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LuxFLAG Newsletter

Ensuring peace of mind for microfinance investors



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Contribution from HRH Grand Duchess Maria Teresa of Luxembourg

I discovered Microcredit, when UNESCO named me Good Will Ambassador in 1997 thanks to Professor Muhammad Yunus. I was amazed by the efficiency of this tool in eradicating poverty. Since then, I share the conviction with many others, that Microfinance has an essential role to play in empowering and improving the livelihood of the impoverished, and have committed myself to be an active advocate of microfinance.

Therefore, when the Association of the Luxembourg Fund Industry (ALFI), chaired at the time by Mr Thomas Seale, initiated a task force that led to the creation of the Luxembourg Fund Labelling Agency a.s.b.l. (LuxFLAG) in July 2006, I was delighted to accept the Honorary Presidency of the Association. After three years in existence, this public-private partnership has proved to be a successful tool to encourage transparency and raise visibility of this relatively young sector.

The decision taken by ALFI, in association with LuxFLAG, to organise a major Microfinance conference in March 2010, to which I hope to attend, represents another deserving illustration of the commitment of Luxembourg to support a responsible Microfinance sector.

HRH Grand Duchess Maria Teresa of Luxembourg



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Editorial

Dear Reader,

Investing for development purposes continues to attract growing attention. The Luxembourg financial centre intends to diversify its activities in implementing or strengthening the mechanisms necessary for the further development of social responsible and microfinance investments.

LuxFLAG is committed to join any efforts that contribute to promote the investments for development purposes and its efforts to this end have recently been conclusive as a new microfinance label has been granted to another microfinance investment vehicle (MIV) - a SICAR - in October 2009.

Despite market conditions, these efforts must now be intensified. Interestingly, the demand for microfinance products remains strong. Recent facts suggesting further growth are the growing number of MIVs as well as their increasing size of assets under management. Then, MIVs show rather resilient to the current crisis and strive to become even more popular investments, targeting both social and financial performance.

Exempting microfinance investment funds from the annual subscription tax will be well perceived. The precedent phenomenon that Luxembourg has created for licensing MIVs and related service providers will be amplified by new MIVs choosing Luxembourg as their centre of excellence. The LuxFLAG microfinance label adds transparency and further visibility to this asset class.



In the same spirit, a new label for social responsible investment funds will sustain the LuxFLAG labelling activities in 2010.

Enjoy reading the second edition of the LuxFLAG newsletter.

*Daniel Dax,
General Manager
LuxFLAG*

LuxFLAG: Contributions from Associate Members

Kremer Associés & Clifford Chance

Microfinance has become a particular area of interest for Clifford Chance because it creates far-reaching possibilities for disadvantaged people who are beyond the reach of the traditional banking sector. It's an emerging field where models are still taking shape. It relies on microfinance institutions (MFIs) operating from a range of legal vehicles including NGOs, co-operatives, non-bank finance companies and banks. Demand for small loans greatly exceeds supply. To expand their scale and scope, MFIs need access to local currency loans from or supported by international commercial banks, who are critical intermediaries in the global flow of capital. There's a real need for skills like ours to streamline the process.

How? By standardising legal documentation and stripping out often-significant legal costs without compromising standards, so that lending to MFIs can become a sustainable part of the core business of the international commercial banks. But sometimes advice can make a big difference. On a more modest

scale, we also have many local initiatives that help disadvantaged people cope with financial challenges.

Amongst other initiatives, Clifford Chance has been advising Citi Microfinance on a pro bono basis on the development of standard documentation for use in lending to MFIs, both on a cross-border basis and on a basis of local laws and currencies. For this advice, which included the preparation of supporting documentation and opinions, Clifford Chance won the Financial Times awards for "Legal Innovation in corporate social responsibility" in 2007 and for the "Most Innovative European Law Firm" in 2008.

Clifford Chance also provides pro bono legal advice to charities and NGOs in the growth field of microfinance, a bridge between banks and the individuals, particularly in poorer parts of Asia, Africa and Latin America. For more information relating to Clifford Chance activities in the field of microfinance, please see our Corporate Social Responsibility Report 2009 or contact Joëlle Hauser.

Joëlle Hauser, Partner

LuxFLAG: Contributions from Associate Members

Degroof Gestion Institutionnelle Luxembourg

Experience, responsiveness, ethics, independence and innovation: the values of our group lead us throughout our history to guide our customers towards the achievement of their philanthropic and social goals, either in private banking or in fund administration, two of the core businesses developed by Banque Degroof Luxembourg over the last 20 years.

On the private banking side, our philanthropic team based in Brussels guides our clients towards a series of innovative solutions, including foundations, donations, investment in microfinance investment vehicles ("MIVs") and in socially-oriented companies located in developing countries etc. With regards to fund administration, the bank acts as custodian and central administrator for a series of ethical and green funds, and is currently working on various MIVs projects. Accompanying our institutional or HNWI clients in either setting-up MIVs or investing in them follows the path defined by our group since 1871.

When approached by clients or partners who wish to enter the general philanthropic world, our philosophy consists in helping them define their objectives and strategy, determine the means necessary to achieve

those goals, carefully select and ensure the follow-up of the investments and measure the impact thanks to well-defined indicators. Microfinance investing is no exception and follows the same rigorous criteria.

Becoming an Associate Member of LuxFLAG is therefore a natural step forward for our institution. It represents our contribution and support to an organization that not only promotes quality-focused and transparent MIVs, but also allows this industry to grow. The ultimate beneficiaries are the micro-entrepreneurs and their families that currently cannot access the formal financial services they deserve and need in order to improve the life of their communities.

Partnering with the market leader in the labelling of MIVs is a long-term commitment to the microfinance industry, which also means active involvement in the ALFI SRI - Microfinance Sub-committee and other think-tank groups in Luxembourg and abroad. We are convinced LuxFLAG will continue to evolve and offer more services to the ethical investment world and to MIVs in particular, with the strong support of its Associate Members.

*Jean-Luc Neyens,
Head of Business Development*

LuxFLAG: New Developments

New Associate Members

LuxFLAG is pleased to further expand its list of Associate Members with four experienced service providers: Crédit Suisse Asset Management Fund Service (Luxembourg) S.A.; Kremer Associés & Clifford Chance; Banque Degroof Luxembourg S.A. and Banque et Caisse d'Épargne de l'Etat Luxembourg.

LuxFLAG's Associate Membership is constantly growing and counts now 25 Members. For more information on LuxFLAG's associate members or to become a member please visit the LuxFLAG's website: www.luxflag.org.

Adjustment in fees

as less administration is required to process the application of feeder funds that invest exclusively in another (formerly) labelled MIV, the Board of Directors of LuxFLAG resolved to adapt its fee

structure for this category of funds to EUR 1500 as of 2010.

In 2010, LuxFLAG seeks to extend service/value added to its labelled Funds and to its Associate Members and aims to extend its activities. As a result, with regard to funds that solicit the label, the Annual General Meeting agreed on a fee of EUR 3000.











LuxFLAG: Labelled MIVs' Corner

LuxFLAG has for the first time granted its Label to a Microfinance Investment Vehicle (MIV) taking the form of a "Société d'Investissement en Capital à Risque" (SICAR): Advans S.A. SICAR. Advans SA is a Venture Capital Investment Company headquartered in Luxembourg launched in December 2005. With a share capital of EUR 17.1 million, Advans' mission is to build a network of microfinance institutions in developing and emerging countries to cater to the financial needs of micro, small, and medium sized enterprises, which have limited or no access to formal banking services.

With approximately EUR 1.6 billion of Assets Under Management (AUM) as of June 2009, the eight funds labelled by LuxFLAG represent approximately 85% of the total AUM of the 15 Microfinance Investment Funds domiciled in Luxembourg¹.

Details of the eight MIVs are available on LuxFLAG's website: www.luxflag.org. This site also contains details of eligibility criteria to obtain a Label and a form that can be downloaded by entities wishing to apply for the Label.

¹ Source : www.syminvest.com

Fund/Sub-Fund	Legal Status	Total Assets	Microfinance Portfolio	Val. as of
 Advans SA	SICAR	15,2*	9,4*	Sept 2009
 Dexia Micro-Credit Fund - BlueOrchard Debt Sub-Fund	SICAV - Part II	346,1	264	Sept 2009
 Dual Return Fund SICAV - Vision Microfinance Sub-Fund	SICAV - Part II	90,4	69,6	Oct 2009
 European Fund for Southeast Europe	SICAV - SIF	619,5*	297,2*	Sept 2009
 responsAbility Global Microfinance Fund	FCP - Part II	314,5	230,4	Sept 2009
 responsAbility SICAV (Lux) Microfinance Leaders	SICAV - Part II	115,2	98,8	Sept 2009
 responsAbility SICAV (Lux) Mikrofinanz-Fonds	SICAV - Part II	112,8	70,9	Sept 2009
 Rural Impulse Fund	SICAV - SIF	25,7	23,3	Sept 2009
Total		1639,4	1063,6	

*estimated figures

Source: Symbiotics data in EUR Millions

LuxFLAG: Microfinance Update

LuxFLAG: report on "Performance of Labelled MIVs during the financial crisis"

LuxFLAG has carried out a study to determine the effect of the recent financial crisis on the labelled Microfinance Investment Vehicles (MIVs) by tracking the evolution of these funds over LuxFLAG's life (June 06 to June 09). The main findings highlighted that:

- Despite some growth deceleration during the financial crisis, the consistent rise in MIVs' total assets, has demonstrated the extraordinary expansion and continued investor interest in this sector;
- The results of the study also support the contention that MIVs remain largely de-correlated from other sectors of the capital markets and provide an

efficient diversification tool to the investors. Although demand for funding from the underlying MFIs slowed down, leading to a decrease in the Microfinance Portfolios and an increase in cash positions, the LuxFLAG labelled MIVs have demonstrated resilience, posting relatively lower but still positive monthly returns during the worst global financial crisis since the 1920s.

- LuxFLAG labelled MIVs did not face major redemptions during the crisis. Investors remained committed to the labelled MFIs, reinforcing the assumption that Microfinance investors are more willing to take a longer term and holistic approach.
- The full study can be found on luxFLAG's website at www.luxflag.org.

LuxFLAG: Microfinance Update

Annual Subscription Tax

In its proposal for the State Budget 2010, to be adopted by the Luxembourg Parliament in December, the Luxembourg Government has included an exemption from the subscription tax for Microfinance Investment Funds. This initiative, in line with the Government program, reflects the willingness of the Luxembourgish Government to develop Microfinance amongst the financial centre and to make Luxembourg the most attractive financial centre for a transparent and responsible Microfinance industry.

A Plea for a sustainable Microfinance

The Ministry of Foreign Affairs, Directorate for Development co-operation, continues its advocacy in favour of microfinance and inclusive finance sectors. Based on the experience and know-how of 15 years of activities in this field, the Ministry, together with the Ministry of Finance, will keep on supporting initiatives in this domain.

The Ministry will do so by financing projects and programs aimed at creating a legal and regulatory environment that is favourable for microfinance, at promoting advanced research in this sector, thus contributing to broadening access to adequate financial services for poor populations so far excluded from such services. While doing so, the

Ministry will strongly insist on the imperious necessity to follow the so called “double bottom-line” of the economically profitable and the socially responsible use of investment to fight poverty. These are the conclusions the Ministry came to after a recent strategic workshop that brought together all national actors, private and public, having an interest in microfinance and inclusive finance sectors.

Already in 2006, following its constant quest for quality, the Ministry has given its support to the creation of LuxFLAG, a structure that constitutes a strong link between government, NGOs and private finance sector activities in the field of microfinance. By giving its label to microfinance investment vehicles (MIV) which are respectful of a set of quality criteria specifically elaborated in order to suit investments in microfinance, LuxFLAG contributes, on one hand, to making a more transparent information available for the investor and, on the other hand, indirectly, to sustaining the flow of funds that is indispensable to the reinforcement and the functioning of microfinance institutions that serve poor populations in developing countries. LuxFLAG deserves the public support for its sustained efforts for microfinance quality services.

*Marc Bichler, Director,
Cooperation for Development,
Ministry of Foreign Affairs, Luxembourg*

LuxFLAG: Networking

- LuxFLAG was represented on a panel at the Hanson Wade conference on “surviving the liquidity crisis & ensuring sustainable growth from investments in Microfinance” in July 2009.
- Invited by the Minister for Development Cooperation, Mrs Marie-Josée Jacobs, LuxFLAG with other actors from the civil society, the private financial sector and the Ministry of Finance participated in a think-tank organised by the “Direction de la Coopération Luxembourgeoise” together with the non-for-profit organisation “Appui au Développement Autonome” (ADA) on “Luxembourg Microfinance 2015” at the end of October 2009.
- LuxFLAG attended two presentations organized by the Luxembourg Round Table on

Microfinance: a presentation made by Women’s World Banking (WWB) in September 2009 in Luxembourg and a presentation made by Microenergy International, in October 2009 in Luxembourg.

- LuxFLAG will host a workshop session on “Social performance of MIVs” at the European Microfinance Week conference on 26 November 2009.
- ALFI, in association with LuxFLAG, has announced the organisation of a major conference focusing on key Microfinance themes. This conference will be held on 25 March 2010 at the Chamber of Commerce of Luxembourg. For more information, please contact info@luxflag.org.



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LuxFLAG: Working Groups

ALFI sub-committee on Microfinance



ALFI has recently launched a sub-committee dedicated to Microfinance. This sub-committee chaired by Thomas Seale, CEO of European Fund Administration (EFA) strives to lead industry efforts to make Luxembourg the most attractive centre for Microfinance Investment Vehicles (MIVs). In September 2009 the Group published a brochure titled "Luxembourg: Centre of Excellence for Microfinance Investment Vehicles". In 2010, the sub-committee's agenda will include improving Luxembourg's regulatory environment, raising awareness of this growing asset class, and the organization of a major conference focusing on key Microfinance themes to be held on 25 March 2010.



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"H.R.H. the Grand Duchess accompanied by Professor M. Yunus attending a conference organised in the framework of the launching of the Grameen Crédit Agricole Microfinance Foundation on 4 October 2008".

LuxFLAG's Working Group on Social Performance



As announced in the previous Newsletter, LuxFLAG's Board of Directors agreed on the integration of a "social dimension" to the Microfinance Label. After a first consultation with the labelled funds, LuxFLAG submitted a first draft proposal to its Board on 28 October 2009. A final version should be submitted by the end of the year and LuxFLAG plans to test these new "social criteria" in the applications for the Microfinance Label in 2010.

ALFI sub-committee on the extension of LuxFLAG's product offer



ALFI's sub-committee, in charge of the extension of LuxFLAG's product offer met regularly over the last six months and presented a progress report on 28 October 2009.



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