



ISLAMIC TRADE FINANCING

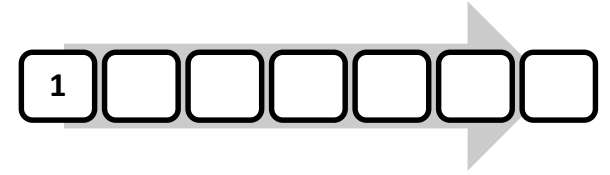
MR. DAUD VICARY ABDULLAH
PRESIDENT & CEO
INCEIF

17th MAY 2016

AGENDA

1. **CHALLENGES FOR ISLAMIC FINANCE**
2. **WHAT NEEDS TO HAPPEN?**
3. **STATE OF GLOBAL TRADE**
4. **WHAT IS ISLAMIC TRADE FINANCE (ITF)?**
5. **THE CURRENT STATE OF ISLAMIC TRADE FINANCE**
6. **SHARIAH ISSUES ON ISLAMIC TRADE FINANCE**
7. **CONCLUSION**

Challenges For Islamic Finance



Education

Enhance expertise ; Wealth Management, Sharia'h and Investment Advisory Services



Perception

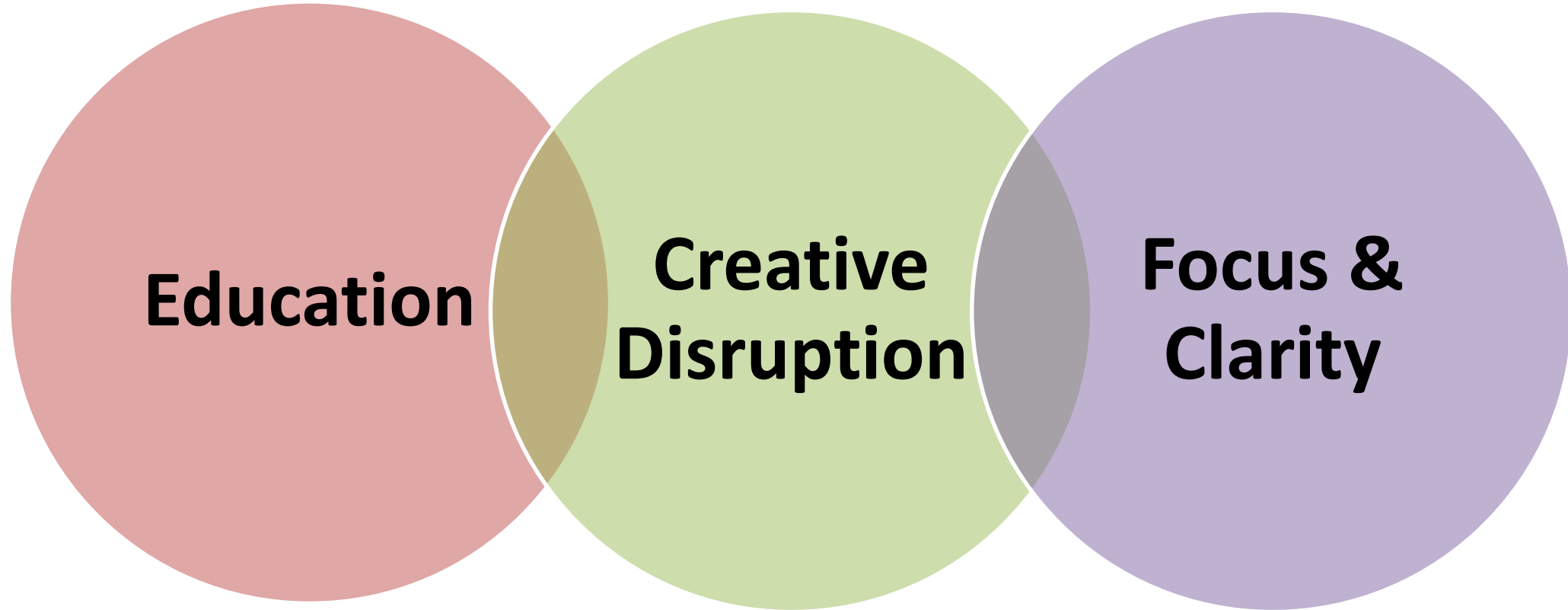
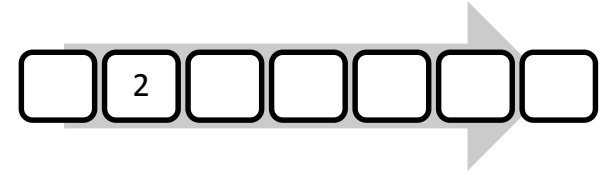
Encourage right and comprehensive understanding



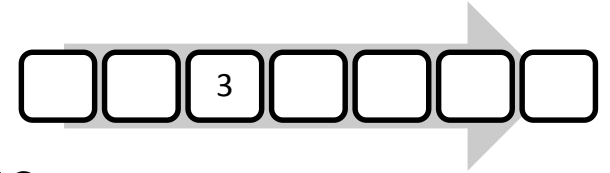
Liquidity

Provide sufficient cross-border Liquidity

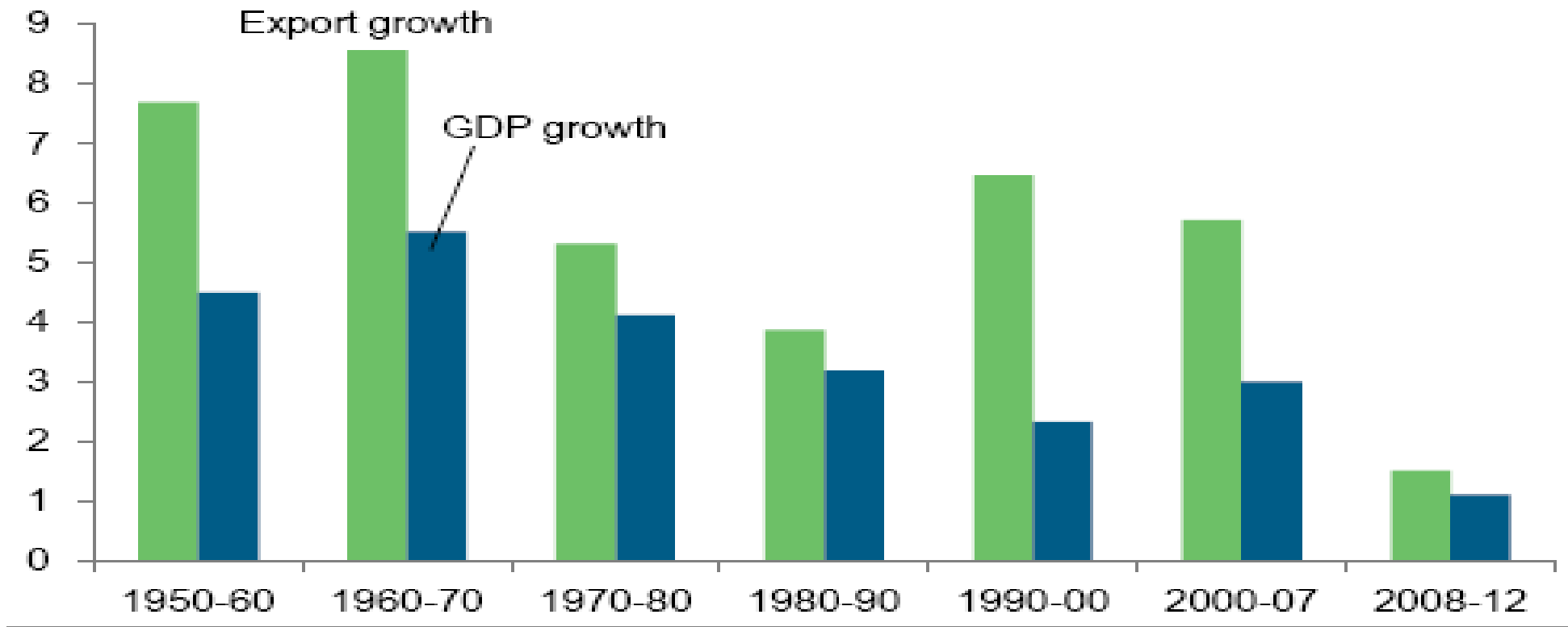
What needs to happen?



State of Global Trade

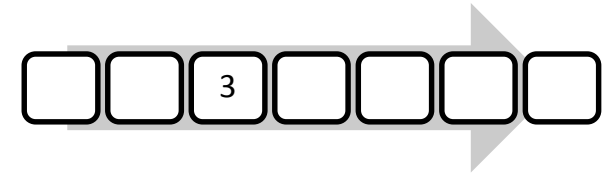


World Trade has historically grown faster than GDP (1950-2012.volumes.% v/v)



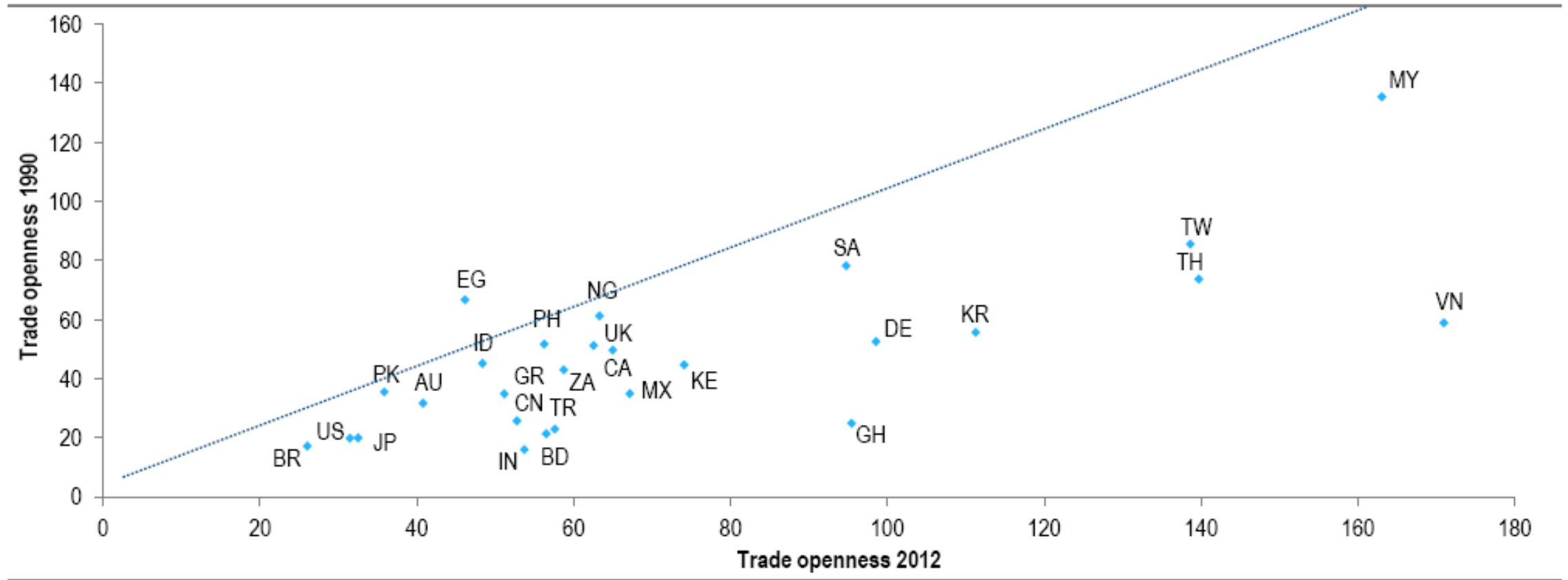
Source: WTO, Standard Chartered Research

State of Global Trade



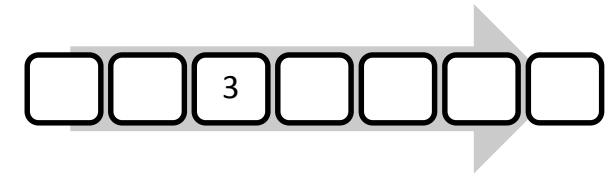
Almost every country has become more open since 1990

Exports plus imports as % GDP, 1990 and 2012

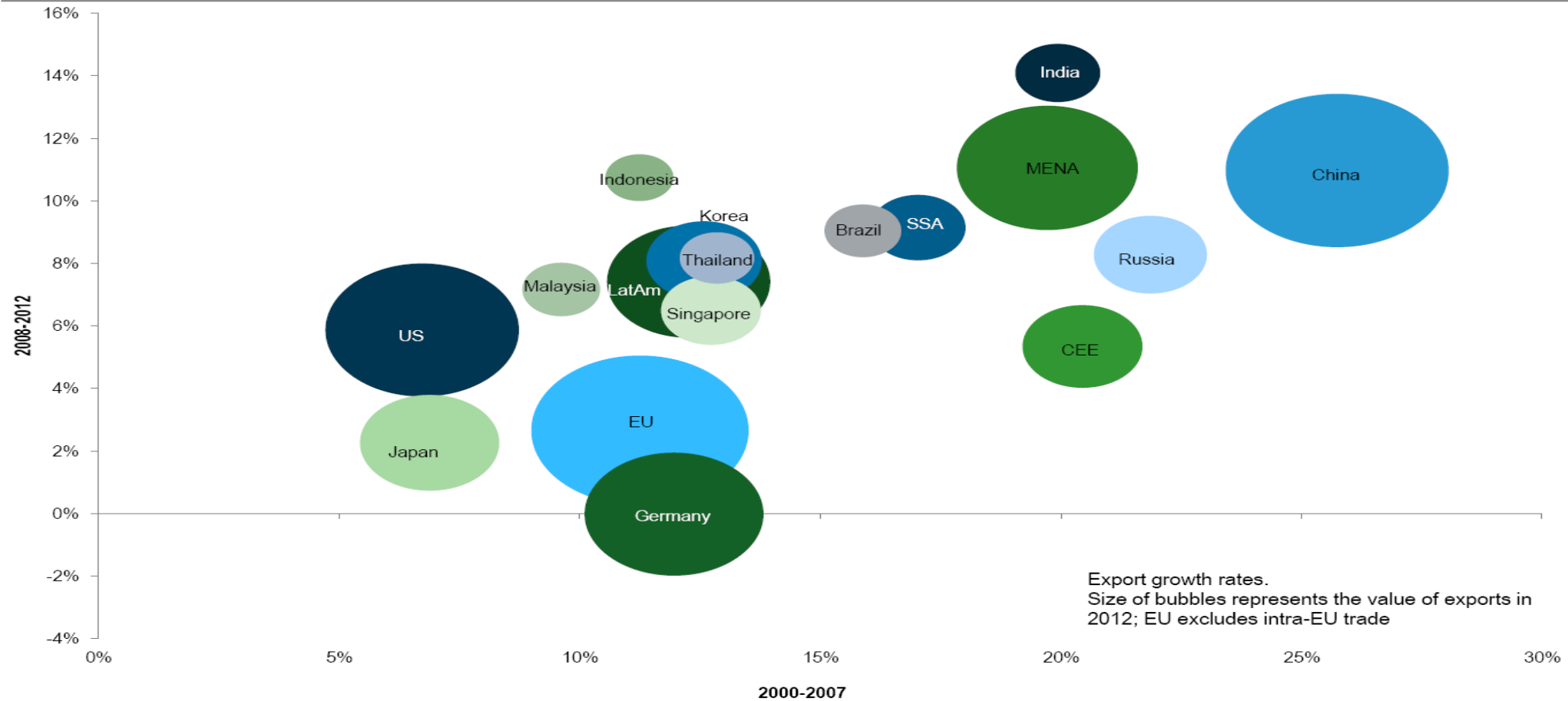


Source: IMF DOTS, WEO, Standard Chartered Research; Note: HK and SG were excluded

State of Global Trade

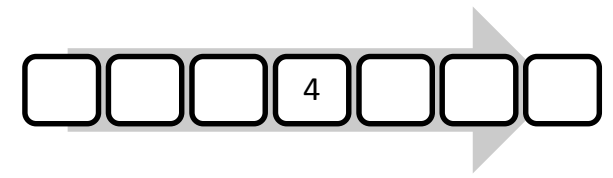


Emerging markets lead trade growth

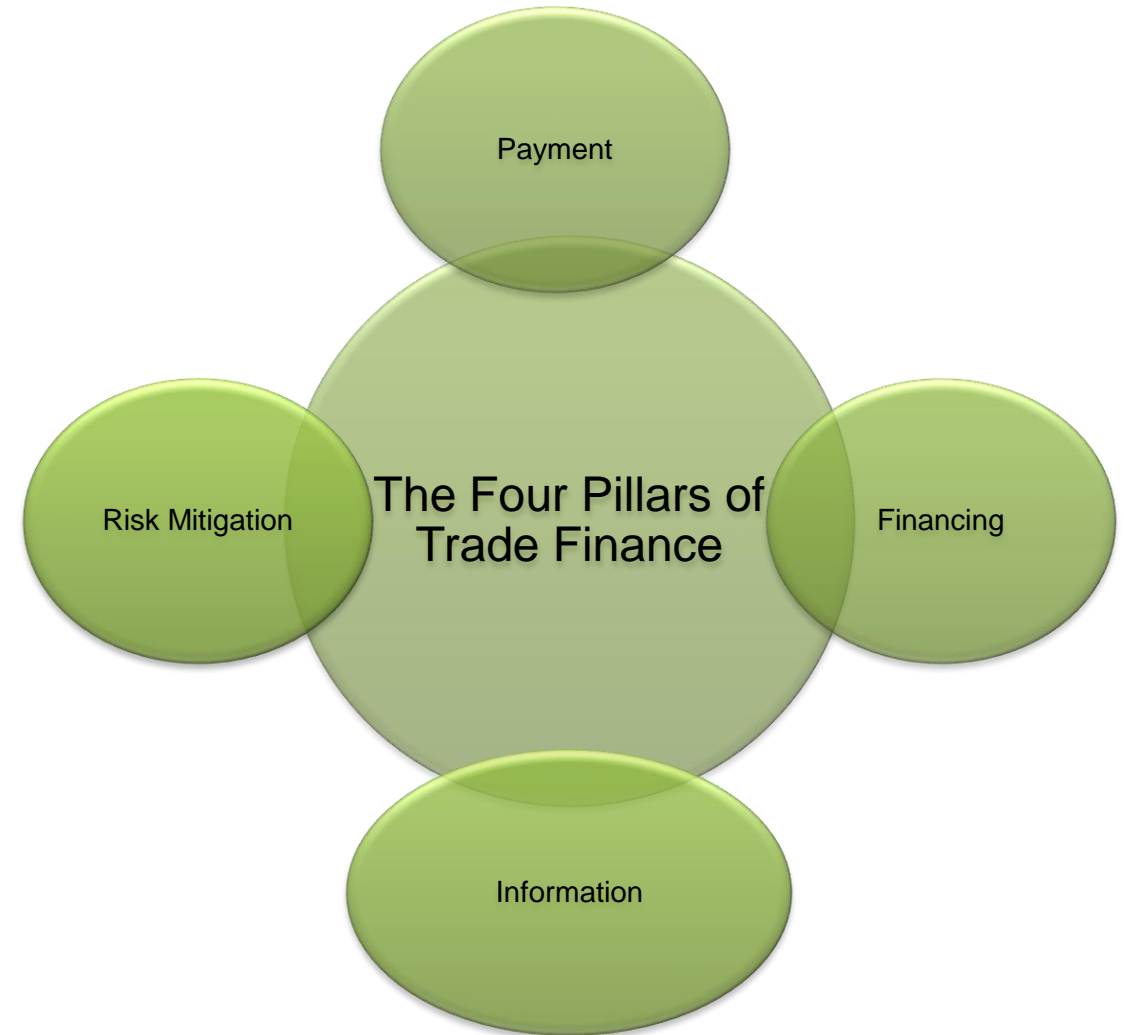


Source: WTO, Standard Chartered Research

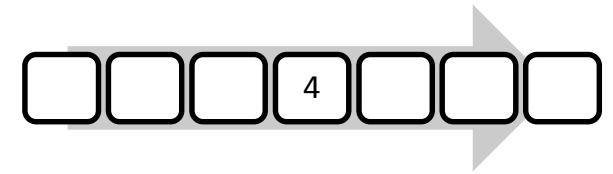
What is Trade Finance?



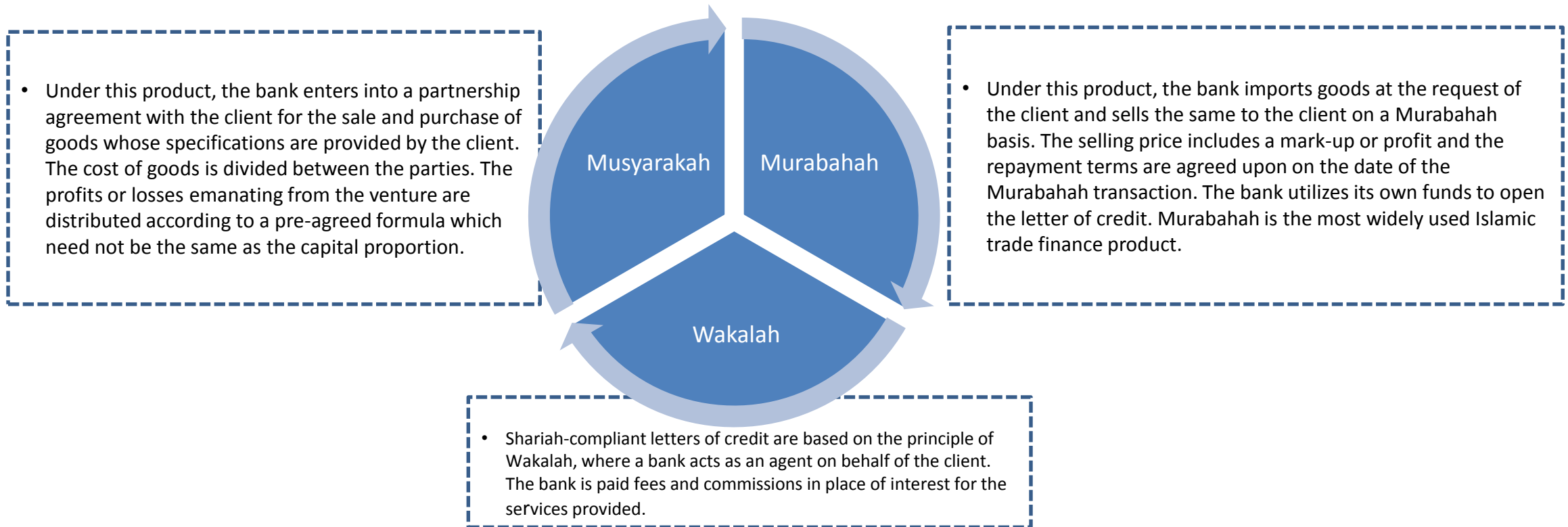
- Trade finance is a specialised area of finance that deals with short-term financing of import and export transactions.
- In an interest-based environment, trade transactions are financed exclusively through credit, even if it is tied or untied to the commercial transaction. Meanwhile in Islamic economy, since *riba* is prohibited, the trade operation may be financed through profit and loss techniques.
- Fundamentally, trade finance comprises four aspects:
 - **Payment facilitation:** Enabling and facilitating payment across the globe.
 - **Financing:** variety of opportunities for financing across the lifespan of a transaction
 - **Risk mitigation:** trade finance instruments and services are used to manage risks
 - The provision of **information** about the status of payments of shipments



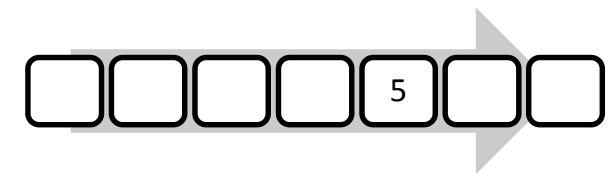
What is Islamic Trade Finance?



- Islamic trade finance has benefitted from shifting preferences towards Shariah-compliant banking and could serve as one of the key growth drivers to help the nearly USD2 tn Islamic finance industry double in size.
- Among shariah principles which are commonly used in the Islamic trade finance instruments are:

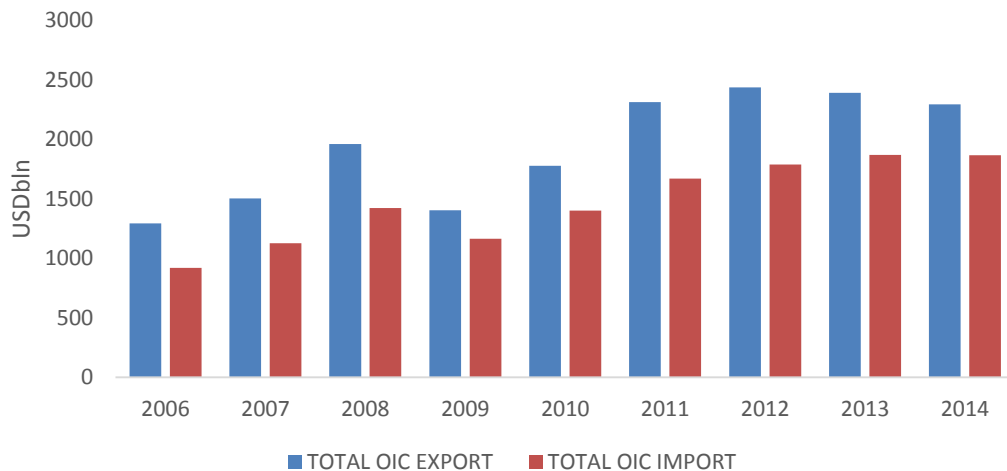


The State of Intra-OIC Trade

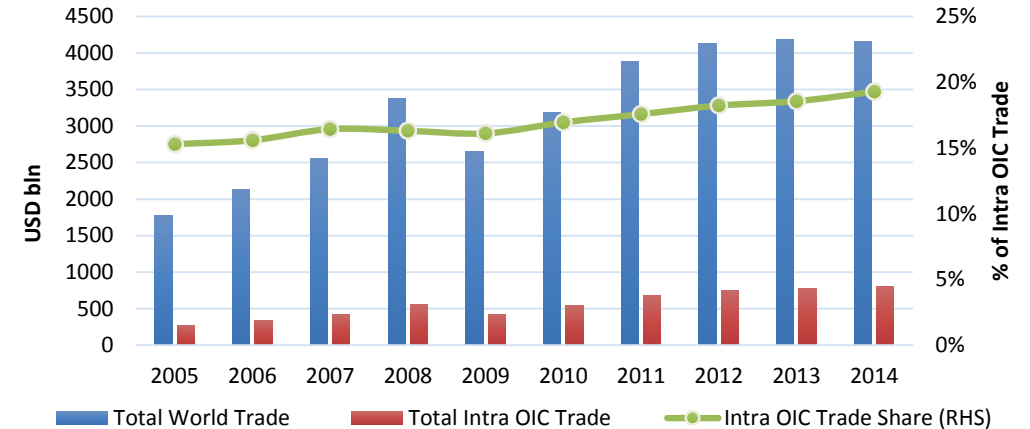


- Islamic trade finance is one of the forms of trade by the Organisation of Islamic Conference (OIC), especially intra-OIC
- Trade among the OIC Member States recovered strongly in 2010 after the global crisis.
- According to ICDT database, the Intra OIC Trade increased sharply in the following years and peaked at USD802.3bln in 2014.
- In 2014, total intra-OIC trade accounted for 19.2% of total world trade (2013: 18.55%).

Total OIC Exports and Imports (USD bln)



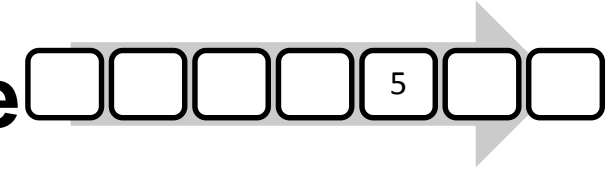
Foreign Trade of the OIC Member States between 2005-2014 (USD bln)



- The total OIC trade recorded a steady increase until the global economic crisis in 2008. The positive trend was mainly driven by the dramatic increase of exports of the relatively high trading member states such as Malaysia, Turkey, Indonesia., Saudi Arabia and United Arab Emirates
- In 2012, total OIC trade which reached to USD 4.2tln continued to grow but at a modest pace with 6.1%. This was mainly due to the slowdown in global demand, ongoing political transition in many countries in Middle East and falling non-fuel commodity prices.
- Due to the decline in total OIC trade, the increase in total OIC trade remained sluggish by 1.0% in 2013.
- In 2014, total OIC trade fell by 2.4% from USD4.2tln to 4.16tln.

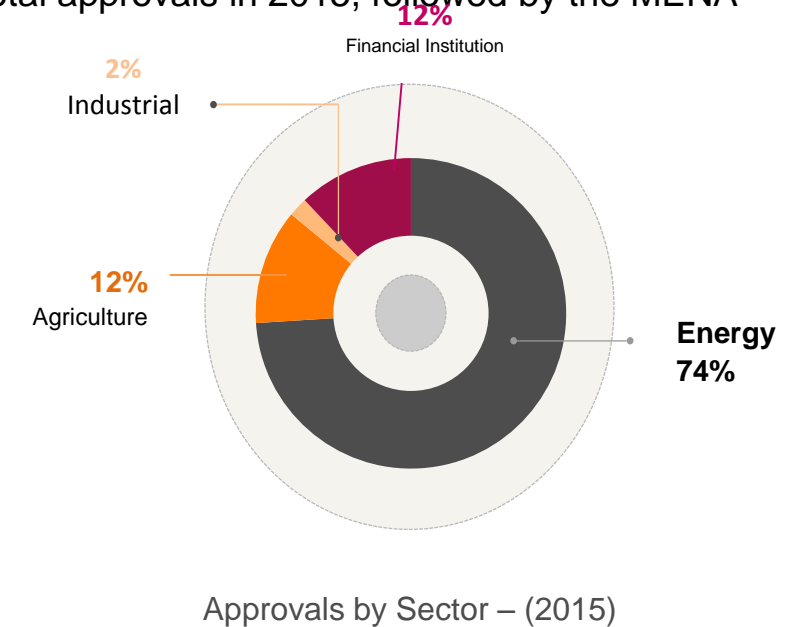
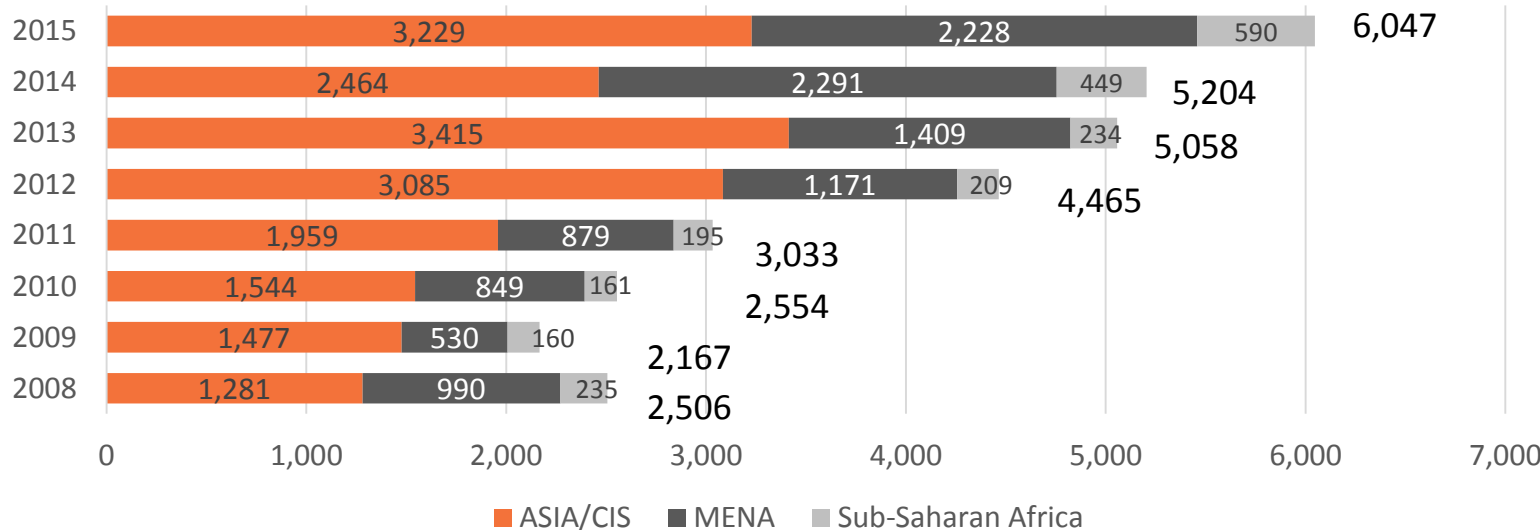
Sources: WTO, ITFC Annual Report 2014, ICDT 2014

The Current State of Islamic Trade Finance

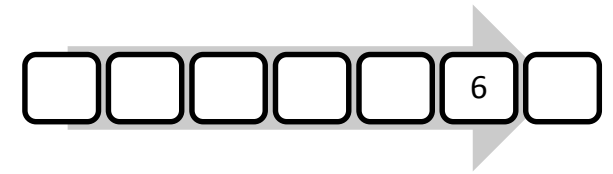


- The Islamic Development Bank (IDB), the leading multilateral development agency has been supporting Islamic Trade Finance for over 40 years.
- One major IDB's initiative on the trade front is the setup of International Islamic Trade Finance Corporation (ITFC), which brings all the trade financing activities hitherto conducted by the various windows of the IDB, under one entity. According to ITFC, a non-government entity who is promoting Islamic trade finance, it has approved trade transactions worth of USD6.05bln in 2015, reflecting 16% growth from USD5.2bln in 2014.
- Based on the ITFC annual report, the Asia/CIS region held the largest share (53%) of the total approvals in 2015, followed by the MENA region (36%) and Sub-Saharan Africa (9%).

Trade Approvals by Region (US\$ Mln)

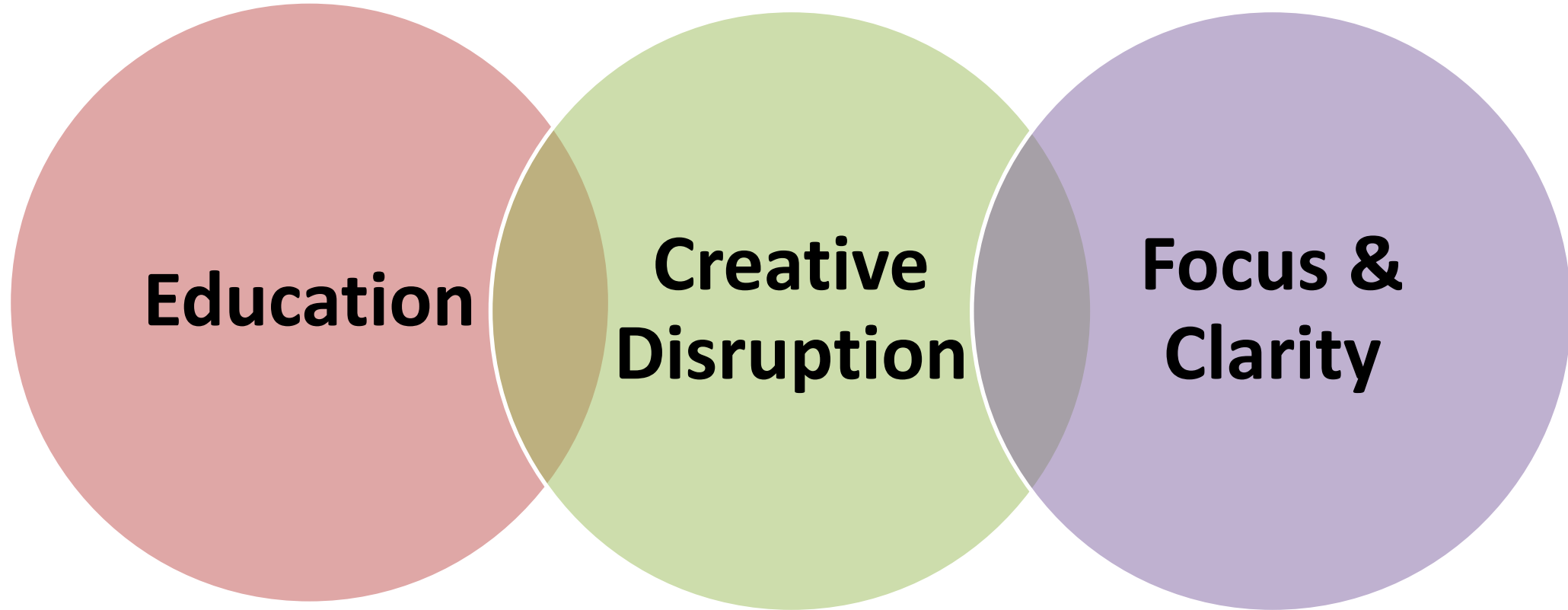
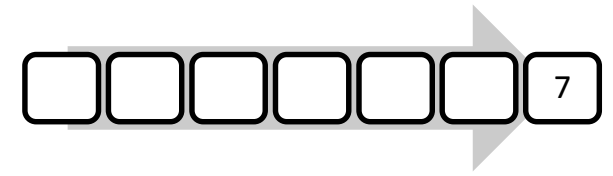


Shariah Issues on Islamic Trade Finance



Type of ITF Instruments	Shariah Issues:
Islamic Trust Receipt (ITR)	Interest Payment: There is a <i>Shariah</i> issue in the ITR under the Red Clause LC in which it authorizes the advising or confirming bank to advance a certain amount of money to the beneficiary/seller before presentation of the stipulated documents in the form of overdraft or advance payment. The bank lends out funds to pay for the customer's imports. Interest is charged to the customer for the duration the loan is availed and is calculated using the simple interest formula, on a daily rest basis. The customer is required to pay the principal and interest at the end of the period, i.e. the maturity date of the ITR.
Islamic Shipping Guarantee (SG)	Ujarah and Kafalah: The majority of past Islamic jurists were of the view that the charging of fees on kafalah is not permissible. This view is based on the argument that a kafalah contract falls under <i>`uqud tabarru`at</i> which is voluntary and benevolent in nature. Hence, no fee is to be charged.
Islamic Accepted Bills (IAB)	Interest Payment: Islamic Accepted Bill (IAB) is a bill with a certain face value issued by an Islamic bank to the customer at a discount. The discounted value of the bill is credited to the customer's account while the customer pays back the face value at the maturity date. This triggers interest payment Bay'Dayn : The holder of the bill, i.e. the bank can sell the bill to the third party at a price not less than the cost. Such sale is based on the bay' al dayn contract. Bay' al dayn refers to the sale of a debt arising from a trade transaction with a deferred payment.

Conclusion



Thank You



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