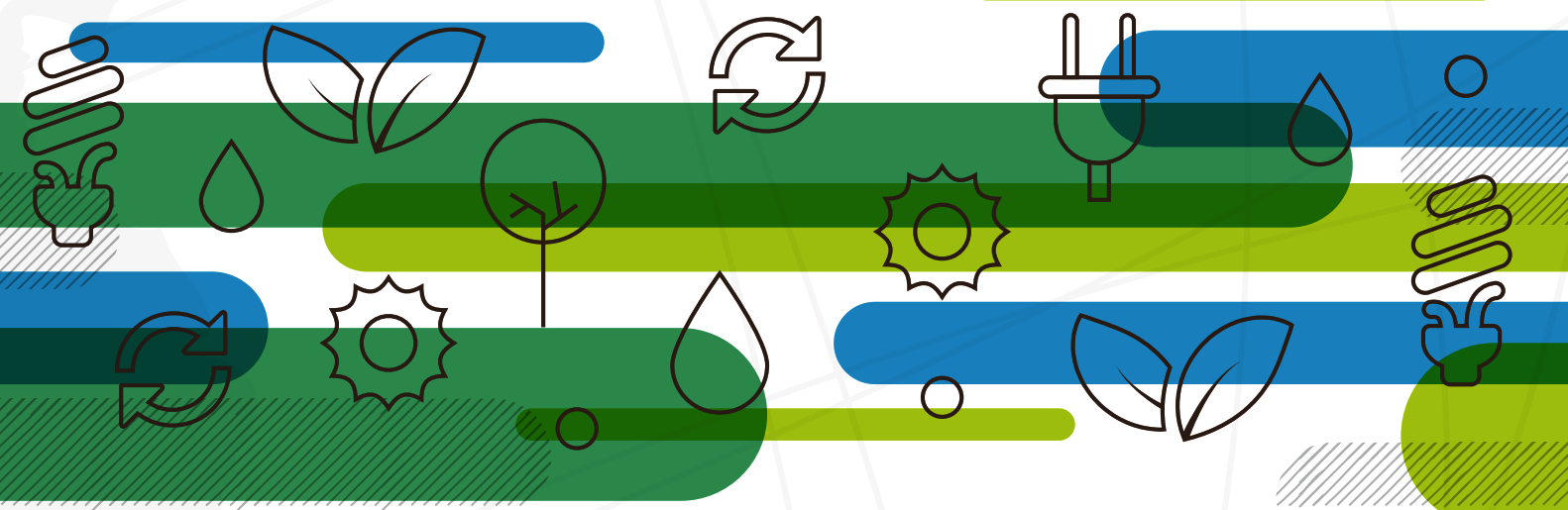




itfc

International
Islamic Trade
Finance Corporation

INTERNATIONAL TRADE AND CLIMATE CHANGE



Member of Islamic
Development Bank Group



MARRAKECH
COP22|2016|CMP12
UN CLIMATE CHANGE CONFERENCE



Message from the CEO

Trade and climate change issues are intricately linked, particularly in our Member Countries, where a large number of their economies rely on agriculture - a sector that is highly vulnerable to climate change.

Events induced by climate change, such as global warming - which manifests itself in the form of flooding, sea-level rise and droughts - have substantial impacts on agricultural crops, livestock, fisheries and water resources.

At the International Islamic Trade Finance Corporation (ITFC), we believe that the relationship between climate change and international trade is subtle. Behind every trade transaction, there is a production process and, in turn, associated greenhouse gas emissions. Thus, trade policies can influence emissions, and so climate change policies can also influence trade. ITFC is not only a provider of Islamic Trade Finance, but also a development financial institution that serves its member countries and is dedicated to provide development assistance to the socio-economic welfare of the people.

Given its record of accomplishment in promoting global trade in emerging countries, ITFC has a clear competitive advantage in engaging stakeholders to support international trade that addresses the challenge of climate change.

ITFC, alongside its regional member countries and partners, is committed to promoting sustainable global trade while incorporating climate change policies throughout the process, and we invite you to join us in fulfilling this important mandate.

Eng. Hani Salem Sonbol
CEO, ITFC



Trends in Global Trade

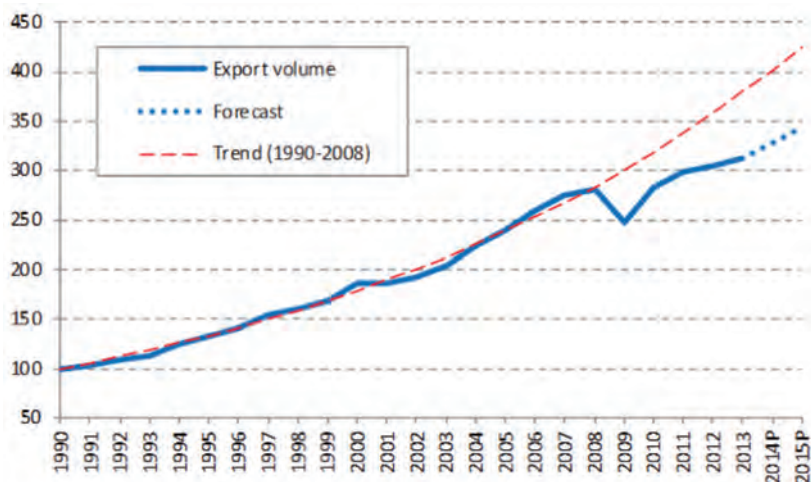
The past decades have been marked by unprecedented expansion of international trade. Substantial growth in terms of goods and services has been recorded in recent year, from about \$5 trillion in 1994 to about \$24 trillion.

Moreover, trade has evolved considerably throughout time; globally it has tripled since 1950 due to growth in emerging markets. Asia and the Middle East have been the key regions that have both benefited from sustained export growth despite the slowdown in global trade in 2008 and 2016.

According to the World Trade Organization (WTO), between 2005 and 2015, the Middle East's share of world exports grew from 3% to 4% (\$1.5 trillion), while Asia's share rose from 25% to 30% (\$5.5 trillion).

Recently, one of the leading trends of trade landscape has been the growth of south-south trade or trade between different emerging-market regions that does not involve the developed economies of the OECD countries.

Volume of World Merchandise Exports, 1990-2015



Source: WTO Secretariat

International Trade and Climate Change

The relationship between climate change and international trade is intricately linked. Every production process leads to a trade transaction, and in turn associated with greenhouse gas emissions. Therefore, policies that promote trade affect emissions and policies for reducing emissions also influence trade.

Given the evident link between production processes, trade transactions and associated greenhouse gas emissions, climate change policies can have a big impact on developing countries working on increasing their global production capacities and related integration into global markets.

These dynamics are at the core of ITFC's business model. ITFC is the only Development Financial Institution that focuses solely on financing trade for the purpose of supporting the economic development of its member countries.





The CASE STUDY:

A Pre-Export Financing for the Indonesian Coffee Sector and its impact on Climate Change



Climate Change and Fair Trade

Member Countries in the developing world have contributed the least to Climate Change but are the most impacted by it. The concern of farmers in Asia and Africa is increasing as climate change - a global issue - directly affects them. In order to address this phenomenon, farmers need to be supported in adapting to climate change challenges but also in reducing their environmental footprints. This is especially relevant given that Agriculture and Other Land Use account for approximately 25% of global greenhouse gas emissions.

Coffee and Climate Change

According to the International Coffee Organizations (ICO), World coffee exports amounted to 7.8 million bags in July 2016, compared with 9.9 million in July 2015. Exports in the first ten months of coffee between October 2015 and July 2016 have decreased by 1.7% in comparison with the first ten months of the last coffee year.

Climate change is indeed menacing coffee crops in all key markets globally. Factors impacting coffee crops production include lengthy droughts and high temperature disrupted by heavy rainfall, more resilient pests and plant diseases. These factors, all associated with climate change, have reduced coffee supplies dramatically in recent years.

El Nino has impacted coffee production in Indonesia in the past years and so is irrigation infrastructure which is not optimally developed in the world's fourth-largest coffee grower.

Local smallholders who lack the financial means and technical skills to offset the negative impact brought about by El Nino own many coffee plantations in Indonesia. Due to prolonged drought, coffee trees could see their production rates declined by between 30 and 40 percent. In view of a changing climate, not only crop yields but also pesticide use is expected to be affected as more resistant pesticides are used to combat pests. Intensive farming is also linked to collapsing populations of wild animals and the endangerment of species such as amphibians. By supporting organic certified coffee exports, ITFC is helping to preserve the ecosystem for a sustainable coffee industry and environment.

ITFC Fair Trade Coffee Export Development Program

ITFC, in collaboration with the Indonesian Coffee Exporters Association (AICE), developed the Indonesian Coffee Export Development Program in 2016 to create fairer trading conditions for farmers while supporting them in adapting to and mitigating climate change. The program plans to work with 200,000 farmers over 3 years.

The Indonesian Fair Trade Coffee Export Development Program is built upon success stories in International Trade and Climate Change at ITFC.

For instance, ITFC designed a US\$1 million Murabaha trade finance operation in Indonesia for the coffee sector to meet their pre-export financing requirements in 2011. The impact of this operation in this structure was twofold. First, ITFC directly financed the pre-export working capital requirements of the Exporter. Secondly and more importantly, by making payment to the suppliers who were the fair-trade and organic certified cooperatives, 6,000 farmers in five cooperatives were able to get the funds earlier than having to wait for the payment from the final buyers.

ITFC's financing helped the farmers get a better price for their coffee, because interest charges that the Exporter incurs is lower than before; moreover it helped fuel the growth of the exporter and the co-ops. With the ability to pay cash, it made it easier for them to attract new co-ops and members to join their organizations, spreading the impact of Fair Trade further.

Fair Trade Premium and Climate Standard

The most interesting aspect of ITFC Program is its Fairtrade premium and related Climate Standard that will impact 200,000 farmers.

- **Climate Change Adaptation:** The Fairtrade Premiums are payments above the Fairtrade price which goes into a community fund for the farmers to make their communities more resilient to climate change (Climate Change Adaption).
- **Fairtrade Carbon Credits (FCC):** The Climate Standard on the other end is an innovative mechanism for the farmers to gain access to the carbon market by developing Fairtrade Carbon Credits (FCC) projects. These projects will allow farmers to both make their contribution to climate change mitigation while adapting to climate change.

Among other principles, the Climate Standard includes:

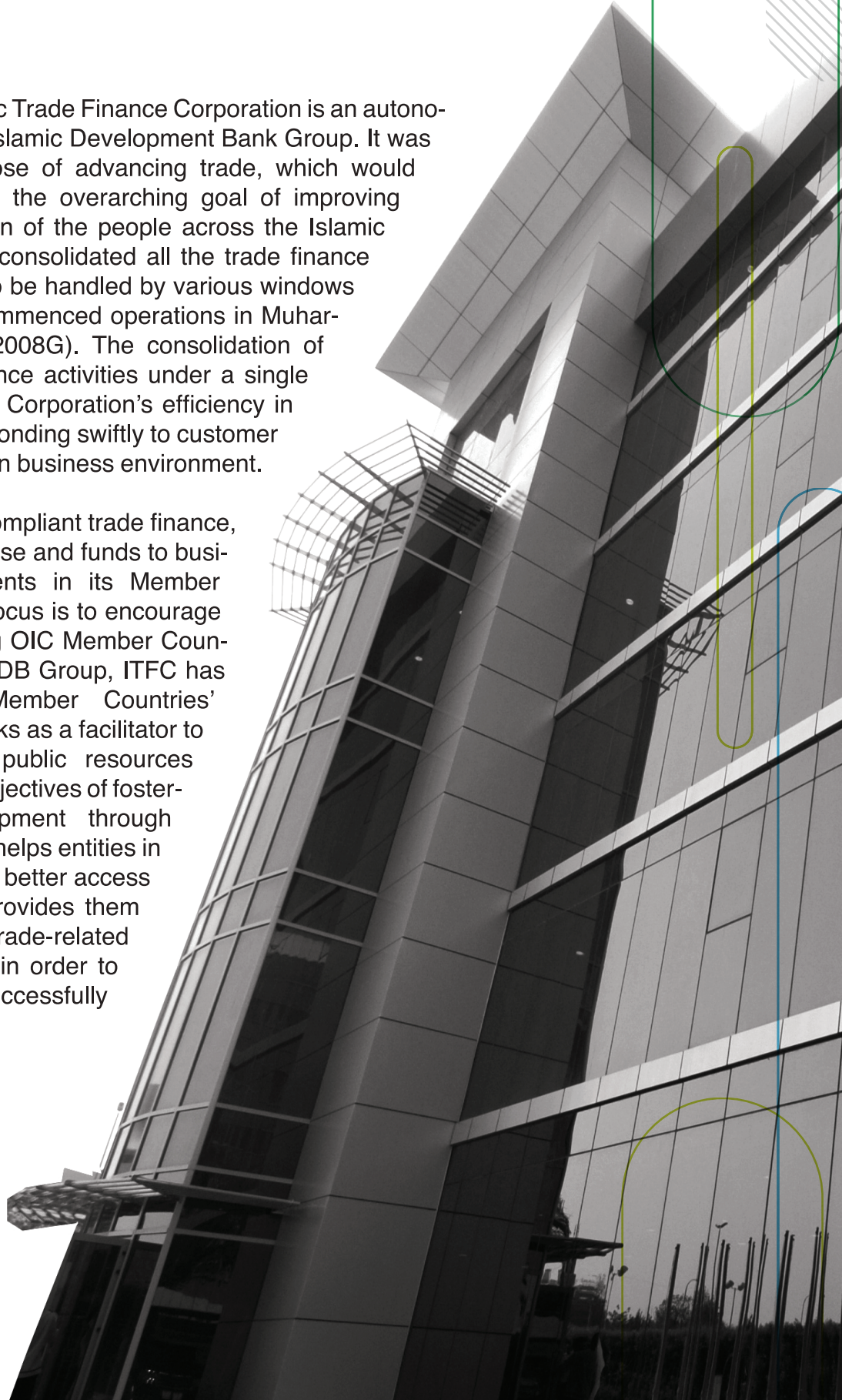
- **Capacity building:** The Fairtrade Climate Standard gives producers the possibility to take a more active role in the carbon projects, by improving their knowledge of climate change and developing project and carbon management skills, while taking ownership of their own carbon projects over time.
- **End buyer emissions reductions:** At the end of the supply chain, those purchasing Fairtrade Carbon Credits must implement a reliable plan to reduce their emissions and increasingly compensate their emissions with Fairtrade Carbon Credits.

About ITFC:

The International Islamic Trade Finance Corporation is an autonomous entity within the Islamic Development Bank Group. It was created with the purpose of advancing trade, which would ultimately contribute to the overarching goal of improving socioeconomic condition of the people across the Islamic world. ITFC has since consolidated all the trade finance businesses that used to be handled by various windows within IDB Group. It commenced operations in Muharram 1429H (January 2008G). The consolidation of IDB Group's trade finance activities under a single umbrella enhanced the Corporation's efficiency in service delivery by responding swiftly to customer needs in a market-driven business environment.

As a leader in Sharia-compliant trade finance, ITFC deploys its expertise and funds to businesses and governments in its Member Countries. Its primary focus is to encourage more intra-trade among OIC Member Countries. As a member of IDB Group, ITFC has unique access to Member Countries' governments and it works as a facilitator to mobilize private and public resources towards achieving its objectives of fostering economic development through trade. The Corporation helps entities in Member Countries gain better access to trade finance and provides them with the necessary trade-related capacity building tools in order to help them compete successfully in the global market.

www.itfc-idb.org



ISLAMIC DEVELOPMENT BANK GROUP STRUCTURE

Establishment

The Islamic Development Bank (IDB) is an international financial institution established pursuant to Articles of Agreement done at the city of Jeddah, Kingdom of Saudi Arabia, on 21st Rajab 1394H corresponding to 12 August 1974. The Inaugural Meeting of the Board of Governors took place in Rajab 1395H (July 1975) and the IDB formally began operations on 15 Shawwal 1395H (20 October 1975).

Vision

By the year 1440H, the Islamic Development Bank will have become a world-class development bank, inspired by Islamic principles, that has helped significantly transform the landscape of comprehensive human development in the Muslim world and helped restore its dignity.

Mission

To promote comprehensive human development, with a focus on the priority areas of alleviating poverty, improving health, promoting education, improving governance and prospering the people.

Membership

The IDB has 57 member countries across various regions. The prime conditions for membership are that the prospective country should be a member of the Organization of the Islamic Cooperation (OIC), that it pays the first instalment of its minimum subscription to the Capital Stock of IDB, and that it accepts any terms and conditions that may be decided upon by the Board of Governors.

Capital

At its 38th Annual Meeting, the IDB's Board of Governors approved the 5th General Capital Increase whereby the Authorized Capital was increased to ID100 billion and the Subscribed Capital (available for subscription) was increased to ID50 billion. By the same Resolution, the Board of Governors agreed to the calling in of the callable (in cash) portion of the 4th General Capital Increase. As at the end of 1436H, the subscribed capital of the IDB stood at ID49.92 billion.

Islamic Development Bank Group

The IDB Group comprises five entities: the Islamic Development Bank (IDB), the Islamic Research and Training Institute (IRTI), the Islamic Corporation for the Development of the Private Sector (ICD), the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), and the International Islamic Trade Finance Corporation (ITFC).

Head Office, Regional and Country Offices

Headquartered in Jeddah, the Kingdom of Saudi Arabia, the IDB has four regional offices in Rabat, Morocco; Kuala Lumpur, Malaysia; Almaty, Kazakhstan; and in Dakar, Senegal and Country Gateway offices in Turkey (Ankara and Istanbul), Indonesia, and Nigeria.

Financial Year

The IDB's financial year used to be the lunar Hijra Year (H). However, starting from 1 January 2016, the financial year will be Solar Hijra year starting from 11th of Capricorn, (corresponding to 1 January) and ends on the 10th Capricorn (corresponding to 31 December of every year).

Accounting Unit

The accounting unit of the IDB is the Islamic Dinar (ID), which is equivalent to one Special Drawing Right (SDR) of the International Monetary Fund.

Language

The official language of IDB is Arabic, but English and French are also used as working languages.



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Islamic Research and Training Institute (IRTI)

Islamic Research and Training Institute (IRTI) was established in 1401H (1981) as the research and training arm of IDB. IRTI plays a key role in supporting the transformation of IDB Group into a world-class knowledge-based organization. IRTI's mandate is to support the development and sustenance of a dynamic and comprehensive Islamic Financial Services Industry that enhances socioeconomic development in IDB Member Countries. The Institute undertakes cutting edge applied and policy research as well as capacity building and advisory services in the field of Islamic economics and finance. IRTI aims to be a global knowledge center for Islamic economics and finance in line with its new vision. www.irti.org



The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC)

ICIEC was established in 1415H (1994) by the Islamic Development Bank (IDB) and Member Countries of the Organization of Islamic Cooperation (OIC) as an independent entity within IDB Group. Its mandate is to: (i) help increase the scope of trade transactions of Member Countries; (ii) facilitate flow of foreign direct investments into Member Countries; and (iii) provide reinsurance facilities to Export Credit Agencies in Member Countries.

ICIEC fulfils these objectives by providing appropriate Islamic Sharia-compliant credit and country-risk insurance and reinsurance instruments. www.iciec.com



The Islamic Corporation for the Development of the Private Sector (ICD)

ICD was established in 1420H (1999) as an independent entity within IDB Group and has been operational since 6 Rabi Thani 1421H (8 July 2000). The mission of ICD is to compliment the role played by IDB through development and promotion of the private sector as a vehicle for economic growth and prosperity in Member Countries.

The main objectives of ICD are: (i) support economic development of its Member Countries through provision of finance aimed at promoting private sector development in accordance with the principles of Shariah; and (ii) provide advice to governments and private organizations to encourage the establishment, expansion and modernization of private sectors. www.icd-idb.com

