iv) organize regional sensitizing seminars for the benefit of OIC MCs to urge those which has not sign and ratify OICTPS, (v) use the Aid for Trade Initiative as a platform for enhancing coherence/collaboration with the relevant UN Agencies for the benefit of the OIC Member States.

### **3) Enhancing Trade Support Capacities of MCs**

12. Human and institutional development is the key for sustainable trade development. Thus, ITFC continued to place great emphasis on supporting human development in MCs in trade related areas. In 1433H, two capacity building programs targeting SMEs will be organized jointly with FTTC. One in Umman, Jordan and one in Jeddah KSI. Participants will improve their managerial skills and capacities on various subjects including conducting marketing research, international marketing, product and quality development as well as supply chain management.
13. In 2012, ITFC continued to cooperate with TOBB and ICCI to organize capacity development programs under OIC Chamber Academy Development Program. 2<sup>nd</sup> OIC Chamber Capacity Development Program is organized 8-12 October 2012 in Ankara, Turkey, where chambers of Commerce from 24 different MCs are invited to participate. In addition to customized chambers development programs, more specific programs are planned to be organized on market analysis, export promotion, SMEs support services to enhance skills and experience of concerned staff in chambers on these subjects with a view to organize joint trade promotion activities such as business matching activities, sourcing mission to exporter countries from importing countries.

### **4) Development of Strategic Products**

14. TCPP/ITFC organized a training seminar and knowledge sharing program on Roles of Agricultural Commodity Exchange in Agricultural Marketing in Ankara, Turkey during 15-16 December 2011 in partnership with TOBB. International organizations including FAO, UNCTAD, CFC and national commodity exchanges presented their experiences in establishing and developing agricultural commodity exchanges in LDCs. National COMEXs also shared their experience and knowledge in establishing and developing COMEXs in their respective countries. This seminar provided a platform to discuss and exchanges views on the following topics: (i) Roles and functions of commodity markets (ii) governance, core actors and rules and regulations of commodity markets (iii) characteristics of successful commodity exchanges and how they can be replicated in developing countries (iv) prerequisites for and challenges against successful functioning of commodity marketing (v) Warehouse Receipt System (WRS) & Quality and electronic trade infrastructure of CMs (vi) Derivate Markets and their roles in agricultural commodity trading. Following the program, IDB Group is preparing a toolkit on

establishing/developing exchanged based trading ecosystem in MCs. specific actions are also being formulated to assist some selected MCs to enhance their existing COMEX based trading system.

15. TCPP/ITFC, in light of above, will continue to support development of strategic products, particularly groundnut and cotton. In this regard, TCPP/ITFC is exploring the possibility of sponsoring implementation of some selected projects under the revitalization of groundnut sector in Guinea-Bissau, Gambia, and Senegal. TCPP also plans to support the quality development programme of Coffee cooperatives in Indonesia to assist them generate more income by improving coffee quality and yield.