



itfc

International  
Islamic Trade  
Finance Corporation



## A Guide to ITFC Financing



Member of  
Islamic Development Bank Group





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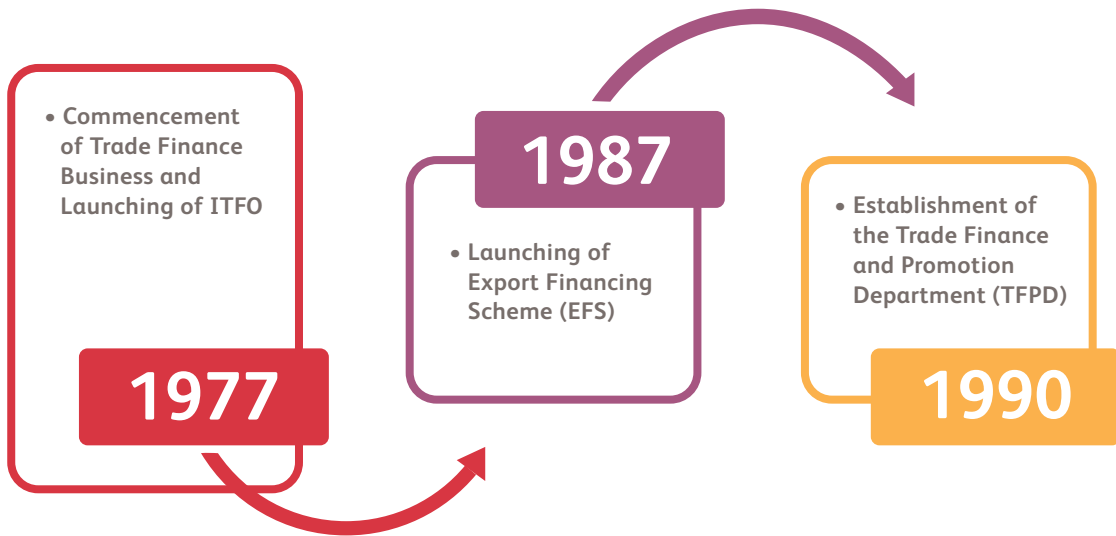
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# About ITFC

The International Islamic Trade Finance Corporation (ITFC) is the culmination of over 30-year pioneering commitment by the Islamic Development Bank (IDB) to develop and expand intra-trade between member countries of the Organization of the Islamic Conference (OIC). This commitment began with the inauguration of IDB in 1395H (1975G) and evolved over three decades through multiple programs, schemes and operations that were launched over time to facilitate and support various aspects of the intra-OIC trade process. Included among those programs were the Islamic Banks' Portfolio for Investment & Development (IBP), the Unit Investment Fund (UIF), the Islamic Corporation for the

Development of the Private Sector (ICD) and the Awqaf Properties Investment Fund (APIF).

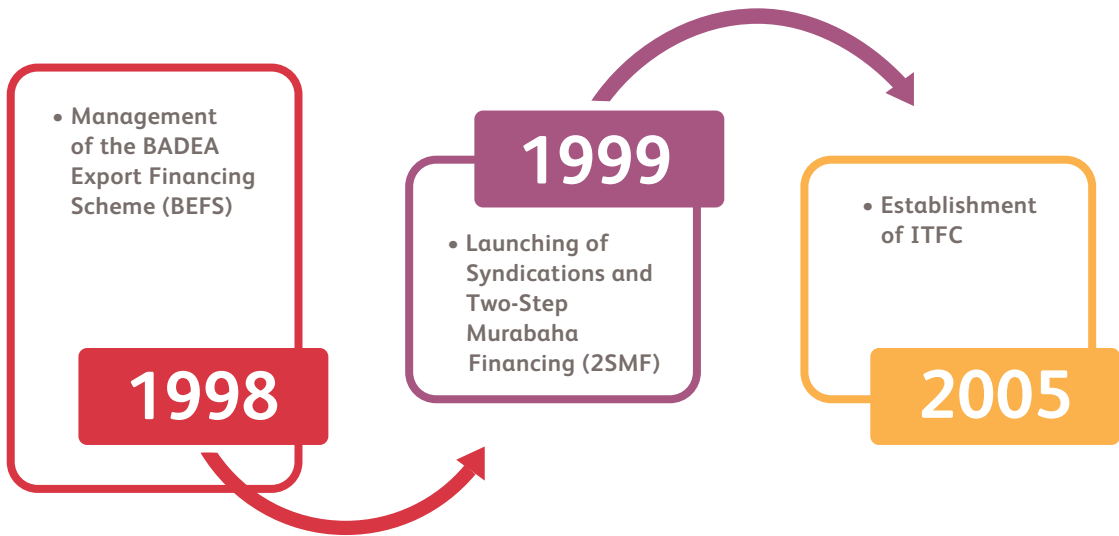
ITFC was established in response to calls for an increase and acceleration of intra-OIC trade within a unified market-driven corporation operating autonomously under the IDB Group umbrella. The first formal proposal was by the Custodian of the Two Holy Mosques, King Abdullah Bin Abdulaziz Al Saud, at the 1424H (2003G) OIC Summit in Malaysia and supported the following year by the United Arab Emirates at the IDB Board of Governors' Meeting in Iran. ITFC was mandated to streamline and consolidate operations within



the IDB Group that had been carried out through multiple programs under the Bank's Trade Finance and Promotion Department (TFPD) as well as through other trade finance windows. A substantial amount of the trade finance operations was carried out through what was then referred to as the Import Trade Financing Operations Program (ITFO), which commenced soon after IDB started its operations in 1397H (1977G), to finance the import needs of the member countries. In 1407H (1987G), the Export Financing Scheme (EFS) was established to complement the ITFO program and help promote exports of the member countries. In 1419H (1998G), IDB took on management of another special trade finance program established in cooperation with the Arab

Bank for Economic Development in Africa (BADEA), to finance the exports of Arab League member countries to non-Arab League member countries of the African Union.

The establishment of ITFC was approved in Jumada Al-Awal 1426H (June 2005G) by the Board of Governors of IDB Group at its 30th annual meeting in Malaysia. The corporation's Articles of Agreement were signed the following year in Kuwait. ITFC became operational on the 1st of Muharram, 1429H (January 10, 2008G) and ITFC's Corporate Identity was formally unveiled on the 29th of Jumada Al-Awal, 1429H (June 3, 2008G) at the IDB's 33rd Annual Board of Governors Meeting held in Jeddah, Saudi Arabia.



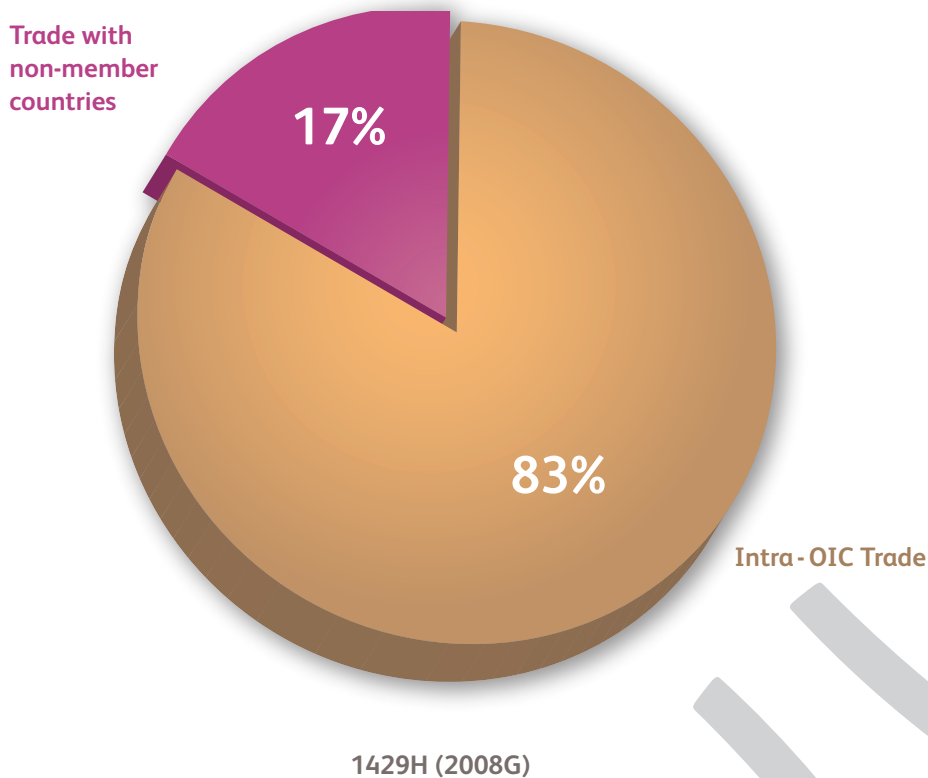
# Advancing Trade

Advancing trade, besides other modes of assistance, enhances development prospects and creates opportunities for economic growth and social welfare. ITFC contributes to the acceleration of growth of income, the preservation of jobs and creation of new employment opportunities, the improvement of the livelihood and the well-being of ordinary people, the alleviation of poverty and the increase in production capacities, which in turn leads to the increase in trade volume and sustainable development.

ITFC is set up to advance trade by contributing to the development of markets and trading capacities to help all

OIC member countries conduct business more effectively with each other and the rest of the world. By identifying and nurturing trade complementarities, by introducing new Shari'ah-compliant products to the trading process, and through the unparalleled economic strength and influence of IDB Group, ITFC acts as a catalyst to bring together international, regional and local organizations to develop intra-OIC trade. In least developed member countries, ITFC has the capacity to reassure markets, secure trade financing and ensure successful trade by assuming responsibility over the entire trade transaction cycle, from beginning to end.

Percentage of financing approvals for member countries to non-member countries



# Our Core Competencies

- Over 30 years of experience in trade finance and trade cooperation and promotion.
- Member of the IDB Group which is "AAA" rated by all three principal international credit rating agencies (Fitch, Moody's and Standard & Poor's).
- Extensive firsthand knowledge on market, regulatory and local trade business environment of the member countries.
- Strong technical expertise in structuring trade finance operations as originator, structurer and arranger.
- Leader in the development and diversification of trade financing products/services and financial instruments which are in conformity with the principles of Islamic Shari'ah.
- Dedicated to providing access to funds by filling the market's gaps in trade finance in countries with no or little access to international markets.
- Financier of Record through its strong presence, leverage and strategic partnership with many international, regional and local Financial Institutions and banks.
- Solid accomplished player with a rich experience in penetrating highly-perceived risks markets by applying proper mitigation strategies.
- Catalyst role in the enhancement of intra-trade through a variety of programs including trade promotion, trade facilitation, capacity building and development of strategic commodities to develop the international capacities of member countries.
- Committed to supporting SMEs by extending lines of financing and 2-Step Murabaha Financing to domestic banks.
- Partner of excellence in raising funds for large syndicated trade finance operations.
- International geographic presence spanning across 4 continents in both member and non-member countries.
- Customer-centric institution with long-lasting relationships with its beneficiaries providing them with innovative trade financing solutions that satisfy their specific needs.
- Highly experienced team with regional expertise in trade finance.



# Principles of the Islamic Shari'ah

Shari'ah is the body of laws and rules derived from both the Holy Quran and the authentic traditions and teachings (Sunnah) of the Prophet Muhammad (peace be upon him) as well as the scholarly opinions and interpretations (Ijtehad) of the Quran and Sunnah.

Shari'ah or Islamic law is concerned with the welfare of the society as a whole as well as the individual's well being. It aims at protecting people's lives and property by spreading equality, justice, trust and unity among societies.

Shari'ah is in fact a complete system that prescribes specific patterns of social and economic behavior for all individuals. It does not only govern our spiritual lives and religious beliefs but also provides guidelines for all other aspects whether moral,

political, financial, legal, social or even those related to our business practices. Shari'ah addresses economic and financial issues such as property rights, economic decision-making, individuals' rights and duties, in addition to providing guidelines for economic freedom.

The Islamic finance system provides an alternative model which, by its very nature, binds both the real and financial economies. The system encourages risk-sharing, promotes entrepreneurship, discourages speculative behavior, and emphasizes the sanctity of contracts.

All activities and operations of ITFC must be in conformity with the principles of Shari'ah.

## The principles of Shari'ah that govern Islamic banking and finance include:

- Prohibition of Riba (interest) in all financial transactions.
- Prohibition of Gharar (deception and incomplete disclosure of information in a transaction leading to excessive uncertainty) such as the sale of probable items which existence or characteristics are not certain, due to the risky nature that makes the transaction similar to gambling, which is also prohibited.
- Entitlement to return is due to liability of loss and vice versa.
- Dealings and transactions must always be based on Trust, Honesty and Integrity. Unlawful earnings and expenditures, fraud or deception and unjust enrichment are all prohibited.



# Where We Operate

ITFC finances trade of 56 member countries of the Organization of Islamic Conference (OIC) with other member or non-member countries of OIC.



## Asia/Central Asia

Afghanistan, Azerbaijan, Bangladesh, Brunei, Indonesia, Iran, Kazakhstan, Kyrgyzstan, Malaysia, Maldives, Pakistan, Tajikistan, Turkmenistan, Turkey and Uzbekistan.

## Africa

Benin, Burkina Faso, Cameroon, Chad, Comoros, Djibouti, Gabon, Gambia, Guinea, Guinea Bissau, Côte D'Ivoire, Mali, Mozambique, Niger, Nigeria, Senegal, Sierra Leone, Somalia, Togo and Uganda.

## Middle East and North Africa (MENA)

Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Mauritania, Oman, Palestine, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, United Arab Emirates and Yemen.

## South America and Europe

Suriname and Albania.



# Eligibility Criteria for ITFC Trade Financing

The following criteria highlight the eligibility for ITFC Trade financing:

## **Beneficiary**

To be eligible for ITFC's trade financing, the beneficiary should be one of the following:

- A Government of a member country;
- State-owned entity;
- Privately-owned institution; or
- Bank and/or Financial Institution.

## **Goods, Commodities and Services**

ITFC's trade finance operations cover goods, commodities and services, including raw materials, industrial intermediate goods, agricultural inputs, food items and all other Shari'ah-compliant goods.

## **Sources of Supply**

All member and non-member countries are eligible sources of supply; however, ITFC will give preference in the terms and conditions for the financing of imports originating from

member countries. In case of domestic purchase and exports, the goods have to be manufactured in member countries with a minimum of 30% value added.

## **Denomination of the Financing**

Trade operations may be denominated in any of the following currencies:

- US Dollars;
- Euro;
- British Pound Sterling; or
- Japanese Yen.

However, the currency of sale price shall be the same currency as that of the purchase price.

ITFC may consider local currency financing where it is deemed appropriate and at the discretion of the management. In such cases, the Beneficiary will bear the foreign exchange cost and/or any related costs, such as but not limited to hedging surplus.



# Modes of Financing

**ITFC may consider all Shari'ah modes of financing for trade operations. Currently, the following modes of financing are the most widely applied:**

- **Murabahah (Cost-plus sale):** Under this mode, ITFC will purchase goods or commodities from a supplier at the request of the Beneficiary and then sell them to the Beneficiary with a deferred payment arrangement. The difference between the Purchase Price and the Sale Price is a reasonable mark-up added to the Purchase Price.

- **Bai Ajel (Installment Sale):** Under this mode, ITFC will purchase the commodities on behalf of the Beneficiary and resell them to the Beneficiary on Murabaha basis at a price agreed upon by the two parties. The ownership of the asset is transferred to the Beneficiary on delivery and as opposed to Murarabaha, repayment is made through equal periodical installments.

- **Istisna'a (Manufacturing Contract):** This is a mode of financing that is used for the promotion of trade in capital goods and the enhancement of the production capacities of member countries. It allows for the sale of goods and commodities that are yet to be manufactured to order. By virtue of an Istisna'a contract, a manufacturer agrees (under mandate of ITFC as the Financier) to manufacture and supply ITFC's Beneficiary (buyer) with goods or other assets in conformity with pre-determined and agreed upon specifications, delivery schedule, payment terms, and price.

- **Ijarah (Leasing):** This mode of financing is especially implemented for the purchase and lease of capital equipment and other fixed assets. The goods are purchased then leased to the Beneficiary for an agreed upon period of time against receiving periodical installments from the Beneficiary. At the end of the lease period, the ownership of the goods is transferred to the Beneficiary.

In addition to the aforementioned modes, ITFC is working on employing additional modes of financing such as Bay Salam as well as Wakalah and Ja'ala for the financing of services.



# Financing Mechanisms

Murabaha is the most widely used mode of financing, and will thus be used to demonstrate the current Financing Mechanisms applied in ITFC.

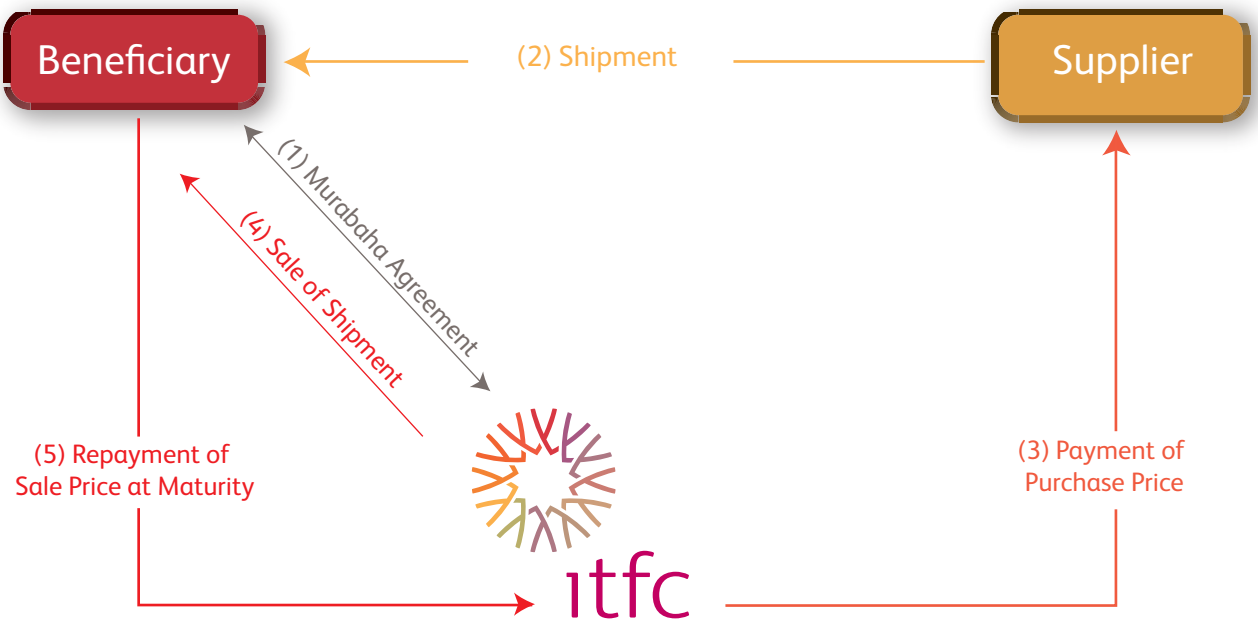
ITFC trade financing can be extended in one of the following forms:

**1) Direct Financing:** Financing is extended directly from ITFC's own resources through a Murabaha Agreement between ITFC and the Beneficiary, as follows:

- A Murabaha Financing Agreement is signed between ITFC

and the Beneficiary, whereby the Beneficiary is appointed as ITFC Agent to purchase goods. Other parties may also co-sign the Agreement.

- The Beneficiary will buy the goods on behalf of ITFC as ITFC's agent and then ITFC will make the payment of Purchase Price directly to the Supplier;
- ITFC will sell the goods to the Beneficiary on deferred payment basis at Sale Price (Purchase Price plus mark-up);
- At maturity, the Beneficiary will repay the Sale Price directly to ITFC;
- ITFC takes the direct credit risk of the Beneficiary.



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**2) Line of Financing:** ITFC provides lines of financing to local Financial Institutions which act as Intermediary (Lines Agents) between ITFC and the end beneficiaries for the Trade Finance Operations upon signing a Line Master Agreement. The Lines Agents will finance local Small and Medium Enterprises (SMEs) in a manner compatible with the provision of the Islamic principles of Shari'ah.

**3) Two-Step Murabaha Financing (2SMF):** In order to reach a larger number of Small & Medium Enterprises (SMEs) in member countries, ITFC provides Two-Step Murabaha Financing to local Financial Institutions or commercial banks to be extended to SMEs. The 2SMF mechanism is implemented as follows:

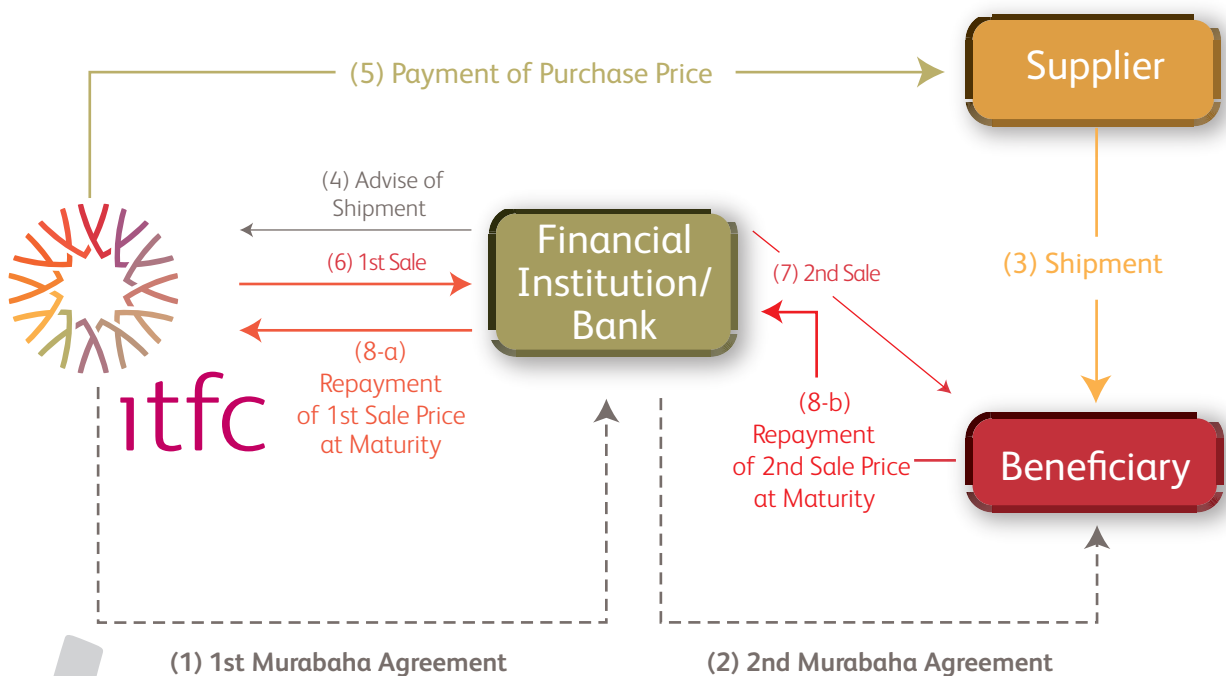
- A Murabaha Agreement is signed first between ITFC (as Fund Provider/1st seller) and a Financial Institution (as Purchaser);
- Another subsequent Murabaha Agreement is signed between the Financial Institution (as 2nd seller) and the end Beneficiary;

- Upon shipment, the Financial Institution will advise ITFC to make the payment of Purchase Price directly to the Supplier;
- ITFC will then sell the goods to the Financial Institution on Murabaha basis (1st Sale Price), which in turn will also sell the goods to the end Beneficiary on Murabaha basis (2nd Sale Price);
- At maturity, The Financial Institution shall repay the 1st Sale Price to ITFC and approach the end Beneficiary for the repayment of 2nd Sale Price;

This mechanism transfers the direct credit risk of the Beneficiary to the Financial Institution, which will be the obligor to ITFC;

A reverse arrangement is also implemented in the case where a Financial Institution provides funds to ITFC (which will act as the Agent of the Financial Institution) to reach a larger number of SME beneficiaries in member countries.

The decision whether to implement a Line of Financing or a 2SMF depends on local banking regulations and the specific needs and preference of the Financial Institution.

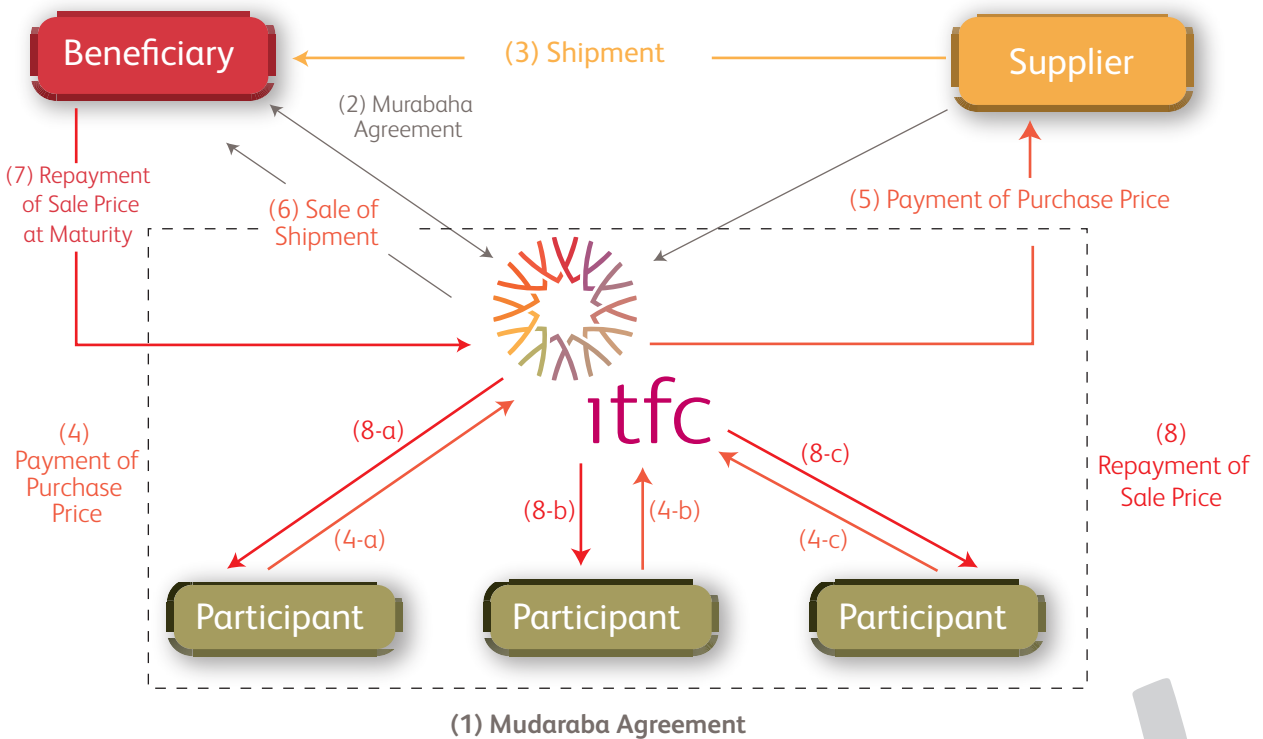


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**4) Co-financing or Syndication:** For large operations, ITFC may opt for co-financing or syndication in which ITFC, acting as a Mudarib (lead arranger or co-arranger), invites one or more Financial Institutions to participate in the financing. ITFC may also participate in syndications arranged by other institutions. Co-financed or syndicated operations are undertaken as follows:

- In accordance with Shari'ah, a Mudaraba (Arrangement) Agreement is first signed between ITFC and the participating Financial Institutions (Participants) whereby:
  - ITFC will act as a Mudarib (Lead Arranger) on behalf of the Participants;
  - ITFC will be responsible for transferring payments to suppliers and distributing repayments among the Participants;
- Subsequently, a Murabaha Agreement is signed between ITFC and a Beneficiary;

- The Beneficiary shall submit effectiveness documents and requirements to ITFC;
- Upon shipment, ITFC will advise the Participants to make the payment of Purchase Price (according to their contributions) to ITFC, which will then transfer the Purchase Price directly to the Supplier.
- At maturity, the Beneficiary shall repay the Sale Price (Purchase Price plus mark-up) directly to ITFC, which in turn would distribute the Sale Price among the Participants (according to their contributions);
- ITFC and the Participants share the credit risk of the Beneficiary up to the extent of the contribution of each Participant;
- Each Participant has to make their own investigation and due diligence of the creditworthiness of the Beneficiary before deciding to participate in the syndicated operation.



# Structured Commodity Financing (SCF)

ITFC provides Structured Commodity Financing (SCF) as part of its Murabaha Trade Financing Scheme, which provides Islamic Shari'ah-compliant Trade Finance for the benefit of its beneficiaries in its member countries. This mechanism is especially applied in cases where the existing standard financing solutions do not fit the exact needs and requirements of the Beneficiary. Through SCF, ITFC provides a full range of trade solutions, combining end-to-end risk mitigation and customized funding solutions across the entire trade value chain.

Under SCF, ITFC assumes part or all of the risks involved in a trade transaction. Accordingly, ITFC structures the transaction in way to convert these risks into manageable operational risks that are easier to mitigate, as well as ensures that the transaction will generate enough cash flow for repayments. Therefore, SCF is mostly implemented in emerging and high-risk markets and is

also used in pre-export or pre-shipment finance, where funds are extended to producers thus enabling them to produce goods for export purposes.

ITFC has a good proven track record in SCF and has employed it successfully in Sub-Saharan African countries with notable success. Since the introduction of the scheme, ITFC's trade financing in the region, which stood at US\$ 19.0 million in 2002, has increased by approximately 87% to reach US\$ 145.11 million by the end of 2008. The primary commodities financed under ITFC SCF are petroleum products, cotton, clinker, fertilizer, rice and cocoa.

In a constantly shifting global market place, ITFC's approach to trade finance is based on helping our clients manage their working capital while facilitating trade and mitigating risk.

## A Case Study: SOFITEX, Burkina Faso

Société Burkinabé des Fibers Textiles (SOFITEX), is a state controlled agro-industrial and commercial entity, involved in the entire cotton production cycle, including planting, ginning of seed cotton and export of cotton fiber. It was set up in 1979 as a public sector limited liability company by the main shareholders, namely the Government of Burkina Faso and the former Compagnie Française pour le Développement du Textiles (CFDT). Today, it is one of the largest cotton companies in Africa and the leader in Sub-Saharan Africa.

Until September 2004, SOFITEX had the monopoly over the cotton sector in Burkina Faso. The company was responsible not only for undertaking the full industrial and commercial activities related to cotton export, but also for ensuring the social development of the rural population. Despite structural changes in the sector, SOFITEX covers an area of over 550,000 ha under cotton cultivation and transacts with a rural population of 3.0 million, representing 25 % of the total population of Burkina Faso.

SOFITEX is one of the best run cotton companies in Africa and is well-known for its high quality products due to its strict quality control procedures over the whole production cycle with a complete follow up at farmers level up to the final production in the mills and storage facilities at the seaports. SOFITEX is the only company in the region to have seed producing facility (delinting units) in order to improve quality of cotton seed for better yield and more resistant varieties.

In a context of low world cotton prices and at the early stages of the sub-prime crisis, SOFITEX requested the assistance of ITFC in providing working capital financing to compliment its financing requirements.

In its role as a trade facilitating and promoting corporation, ITFC responded to the request positively. The corporation provided of a mix of commercial and developmental- oriented solutions without competing with local Financial Institutions in an attempt



to assist SOFITEX in its endeavors.

As a lead arranger in this Shari'ah-compliant structured commodity trade finance transaction, ITFC approved a € 70 million syndicated Murabaha supply chain financing in favor of SOFITEX which included agricultural inputs and post harvest financing. The financing covered the first phase of agricultural inputs financing of € 20 million and a second phase of post harvest financing of € 50 million.

ITFC's participation in an operation for an emerging market that is a perceived high risk country was undertaken in order to help reduce poverty through trade, thus helping support million of people in Burkina Faso, which is a member country of the IDB Group. Furthermore, this trade finance operation contributes to the accomplishment of ITFC's developmental objectives in Burkina Faso by: contributing to job creation through facilitating financing operations, alleviating risk factors which prevent trade, building investment confidence in least developed markets and enhancing the export capabilities of member countries. ITFC is consistently at the service of its member countries as an organization mandated to "Advancing Trade and Improving Lives."

# Acceptable Collaterals

The acceptable types of Collateral to ITFC include but are not limited to :

- (i) **Government (Sovereign) Guarantee** from the Government or any authorized ministries of the Government in the Beneficiary's country;
- (ii) **Bank Guarantee** from commercial banks or Financial Institutions acceptable to ITFC;
- (iii) **Export Credit Insurance** to be provided by a reputable Export Credit Agency (ECA);
- (iv) **Assignment of Receivables** from pre-approved reputable off-takers and/or Warehouse Receipts issued by acceptable class collateral managers;
- (v) **Corporate Guarantee** in the form of a Letter of Guarantee (L/G) provided by a parent entity (with acceptable creditworthiness to ITFC) to its subsidiary as the Beneficiary of the financing. The acceptance of the parent entity as guarantor will be subject to evaluation and fulfillment of certain eligibility criteria.

**Note:**

For some creditworthy beneficiaries, no collateral may be required and ITFC may approve the financing on "Clean" basis based on the financial strength of the client. The creditworthiness of the beneficiary is determined according to ITFC's Risk Management Guidelines. In addition, the Beneficiary may be required to provide among others, Promissory Note(s) as evidence of debt and obligation to ITFC.



# Basic Application Requirements for ITFC Financing

To apply for ITFC financing, the following documents and information should be included in the request:

- (i) Beneficiary's name and complete contact information;
- (ii) Beneficiary's legal documents such as certificate of incorporation, commercial registration, Memorandum and Articles of Association, etc.;
- (iii) Beneficiary's audited annual reports or audited accounts for the most recent 3-5 years (as maybe applicable);
- (iv) Specifications of commodities to be imported;
- (v) Source of supply of commodities;
- (vi) Financing amount requested and currency of denomination;
- (vii) Details of the guarantee/security offered to ITFC; and
- (viii) The proposed repayment period (Tenor).

ITFC will study and evaluate the financing request to ensure its viability and compliance with regulations, procedures and guidelines of ITFC and then initial terms and conditions will be issued for the Beneficiary's acceptance.



# Who to Contact at ITFC Marketing Department

## **Sub-Saharan Africa**

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Kingdom of Saudi Arabia



# Glossary of Abbreviations

- APIF: Awqaf Properties Investment Fund
- BADEA: Arab Bank for Economic Development in Africa
- BEFS: BADEA Export Financing Scheme
- CFDT: Compagnie Française pour le Développement du Textiles
- CIS: Commonwealth Independent States
- EFS: Export Financing Scheme
- IBP: Islamic Banks' Portfolio for Investment and Development
- ICD: Islamic Corporation for the Development of the Private Sector
- ICIEC: Islamic Corporation for the Insurance of Investment & Export Credit
- IDB: Islamic Development Bank
- ITFO: Import Trade Financing Operations
- ITFC: International Islamic Trade Finance Corporation
- MENA: Middle East and North Africa
- SCF: Structured Commodity Financing
- SME: Small and Medium Enterprise
- SOFITEX: Société Burkinabé des Fibres Textiles
- TFPD: Trade Finance and Promotion Department
- TCPD: Trade Cooperation and Promotion Program
- OIC: Organization of Islamic Conference
- UIF: Unit Investment Fund



