

Report of the Board of Directors to the General Meeting of the Charter Members of 12th July, 2010

Activities of LuxFLAG in 2009

2009 saw some significant developments within LuxFlag which have established the basis for future growth. With effect from 1st September 2009, Daniel Dax was appointed as General Manager, devoted full-time to the activities of the Agency. He is supported by Laetitia Hamon, Business Development Officer delegated from Alfi to the extent of 80 % of her time. The Board of Directors resolved that this commitment to an increase in dedicated resources was essential at this stage to provide LuxFLAG the opportunity to reach its goal of becoming a self-sufficient labelling agency. The commitment carries with it significant additional investment cost, and we are grateful to the Luxembourg government for its continuing financial support in this period of LuxFLAG's development.

Labels

The number of microfinance labels granted continues to increase. As of April 2010, nine labels had been granted to entities representing total assets of some USD 2.1 billion and a combined microfinance portfolio of some USD 1.4 billion.

Interest in the label remains high and our contacts with potential applicants indicate that the financial crisis of recent years has slowed the pace of investment in MFIs, particularly by new MIVs, who are therefore obliged to withhold their label application until such time as they meet the stringent criteria imposed by LuxFLAG. We therefore expect modest growth in the number of labels granted as these MIVs invest. The main challenge for LuxFLAG continues to be extending recognition of the LuxFLAG label beyond Luxembourg to the global microfinance market.

Marketing

Our increased resources have permitted the extension of our marketing activities. Our first newsletter was launched in June 2009, and the third edition was issued in April 2010; this has proved to be a valuable and highly appreciated means of communication with our stakeholders. In addition, the presentation and content of our website have been reworked and extended.

In November 2009, we issued a report on the performance of the labelled funds during the financial crisis, which was received with considerable interest. The report will be updated in 2010, and further topics for research and reporting are under discussion in conjunction with ADA, the University of Luxembourg and some Associate Members. A series of meetings with representatives of labelled funds as well as microfinance fund managers has been held and developed into a regular programme of meetings, both in Luxembourg and abroad, intended to stimulate awareness of LuxFLAG's purpose and activities.

LuxFLAG continues to present its activities at major international conferences on microfinance, as well as through the regular international roadshows presented by Alfi and Luxembourg for Finance, which became a Charter Member with effect from 1st January, 2010.

Financial matters

LuxFLAG closed the 2009 fiscal year with an excess of expenditure over income of EUR 74,081.34, rather less than the budgeted deficit of EUR 98,850. The Agency's cash position is strong; a small deficit of EUR 8,350 is budgeted for 2010.

Associate members

The Associate Membership network, which now has 27 members, is actively supporting LuxFLAG, mainly through their participation in committees and conferences and contributions to our newsletter. An information meeting for the Associate Members was held on the occasion of the launch of LUMINIS in May 2010. LuxFLAG's Board of Directors [*is considering/has approved*] a proposal that the Associate members should be represented at future Board meetings by an observer.

Developments in 2010

LUMINIS

On 12th May 2010, LuxFLAG signed a Funding, Cooperation and Service Agreement with Microrate for the development and establishment of a platform to provide independently sourced information for the benefit of investors in Microfinance Investment Vehicles. The platform, operating under the name of LUMINIS, is intended to host data and analyses allowing investors to compare MIVs, and analyse financial and social performance and trends so as to be able to make informed decisions when investing in microfinance. LUMINIS is intended to complement the labelling service provided to investors and potential microfinance investors by LuxFlag. The development funding for the project over a period of four years is to be provided through LuxFLAG by the Luxembourg Government, and LuxFLAG and its members will have privileged access to the information over a period of twenty years.

Cooperation in ALFI Microfinance Conference – March 2010

The second edition of ALFI's Microfinance conference was held in association with LuxFLAG on 25 March 2010. More than 150 experts from a variety of fields attended the conference, which was judged to be a success thanks to the high quality of the speakers and the relevance of their subject matter. The conference was attended by HRH the Grand Duchess Maria Teresa, Honorary President of LuxFLAG, who met and exchanged views on microfinance with a number of the speakers.

SRI label

In December 2009, the Board of Directors of LuxFLAG gave its agreement in principle to develop an "SRI Label" targeting in the first instance funds investing in environment-related sectors or eco-efficiency businesses. The definition of clear and objective criteria for the granting of this new label is by no means a simple task, and expert audit assistance will be required to assess the policies, processes and procedures of the applicant fund in order to make sure that its actions are in line with its declarations. A specific Alfi working group is currently working actively on behalf of LuxFLAG to that end, with a view to launching the new SRI Label by the end of 2010.

Taxe d'abonnement

The adoption by the Luxembourg Government of the grand ducal regulation that will exempt microfinance funds from the annual subscription tax has just been announced. The grand-ducal regulation foresees that the exemption will apply de facto to microfinance funds which have been granted the LuxFLAG label.

Acknowledgements

On behalf of the Board of Directors of LuxFLAG, I take this opportunity to thank our Honorary President HRH Grand Duchess Maria Teresa for her active interest and support and also the Charter Members, the members of the Eligibility Committee and the members of ALFI's SRI Committee and related Sub-Committees, for their valuable contributions to LuxFLAG.

Kenneth Hay
Chairman
July 12, 2010