



PROMOTING AGRI-FOOD TRADE AND INVESTMENT AMONG MEMBER STATES OF ISLAMIC ORGANISATION FOR FOOD SECURITY

DRAFT FRAMEWORK OF ACTION

Introduction

The promotion of trade among member states of OIC has always received greater attention of the decision-makers and member states of the Organisation of Islamic Cooperation (OIC). Trade is considered a crucial component for intra-OIC socio-economic cooperation and development, as it contributes to poverty eradication, wealth creation, employment generation and greater economic welfare. The provisions of the OIC Charter and other multilateral framework documents have underscored the primacy of intra-OIC trade within the realm of OIC socio-economic cooperation. The Ten Year Programme of Action (TYPOA), adopted during the 3rd OIC Extraordinary Summit held in Makkah Al-Mukarramah in December 2005, specifically set a target of attaining 20% of intra-OIC trade by 2015. The successor programme of TYPOA, named OIC 2025 Programme of Action and adopted at the 13th OIC Summit held in Istanbul, Turkey in April 2016, set out to realise 25% of intra-OIC trade in 2025.

2. Hitherto, the establishment of the Islamic Center for Development of Trade as a subsidiary institution of OIC based in Casablanca, Kingdom of Morocco in 1981 was aimed at ensuring the promotion and facilitation of trade among OIC member states, exchanging research and data and assisting member states to increase their competitiveness and develop their productive capacities. Subsequently, the elaboration of various multilateral agreements such as the General Agreement on Economic, Technical and Commercial Cooperation (1977), the Agreement on Promotion, Protection and Guarantee of Investments (1981), and the Framework Agreement on Trade Preferential System (1990) have provided the required legal frameworks for promotion of trade and investment among OIC member states.

3. With the advent of the Islamic Organisation for Food Security (IOFS), which statute was adopted by OIC Council of Foreign Ministers (CFM) on 11 December 2013, the task of intra-OIC trade relations in the agri-food sector has now devolved upon this OIC specialised institution. Accordingly, all the multilateral instruments would now be applicable for the purposes of promoting trade and investment cooperation among its member states in the domain of agriculture, rural development and food security. Above all, active trade exchanges are expected to bridge the food trade gap of almost US\$67 billion recorded in 2018, which have continued to deepen food and nutrition insecurity within the OIC space, particularly when the staggering figures on food waste and post-harvest losses are added thereto.

4. This Draft Framework of Action would guide the activities of IOFS on trade and investment promotion within the realm of agri-food, using the basic tools already adopted by OIC, while also drawing from global best trade and investment practices.

Trade in Food Products

5. The increase in the volume of intra-OIC trade from US\$539 billion in 2010 to US\$644.3 billion in 2017¹ is a positive development following recovery from the triple food, energy and financial crises of the preceding biennium. However, OIC aggregate imports in 2017 stood at US\$249 billion, while its exports amounted to US\$ 143 billion, thereby posting a trade deficit of US\$106 billion in the same year². Accordingly, while intra-OIC food exports rose from US\$66.2 billion in 2016, intra-OIC imports fell from 27% in 2016 to 23.2% in 2017³. On the whole, OIC food exports in 2018 amounted to US\$117.2 billion in 2018, as against food imports valued at US\$ 184.2 billion, creating a food trade gap of almost US\$67 billion.⁴ With food constituting the most significant category of OIC imports, top exporters to the OIC in 2017 were all non-OIC countries: Brazil led by \$18.3 billion, followed by USA (\$12.9 billion), India (\$12.6 billion), Russia (10.0 billion) and Argentina (\$9.5 billion)⁵.

Top Food Importers and Exporters of OIC Countries – 2018 (\$ thousand)

Importing Markets		Exporting Markets	
China	8,528,272	Brazil	16,558,919
India	7,942,803	United States of America	14,672,855
United States of America	7,172,141	India	13,279,214
Netherlands	5,911,846	Russian Federation	11,549,702
Spain	4,255,258	China	8,564,506
Russian Federation	4,084,663	Argentina	8,451,940
Singapore	3,345,200	Indonesia	7,460,554
Italy	3,331,530	Thailand	6,946,927
Germany	3,249,471	France	6,927,573
Iraq	3,195,920	Ukraine	6,808,515

Source: ITC - Trade map

6. Although the OIC intra-trade target of 20% was attained in 2015, judging from the recorded intra-OIC trade volume of 20.33%, the recorded decrease in this figure to 18.65% in 2016 and 19.82% in 2017 indicates that efforts have to be intensified to avoid further decline of intra-OIC trade exchanges.

Obstacles to Intra-OIC Trade

7. The major obstacles to intra-OIC food trade can be traced to the following issues:

¹ ICDT Annual Report on Trade Among OIC Member States, 2018, pg.17

² ITC Trademap. 2018 by COMCEC, 2019

³ ibid

⁴ ITC Trademap as cited in COMCEC, 2019 pg.50

⁵ COMCEC, 2019, pg.135

Logistics and high cost of transportation

8. The high cost of transportation of goods from one country to another and within a given country hinders the competitiveness of OIC products. This situation affects all modes of transportation, including land, sea and air transportation. This constraint is also exacerbated by the presence of twelve (12) landlocked countries within the OIC space, which require long transit movement of goods. The inadequate communication and telecommunication services has also affected the ease of doing business in OIC member states.

9. Available statistics on the transport sector (road transport, rail transport, sea transport, air transport) in OIC member states show a low capacity level of this important sector in these countries as a group. For example:

- Road transport capacity: the average road length for 1000 people living in the OIC member states is calculated as 2.3 km, which compares poorly to the world average of 5.1 km.
- Rail transport capacity: the average length of railway serving 100,000 people is only 6.9 km within the group of OIC countries while the world average is 16.4 km – more than double that of OIC countries.
- Air transport capacity: the number of domestic and international passengers carried by aircrafts registered in the OIC countries is calculated as 397.7 per 1000 people, which is below the world average of 456.7 passengers.
- Sea transport capacity: the total container throughput per 1000 people in OIC countries is measured at only 76.5 tonnes, compared to the world average of 101.4 tonnes⁶.

10. In recent times, OIC anchored its economic cooperation with Central Asian member countries on supporting multiplication of rail transit corridors within the sub-region, while supporting the multi-modal transport corridor between Dakar and Port Sudan in collaboration with the African Union as well as the Trans-African Highway, aimed at facilitating ease of doing business in the African sub-region.

11. Similarly, developing adequate transport infrastructure in OIC Member States remains a strategic priority for IDB. As of 2015 the amount of IDB's total approvals for transport sector projects in OIC Member States reached US\$ 11.7 billion. One of these projects is the Arlit-Assamaka road project in Niger, which is a critical section of the Trans-Sahara highway that runs from the Mediterranean coastline in Algeria to the Atlantic coastline in Nigeria. Other projects featured the Kazakhstan-Turkmenistan-Iran railway project, which is part of the North–South Transport Corridor; the reconstruction of the Taraz–Talas–Suusamyr Road in Kyrgyz Republic; Nema-Bassikounou road in Mauritania; and Pendembu-Kailahun road project in Sierra Leone, among others.

Financial Exclusion

12. Non-access to capital and finance by Small and Medium Enterprises in the agri-food sector poses a greater constraint to trade in most OIC member states. With the considerable proportion of unbanked persons residing in the Muslim World, effective initiatives must be taken to

⁶ See SESRIC report titled “Transportation Networks in the OIC Member States: Impact on Trade and Tourism”, SESRIC Publications 2016.

popularize Islamic banking and financial products, thereby improving access to investible resources. Fortunately, there is a noticeable growth in Shariah-compliant finance in both the equity and capital markets. The Islamic Research and Training Institute (IRTI), one of the Islamic Development Bank (IsDB)'s subsidiaries stated that the number and size of Shariah-compliant funds have increased from 13 in 1996 and 150 in 2000 to over 400 by 2006, involving more than US\$300 billion⁷.

13. Similarly, the Islamic Equity Market, as listed by the Dow Jones Islamic Market Index (DJIMI), put the value of market capitalization of Shariah-compliant stocks in Bahrain, Malaysia and Pakistan at about US\$104 billion in 2004, with a projection of an OIC-wide capitalization estimated at US\$300 billion in 2006.

14. In the same vein, the issuance of the Sukuk (Islamic bonds), which started in 2001-2002, has by the end of 2007 has reached US\$18.52 billion within six years recording a growth rate of 517% for sovereign Sukuk and 1242% for corporate Sukuk. Recently, Malaysia recorded an impressive performance in its contribution to Islamic financing through a growth rate of 8.3% in 2019, surpassing conventional banks' loans growth of 1.6%, thus bringing the share of Islamic financing to the total system loans to 35% as against 27% in 2015⁸. Similarly, the Government of Nigeria issued its second Sovereign Ijara (leasing-based) 7-year Sukuk in 2018 to finance road projects with a massive popular response. On their part, countries in the Gulf Cooperation Council (GCC) region, Malaysia, Indonesia, Turkey and Pakistan issued Sukuk totaling US\$ 42.2 billion in 2019, up from US\$39.8 billion in 2018⁹.

15. The problems inherent in pre-financing of goods, obtaining insurance cover, export guarantees and foreign exchange approvals are issues bearing of trade facilitation that have proved very cumbersome within the OIC region. To this end, the establishment, within the Islamic Development Group of International Islamic Corporation for Insurance of Investments and Export Credits (ICIEC) and the International Islamic Trade Finance Corporation (ITFC) are aimed at addressing this major constraint. It is instructive that Islamic trade finance industry was estimated at only \$186 billion in 2016 out of a global finance industry valued at \$12.3 trillion in 2016¹⁰. global trade finance

Paucity of Intra-OIC and Foreign Direct Investments

16. The role of foreign direct investment (FDI) in fostering economic growth, industrialization, employment generation and wealth creation in OIC member states cannot be over-emphasised. This is given the need to complement available local resources within the OIC, which has twenty-two of its 57 member states belonging to the Least Developed Countries (LDC). However, efforts must be intensified at both local, national and regional levels to attract foreign direct investments to OIC member states, which accounted for only 13.9% of the world figure in 2018. This unfavourable situation is also compounded by the steady dwindling of Official Development Assistance (ODA) flows to OIC member states from developed countries.

⁷ Enhancing the Role of Sukuk in Agriculture Sector Financing in Indonesia: Proposed Models, IRTI, IsDB, 2008.

⁸ Salaam Gateway, 05 March 2020- Press Release.

⁹ Fitch Ratings, Dealogic

¹⁰ Shariah-compliant Trade Finance: Developments and Opportunities. Report Salam Gateway. April 12, 2017.

17. Attracting FDI to OIC member states requires the provision of enabling policy, legislative, institutional and financial environments at all levels, including local, national and regional. To this end, the OIC Agreement on Promotion, Protection and Guarantee of Investment was approved in 1981 and has continued to address the various issues bearing on investment promotion and protection, in line with global standards. This includes the existing ad hoc mechanism for settlement of investment disputes, which is vested in the OIC Secretary-General and the on-going efforts at establishing a permanent dispute settlement mechanism.

18. In addition to the foregoing, the role of the Private Sector is very crucial to fostering investment and access to credits. The public-private partnership can be greatly developed, given a transparent investment climate with clear regulatory framework on the national front. The various companies offering advisory services can generate the confidence required for investment flows. The introduction of sukuk and other Sharia-compliant financial instruments would stimulate growth in the financial sector, even as private resources, new crowd-funding mechanism, and rural credit funds are channeled into the productive sector. To this end, the creation in 1977 of the Islamic Chamber of Commerce, Industry and Agriculture (ICCIA), as an umbrella federation of national chambers of commerce in OIC member states, was aimed at mainstreaming the role of the Private Sector in promoting joint venture activities, trade and investment, and indeed wider advocacy for free trade and private-sector led economic growth and development.

Tariff and Non-Tariff Trade Barriers

19. The problems of quantitative and qualitative restrictions to free trade have also constrained access to OIC markets. Most OIC countries, especially the Least-Developed Countries depend on import duties for revenue generation, with a view to shoring up their raw-material dependent economies and public finance. To this end, taxes and tariffs are levied on imports of goods and services, while efforts to eliminate tariff barriers to trade are always met with resistance. The OIC Framework Agreement for Trade Preferential System (TPS-OIC) adopted in 1990 has received only conditional support of OIC member states due partly to import-dependent revenue profile and partly due to their membership of regional free trade areas and customs unions. The task before OIC is to encourage member states to operationalize the TPS-OIC and its two related agreements, namely Protocol on the Preferential Tariff Scheme for TPS-OIC (PRETAS)- 2005, and Trade Preferential System- Rule of Origin (TPS-RoO), so that intra-OIC exports can enjoy better access to OIC 1.5 billion-strong market.

Technical Barriers and Halal Food Standards

20. Considering the need for OIC member states to develop common standards that would ease export of goods and services within the OIC region, the Standards and Metrology Institute for Islamic Countries (SMIIC) was established with a view to encouraging collective but progressive development and application of common standards for goods and services. Furthermore, food safety requirements for exports and phytosanitary issues are very crucial in the food industry. The global Halal market is progressively getting vibrant, in view of the shift in perception that the industry deals only with slaughtering of animals and exclusion of alcoholic and pork products. The market, which now includes pharmaceuticals, cosmetics, fashion and indeed tourism, was valued at US\$436.8 billion in 2016. According to “Global Islamic Economy”,

the Muslim consumer spending across the Halal food and lifestyle in 2014 was valued at US\$1.8 trillion, with prospects of reaching US\$ 2.6 trillion in 2020¹¹.

21. In this regard, Food Trade has presented a good opportunity for OIC member states to agree on unified Halal standards for exportation of Halal food and other derivatives to and from OIC member states. Efforts are underway to sanitise the entire Halal market, to remove the current confusion and overlapping regulatory functions. At best, a mutual recognition of Halal certificates should be agreed upon by all stakeholders in the Halal market. IOFS is currently collaborating with such stakeholders as SMIIC, Association of South-East Asian Nations (ASEAN) and International Halal Accreditation Forum (IHAF) to ensure a healthy regulatory and capacity development environment in the Halal market.

Trade in Agri-food Commodities

22. The most convincing argument for rewarding trade relations among OIC member states is the complementarities existing among OIC member states in their food systems. This high level of interdependency is depicted in the food exports and imports matrix within the OIC space. While Pakistan, Kazakhstan, Turkey, Egypt and Oman constitute the five largest exporters of cereals within the OIC, Algeria, Indonesia, Egypt, Iran and Saudi Arabia account for the largest importers of cereals. With regard to dairy products, Saudi Arabia, Iran, Turkey, UAE and Malaysia are the five largest exporters, while Malaysia, Algeria, Indonesia, UAE and Saudi Arabia are net importers of these products.

23. Similarly, Turkey, Egypt, Iran, Morocco and Pakistan are the largest exporters of fruits and vegetables within OIC, while Kazakhstan, Indonesia, Malaysia, Saudi Arabia and UAE are the largest net importers of these food products. As for meat products, Turkey, Saudi Arabia, Pakistan, UAE and Jordan constitute largest exporters among OIC member states, while Malaysia, Iraq, Egypt, UAE and Saudi Arabia are also net importers¹².

24. Given this above-mentioned scenario, trade promotion and trade facilitation in the food sector would increase the volume of trade exchanges among OIC member states, if executed in tandem with the policy of increasing the productive capacities of countries with greater potentials for development of their strategic trade-enhancing food products.

Framework of Action

25. The major areas of intervention by IOFS to ensure the growth of the food trade subsector, in the short and medium terms, can be summarized as follows:

Implementation of OIC Trade-Related Instruments

26. The various OIC multilateral instruments for trade and economic promotion stipulates various national and international measures aimed at promoting trade and investment among its member states. In this regard, the following measures are recommended:

¹¹<https://www.grandviewresearch.com/industry-analysis/halal-food-market>

¹² SECRI Figure 2.14, pg.35

- (a) Signing, ratification and implementation of the General Agreement on Economic, Technical and Commercial Cooperation (1977). This Agreement has only been signed by 49 countries and ratified by 32 countries. The agreement provides, among other issues, for participation in the national trade fairs of member states;
- (b) Signing, ratification and implementation of OIC Agreement on Promotion, Protection and Guarantee of Investments (1981). This instrument has only been signed by 38 member states and ratified by 29 countries. Its provision on admission of foreign investors from OIC member states is very relevant to food trade relations;
- (c) Signing, ratification and implementation of Framework Agreement on Trade Preferential System (1990). This Framework Agreement has only been signed by 40 countries and ratified by 31 member states. The provision on elimination of tariff and non-tariff measures and granting of Most Favoured Nation (MFN) treatment for products from OIC member states is favourable to increased food trade exchanges among OIC member states.

National Food Trade Exhibition

27. IOFS/OIC member states are invited to encourage the staging of food and agriculture trade fairs with the active participation of fellow member states. This is in line with the provisions of the OIC General Agreement on Economic and Technical Cooperation and would ensure that member states are kept abreast of trade and investment opportunities in other OIC countries. The participation of the Private Sector Establishments of OIC member states, notably the Islamic Chamber of Commerce, Industry and Agriculture (ICCIA), would promote partnership among the various stakeholders in the food and agriculture sector of the OIC community.

IOFS Food and Agriculture Fair

28. IOFS/OIC member states are to resolve to stage OIC Food and Agriculture Fair/Investment Forum every two years on rotational basis. Member States are to volunteer to host these fairs, within the framework of peer solidarity and common economic objectives. This biennial activity will ensure regular interaction among all stakeholders in the food sector, including the public, private, local, community, farmers, pastoralists, youth and women, for better food market promotion. As much as possible, the fairs could be jointly by IOFS, Islamic Center for Development of Trade (ICDT) and ICCIA;

Islamic Financial Products for Investment Financing

29. There is the need to mainstream the application of Islamic financial products in OIC member states for the purpose of public and private financing of small and medium enterprises as well as the growth of smallholder farmers, youth and women empowerment. In this regard, the various Islamic financial instruments shall be popularized among the various segments of the OIC populations. The utilisation of Islamic financial products would address the constraints of financial exclusion as explained above, while easing access to some innovative financing mechanisms as Mudarabah, Musharakah, Ijara, Istisnah, and Sukuk, as well as the Islamic social finance tools, namely: Zakat, Wakf and Sadaqat, among others¹³.

¹³ Mudarabah is a form of partnership between a funds owner and a funds manager, while Musharakah is a joint venture investment. Ijarah is a leasing-based financing model, while Istisnah is a built-to-order contract. Sukuk is a

Food Trade Financing, Investment and Export Credits

30. The services of the various OIC institutions, notable ITFC, ICIEC and Islamic Corporation for the Development of the Private Sector (ICD) as well as national financing agencies within the OIC member states are required to ensure support for trade activities in the food sector, in collaboration with IOFS. In addition, member states shall promote regular contacts among their trade and investment promotion agencies for the purpose of export and investment promotion in the food sector.

Regulation of Halal Standards, Accreditation and Certification Procedures

31. IOFS member states require better national regulatory frameworks for the promotion of the Halal market, including livestock processing, cosmetics, pharmaceuticals and tourism. Awareness campaigns at the local and national levels are needed to popularize the Halal Food market, while ensuring that proper codification of standards and certification procedures within the national legislative environment. IOFS shall foster cooperation among its member states towards removing technical barriers to export and import of livestock and other food products, through harmonisation of standards and certification procedures. This would also include developing capacities of the various stakeholders in the Halal Food Market, including collaboration with local, national and regional standardization, accreditation and certification bodies to facilitate trade and consumption of livestock in the most wholesome and Shariah-compliant manner.

Food Processing and Post-Harvest Losses

32. Going by the extant recommendations on the viability of establishing the Islamic Food Processing Association (IFPA) as a private sector activity for addressing post-harvest losses and food waste, member states are invited to validate the proposal for the early take-off of IFPA, though mobilisation of the various OIC national Chambers of Commerce and other stakeholders in this subsector.

Food Safety and Phytosanitary Measures

33. Food Safety is defined as the absence, or safe, acceptable levels of hazards in food that may harm the health of consumers. Accordingly, food products must be free of any microbiological, chemical or physical hazards in nature, including those that are invisible to the plain eye: bacteria, viruses or pesticide residues are common examples¹⁴. To this effect, member states are encouraged support the developing of individual institutional capacities for food inspections, sampling and risk analysis and food security management, among others.

Value-Chain Approach to Development of Food and Strategic Agricultural Commodities

34. Support for development of productive capacities of member states should form the fulcrum of intra-OIC cooperation in the food sector. Middle-Income countries of the OIC, which are endowed in the production of some agri-food products are invited to assist other less endowed member states through technology transfer and triangular cooperation. The various

Shariah-compliant long term bond. Zakat is the compulsory poor tax, while Wakf is an endowment fund. Sadaqat is an Islamic gift.

¹⁴ FAO website

multilateral financial institutions both at national and intra-OIC levels should engage to support “reverse linkage” projects for active intra-OIC collaboration.

Transport Corridor Development and Telecommunication

35. The development of local, national and regional transport corridor is crucial to trade facilitation among member states. The same goes for telecommunication and technology transfer. To this end, member states shall participate in supporting transport corridor development in their respective states, while calling on national, corporate, regional and international partners to accord priority to projects in the transport and telecommunication sectors. A considerable attention would be placed on the development of the multimodal transport segment, including air, sea, rail and road transportation. Greater attention would also be placed on the development of the transport corridor in the twelve landlocked countries of the OIC, especially those in Central Asia and Sub-Saharan Africa.

Mainstreaming the Role of Private Sector

36. The role of the Private Sector in promoting trade and investment should be accorded due attention both for building productive capacity of member states in the food sector, including food trade promotion and financing. The various segments and social strata of the society must be mobilized for an inclusive and integrated approach to food trade and food security. The role of Civil Society Organisations and donor agencies is crucial to investment promotion and social entrepreneurship as well as good corporate social responsibilities. The role of community-based organisations, local councils, farmers and pastoralists as well as smallholder farmers are is very crucial in this regard.

Islamic Organisation for Food Security (IOFS)

12 March 2020