



itfc

International
Islamic Trade
Finance Corporation

Embracing Disruption to Build Back Better



Executive Summary

Annual Development
Effectiveness Report | 2020

IsDB 
مجموعة البنك الإسلامي للتنمية
Islamic Development Bank Group



A message from the Chief Executive Officer, ITFC

I am honored to introduce you to the fifth edition of the ITFC Annual Development Effectiveness Report. The year under review, 2020, was a year like no other, a year in which we experienced a deadly pandemic, a global recession, and an increased social divide. But it was also a year of opportunities with disruptions affecting our daily routine, bringing out the best in us and leading us to innovate. More importantly, it was a year to reflect on the future we want and what role we want to play in achieving it.

As I look back on the last year, it is remarkable to see how ITFC, as an institution, displayed organizational resilience and proactiveness to stay relevant to our clients' needs. In 2020, ITFC lived up to its vision of becoming the leading provider of trade solutions in OIC member countries and stepped up to this role with efficiency and resilience. This would not have been possible without engaged staff who showed commitment and creativity while working from home.

As part of the Strategic Preparedness and Response Program of IsDB Group, we disbursed up to US\$495 million of trade financing to support our clients with the objective of alleviating the health crisis, restoring trade supply chains, providing affordable and quality food, and maintaining jobs within micro, small, and medium-size enterprises.

COVID-19 response

As the pandemic unfolded, ITFC reacted swiftly to help member countries respond to the immediate public health emergency and ensuing social and economic impact. The ITFC response to the crisis aimed at supporting our clients to meet their immediate needs during the outbreak and strengthening their long-term resilience to external shocks. As part of the Strategic Preparedness and Response Program of IsDB Group, we disbursed up to US\$495 million of trade financing to support our clients with the objective of alleviating the health crisis, restoring trade supply chains, providing affordable and quality food, and maintaining jobs within micro, small, and medium-size enterprises. ITFC support was delivered through a blended approach combining trade finance facilities with grants, enabling us to extend support to those clients who were most in need.

Delivering despite turbulence

Trade finance is essential to keep trade flowing and save livelihoods. The COVID-19 pandemic has exacerbated the decline in global trade volume that was already notable in 2019 due to international trade tensions and slowing global economic growth. Despite a challenging context, we were able to maintain our approvals and disbursements at a high level of US\$4.7 billion and US\$4.1 billion, respectively. Out of every three dollars approved by ITFC, two were mobilized from external partners. Building on these figures, we can deliver on our core development priorities namely: energy, food and SME financing.

ITFC disbursed US\$2.7 billion to secure the supply of energy inputs in member countries, supporting an estimated 8 million households to access electricity. Our food and agriculture financing increased by 11% year-on-year to reach US\$776 million. We financed the purchase of 1.5 million tonnes of food commodities to ensure that over 25 million households in member countries had access to affordable, safe and sufficient food. We redistributed US\$240 million worth of income to over 600,000 cotton and groundnut producers in West Africa. Disbursements for micro, small, and medium sized enterprises reached US\$373 million benefitting over 7,500 MSMEs across member countries.

Towards a resilient and sustainable recovery

ITFC is about much more than providing financing. In line with its Ten-Year Strategy and the IsDB President's 5-Year Program (P5P), ITFC promotes holistic solutions to complex development issues. Our integrated solutions supported our member countries to mitigate the pandemic's immediate consequences and to lay the foundation for a better future. The launching of the Trade Development Fund in 2020 was a significant milestone in our ambition to scale up resources for trade development interventions.

As we move forward, we need to adapt to the new realities. The ITFC Ten-Year strategy, which remains relevant, was fine-tuned to better navigate disruptions. More than ever, we need to promote a resilient, inclusive and sustainable recovery, in alignment with the Sustainable Development Goals.

Making trade more inclusive requires addressing trade finance gaps that disproportionately affect SMEs and countries not fully integrated into global supply chains or the international financial system. In 2020, we engaged with our partners from multilateral organizations to position trade finance at the forefront of the development agenda through various forum, publication of policy papers and major events, most notably at the G20. We also ensured that our disbursements to underserved markets such as LDCs and in the Sub-Saharan Africa subregion reached 30% and 57% of our portfolio, respectively.

Digitization is opening new opportunities for international trade. Although this trend preceded the pandemic, it gained momentum in 2020 as digital technologies and e-commerce have become effective tools for a resilient recovery. Yet, the digital divide poses a serious threat and could prevent an equitable sharing of benefits. It is an ITFC aim to ensure that the ongoing digitization is fair and inclusive. In 2020, ITFC has successfully rolled out paperless trade solutions among selected clients and we will step up our efforts to promote inclusive trade using emerging digital solutions.

Five years of development reporting

This year's ADER marks our fifth year of continuous development reporting. Over the years, ITFC's Development Impact Framework (DIF) has evolved with continuous improvements by adopting lessons learned and other best practices. The DIF and analytics model enables us to rate our interventions at pre-appraisal stage based on their expected development impact and alignment with the SDGs, reflecting our ambition to allocate financing where it matters most. The pandemic has also reinforced the importance of generating and sharing timely data and lessons learned to enhance our operations. I am glad that the ITFC new evaluation policy came into effect last September, thus promoting a culture of learning and accountability within the Corporation. This year's ADER has benefited from increased evaluative evidence to design the case studies.

The report, entitled "Embracing Disruption to Build Back Better", lays out how ITFC responded to the unprecedented crisis and how it envisions the future. Global challenges require multilateral cooperation and shared solutions. I am thankful to all our partners who, despite a highly uncertain environment, reaffirmed their trust and confidence in our mission of "advancing trade and improving lives".

**Eng. Hani Salem Sonbol,
Chief Executive Officer, ITFC**

Introduction

2020 Theme

Since 2018, the Annual Development Effectiveness Report (ADER) has been a theme-based exercise. Every year, the report showcases ITFC development effectiveness by focusing on certain thematic or operational aspects of its interventions. The theme selection is driven by the relevance of the topic both from an external point of view and internal focus.

This year's ADER is titled '*Embracing disruption to build back better*'. The theme is not a surprise given the overwhelming disruptive impact the COVID-19 pandemic has had on our lives. The pandemic has caused significant disruption to our economies and societies. It has also led us to reimagine the way we do business to determine if disruption will be either positive or negative. This report chose to highlight how the COVID-19 pandemic created opportunities that can be leveraged to overcome the challenges it has imposed on us.

ITFCs' Development Priorities



Report Structure

The report is structured around four chapters, representing key facets of the chosen theme. These chapters are both external and internal, as well as retrospective and forward-looking.

01

Agility to face the challenges ahead

Highlights ITFC's proactiveness and agility to stay relevant amid a disrupted world. Thanks to its organizational resilience, the Corporation moved swiftly to embrace the changes and meet its clients' needs.

02

Responding to a World in Disruption

Focuses on the outcomes of ITFC emergency assistance to member countries (MCs) and its efforts to mitigate the Pandemic's immediate impact.

03

Preparing for Disruption

Focuses on ITFC's efforts to put member countries back on the path of economic recovery through restoring livelihoods, building resilience, and kick-starting economic growth.

04

Embracing the "New" Normal

is forward-looking. It shows how ITFC lays the foundation for a more inclusive, sustainable and resilient future in our member countries.

Corporate Results Framework

The Development Effectiveness Report is ITFC's primary tool for monitoring and reporting on its performance in achieving development results. The ADER uses the indicators in the ITFC's Development Impact Framework (DIF) as a yardstick for reporting. With 54 indicators, the ITFC DIF enables management and stakeholders to evaluate performance, from the perspective of development impact, by assessing the extent to which its activities are aligned with the priorities and the theory of change pertaining to the Corporation. The indicators are structured around four development themes which reflects ITFCs' development priorities:

- i) inclusive growth,
- ii) sustainability,
- iii) technology, skills, innovation,
- iv) private sector development.

The ITFC DIF adopts a four-tier structure to show the Corporation's results through mutually reinforcing tiers:

- i) contribution to the SDGs;
- ii) contribution to the shared IsDB and ITFC strategic objectives,
- iii) development results; and
- iv) operational and organizational performance.

ADER Evolution

Since ITFC started reporting on its development results in 2016, the ADER has been evolving to deliver continuous improvement. The 2020 ADER includes the following enhancement:

Increased reporting metrics

This year's ADER benefits from enhanced reporting metrics, enabling an assessment of ITFC results at a more detailed level. The DIF 2.0 became operational in 2020 and included 24 additional metrics compared to the previous version. Also, specific metrics were developed for COVID-19 related interventions to ensure ITFC captures the outreach of its health financing (number of doctors, medical facilities benefiting etc.). Finally, this ADER shows an increased effort in reporting at output level (volume of goods imported for example).

A systematic approach to data collection

To prepare the ADER, ITFC has discontinued the annual development survey to adopt a systematic data collection approach. At the end of each transaction, the client is requested to fill a self-assessment report informing selected development indicators. The results of these individual forms are aggregated and consolidated at the organizational level. This allows a better analysis of the effectiveness and crosscutting issues and challenges that influence ITFC overall performance. The ADER also draws on the four evaluations (e.g. operation performance evaluations, etc.) produced over the year.

Emphasis on Disbursements

The level of disbursements is an accurate reflection of an institutions' actual development results. Since last year, the ADER started progressively to shift from approvals to disbursements to analyze development effectiveness. This year's ADER is the first to assess development results exclusively through the lens of disbursements. As such, data comparability with previous years may be limited as the reporting focus has been shifted towards the more meaningful disbursement figures.



Report Summary

This summary is structured around the Development Impact Framework pyramid and gives an overview of the report's main findings.



TIER 1

Progress towards the SDGs

The progress on the sSDGs has been deeply affected by the COVID-19 pandemic crisis. What started as a health crisis led to an unprecedented economic shock with global growth contracting by -3.3% (IMF, 2021) and around 255 million full time jobs being lost (ILO, 2020). The crisis has widened existing gaps and hit the most vulnerable the hardest. Global extreme poverty rose in 2020 for the first time in over 20 years (World Bank, 2020) and over 270 million people in 79 countries are acutely food insecure – or directly at-risk – an 83% increase compared to pre-COVID needs (WFP, 2020). International trade, a key enabler to achieve the SDGs, has plummeted due to the ensuing lockdowns, transport restrictions, business closure, and adoption of trade barriers (UNCTAD, 2020). Finally, the Pandemic has undermined government's capacities to mobilize adequate resources for the SDGs (UN, 2021). Despite all these challenges, the COVID 19 pandemic offers an opportunity to refocus the development agenda around the core values of the SDGs: resilience, inclusiveness, sustainability.

TIER 2

Progress towards Strategic Objectives

For an effective, resilient and inclusive international trade, the trade finance gap, which widened amid the disruptions caused by the pandemic, need to be addressed. ITFC has contributed so far by extending around US\$55 billion in Islamic trade financing since its inception in 2008, out of which 37% were allocated to Least Development Member Countries (LDMCs). Intra-OIC export flows have been steadily increasing since 2016 from US\$254 billion to reach to US\$331 billion in 2019. Over the last three years, intra-OIC exports increased by more than 30%, which is a significant achievement. ITFC has been contributing to this trend by extending US\$ 40 billion of financing for intra OIC trade since its inception. In 2020 alone, ITFC provided US\$3.7 billion to finance trade between OIC member countries. Beyond financing, ITFC has fostered regionalization and intra-OIC trade through two flagship programs: The Arab Africa Trade Bridges (AATB) Program and the Aid for Trade Initiative for Arab States (AfTIAS).

TIER 3

Development Results

ITFC supported member countries mitigate the immediate effects of the Pandemic. In 2020, ITFC health financing reached US\$15 million, and benefited an estimated 62,000 patients, 2,500 health workers and 40 medical facilities. In addition, ITFC disbursed US\$484 million to import 1.1 million tons of wheat, 220 000 tons of rice, and 15 000 tons of sugar benefitting over 25 million households in Egypt, Suriname, Maldives, Mali, and Tajikistan, among other countries. ITFC energy financing provided over 8 million people with a reliable access to electricity. In parallel, ITFC supported economic recovery through restoring livelihoods and building resilience. The total amount of disbursed financing for MSME support equaled US\$373 million, benefitting an estimated 7,500 MSMEs across member countries. Over 600,000 farmers were targeted by ITFC pre-export and inputs financing. The value of cotton and groundnut exported to international markets by ITFC agricultural clients reached US\$360 million. Finally, around 309 individuals were trained through ITFC-supported trainings.

TIER 4

Operational and Organizational Performance

ITFC showed organizational resilience to navigate disruptions and deliver strong results. Trade finance approvals reached US\$4.7 billion across 80 deals while disbursements amounted to US\$4.1 billion. Out of every three dollars approved by ITFC, two were mobilized from other investors and institutional partners. In terms of sectoral allocation, the energy sector remains predominant with 67% of total approvals, followed by the food and agriculture sector, representing 15% of total approvals. ITFC disbursements to LDMCs amounted to US\$1.2 billion, benefitting nine countries. The Corporation allocated 57% of disbursements in Africa. Around US\$1.3 million were mobilized for the implementation of trade development interventions. As part of IsDB Group COVID 19 response, ITFC approved US\$605 million towards facilitating the procurement of emergency medical equipment and supplies, as well as strategic commodities.

SUSTAINABLE DEVELOPMENT GOALS

ITFC's Contribution to the SDGs



SDG 1 NO POVERTY

There is abundant evidence from literature showing how the rise of trade has led to a decrease in global poverty (World Development Report, 2020). Trade, as a driver of sustainable economic growth, contribute to the achievement of Goal 1, which focuses on ending poverty in all its forms.

US\$240 MILLION

worth of income redistributed to smallholder farmers

US\$4.1 BILLION

of trade finance disbursed to support international trade



SDG 2 ZERO HUNGER

SDG 2 calls for ending hunger and all forms of malnutrition by 2030, while doubling the agricultural productivity and income of small-scale food producers. ITFC support farmer's incomes by providing pre-export financing in the agriculture sector and supports member countries' food security by financing the import of essential commodities.

US\$776 MILLION

disbursed for the food and agriculture sector

OVER 25 MILLION

households benefitting from food financing

AROUND 600,000

farmers benefitting from ITFC financing and capacity building in agriculture



SDG 3 GOOD HEALTH AND WELL-BEING

Sustainable Development Goal 3 seeks to ensure health and well-being for all, at every stage of life. It addresses all major health priorities. It also calls for more research and development, increased health financing, and strengthened capacity of all countries in health risk reduction and management.

OVER 62,000 PATIENTS, 2,500 HEALTH WORKERS
and **40 MEDICAL FACILITIES** benefitting from ITFC financing



SDG 4 QUALITY EDUCATION

Through its trade development program and capacity building activities ITFC provides youth and adults with relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship.

309 PEOPLE

trained in Islamic Trade Finance

6

Integrated Trade Solutions



SDG 7 AFFORDABLE AND CLEAN ENERGY

Goal 7 calls for ensuring universal access to affordable, energy services and increase substantially the share of renewable energy in the global energy mix. ITFC ensure the sustainable supply of energy inputs for member countries and support their efforts to enhance their energy mix.

US\$2.7 BILLION

extended to the supply of energy inputs

OVER 8 MILLION

households provided with access to electricity



SDG 8 DECENT WORK AND ECONOMIC GROWTH

Trade fuels economic growth and most member countries aim for an export-led growth. ITFC's strategic focus is to contribute to the economic diversification of its member countries (Target 8.2) and increase Aid for Trade support for developing countries, in particular least developed countries (Target 8.A).

OVER 50,000

jobs supported within client institutions

US\$3.7 BILLION

of Intra-OIC trade financing



SDG 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

ITFC supports the private sector, in particular SMEs, through lines of financing. The support increases the access of small-scale industrial and other enterprises to financial services, particularly in developing countries. This includes affordable credit, and the SMEs' integration into value chains and markets (Target 9.3)

US\$373 MILLION

of financing extended to 29 Private Sector clients and partner banks

7,500 MSMEs

provided with access to financing



SDG 10 REDUCE INEQUALITIES

SDG 10 encourages official development assistance and financial flows, including foreign direct investment, to States where the need is greatest, in particular least developed countries. This is in line with ITFC commitment to allocate resources on regions where the need is greatest, in particular least developed countries (SDG 10.b).

US\$1.2 BILLION

disbursed towards LDMCs

5%

Financing up in Sub-Saharan Africa

1 MILLION

worth Grants allocated targeting the most vulnerable



SDG 17 PARTNERSHIPS FOR THE GOALS

ITFC's vision is to be recognized as a catalyst, network builder and facilitator of trade. The Corporation contributes to the bridging of the SDG financing gap through mobilizing financial resources for developing countries from multiple sources (Target 17.3). For every US\$5 approved by ITFC, US\$4 are mobilized from external resources (SDG 17.3).

US\$4.7 BILLION

of total financing approved

US\$360 MILLION

of agriculture export value pre-financed by ITFC

US\$3.3 BILLION

of trade finance mobilized from Syndicate Partners

US\$1.4 MILLION

of co-financing for trade development projects



Advancing Trade, Improving Lives

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2020 WAS A YEAR OF OPPORTUNITIES WITH DISRUPTIONS AFFECTING OUR DAILY ROUTINE, BRINGING OUT THE BEST IN US AND LEADING US TO INNOVATE. MORE IMPORTANTLY, IT WAS A YEAR TO REFLECT ON THE FUTURE WE WANT AND WHAT ROLE WE WANT TO PLAY IN ACHIEVING IT.

Eng. Hani Salem Sonbol, Chief Executive Officer, ITFC

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