

PRESS RELEASE

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Launch of the Luxembourg Fund Labelling Agency a.s.b.l. (LuxFLAG)

Luxembourg has taken a further step towards creating a centre for Microfinance investment funds in the Grand Duchy. On Thursday, 20 July 2006 a prestigious group of partners came together to launch the Luxembourg Fund Labelling Agency a.s.b.l. (LuxFLAG) in the presence of Her Royal Highness the Grand Duchess of Luxembourg who has accepted Honorary Chairmanship of the Association.

The purpose of the Agency is to grant a label to investment funds that invest in microfinance assets on the basis of agreed and published criteria. It is anticipated that the granting of a label will assist microfinance fund promoters in their fund raising efforts with private and institutional investors.

Other fund labels may be added in the future.

The new agency, which is an example of fruitful cooperation between the private sector, the NGO sector and the State, has the full support of both the Ministry of Finance and the Ministry of Foreign Affairs. Both Mr Luc Frieden, Minister of the Treasury and the Budget and Mr Jean-Louis Schiltz, Minister of Development Cooperation, were present to sign the Statutes on 20 July.

HRH the Grand Duchess, who has long been an active advocate of microfinance as a tool for the alleviation of poverty, attended the ceremony in person to underline her support for the initiative.

The partners in the new Association, which are all based in Luxembourg, are the:

- State of the Grand Duchy of Luxembourg
- European Investment Fund (EIF)
- Luxembourg Bankers' Association (ABBL)
- Appui au Développement Autonome (ADA)
- Association of the Luxembourg Fund Industry (ALFI)
- Financial Technology Transfer Agency (ATTF)
- Luxembourg Stock Exchange

This range of partners reflects the broad interest that microfinance has elicited in the Luxembourg financial centre. The EIF (European Investment Fund, part of the EIB Group) - the European institution for small and medium sized companies financing and the leading microfinance guarantor in Europe (with EUR 300 million outstanding) - is supporting this initiative.

During the course of an initial Board Meeting on 20 July, the Association appointed Mr Kenneth Hay, the recently retired Managing Partner of Ernst & Young Luxembourg and representative of ALFI, as Chairman.

What is microfinance?

Microfinance is defined as the supply of loans, savings, insurance, transfer services and other financial products to poor and low-income clients excluded from the traditional banking system. Typically, microfinance includes providing financial services to micro-entrepreneurs to set up a business

Why a label?

The primary objective of the microfinance fund label will be to reassure investors that the fund actually invests, directly or indirectly, in the microfinance sector. The label, which will be accessible both to Luxembourg and foreign funds, will contribute to the visibility of the relatively young microfinance sector. It will also facilitate fund distribution (and thus fund raising) and can contribute positively to the image of the fund and its promoter. Microfinance funds applying for the label will have to demonstrate that they meet appropriate regulatory standards with regard to transparency and investor protection.

Mobilisation of the financial centre

The LuxFLAG project is an illustration of the synergy present in the Luxembourg financial centre.

The decision to launch a microfinance fund labelling agency arose from the Luxembourg Round Table on Microfinance, an initiative launched in 2005 to coincide with the United Nations International Year of Microcredit. Through the Round Table, the Luxembourg Government gave its support to two studies on microfinance investment funds commissioned by ATTF. These studies addressed, respectively, the issues of rating/labelling and the attractiveness of Luxembourg structures for microfinance investment vehicles. Both studies called for a distinctive label for microfinance investment funds.

The project was subsequently taken forward by the ALFI Socially Responsible Investment Funds Working Group, drawing on a wide range of skills in the team. A concrete proposal was presented to potential partners in Spring this year.

Thomas Seale, Chairman of ALFI, explained: "This Agency forms another step in helping make Luxembourg attractive as an innovative fund centre and at the same time gives strong support to Microfinance, which is a proven development tool."

Synergy between commercial investors and aid agencies

Over the last thirty years, the microfinance sector has been financed by humanitarian agencies, foundations and NGOs. In recent years, however, microfinance has met with growing interest from private sector investors who provide funds to profitable microfinance institutions. This trend allows humanitarian agencies, foundations and NGOs to work on the most challenging part of microfinance: innovating and encouraging microfinance institutions to move into areas that are not currently served. In this way, commercial investors and development aid agencies can complement each other.

Structure of the Agency

During an initial period, the agency will draw on secretarial support from ALFI and be hosted on ALFI premises. A panel including a specialist from ADA will perform the “intellectual” review of label candidates.

The agency will be financed by an initial capital investment from the founding Members, including a sponsorship by the State of the Grand Duchy of Luxembourg. Income will also be raised from fees to be paid by funds applying for the label and by annual membership fees from Members.

The Members of the Board of LuxFLAG:

Mr Kenneth Hay, Chairman of LuxFLAG, representing ALFI
Ms Anouk Agnes, Conseiller, Ministry of Finance
Mr Marc Bichler, Director, Ministry of Foreign Affairs.
Mr Robert Wagener, Secretary General, European Investment Fund
Mr Jean-Jacques Rommes, Director, ABBL
Mr Max Meyer, Vice-President, ADA
Mr Jean Guill, President of the Board, ATTF
Mr Michel Maquil, President and CEO, the Luxembourg Stock Exchange

For further information please contact:

Jean-Jacques Picard
Director Communications, ALFI
Jean-jacques.picard@alfi.lu
+352 22 30 26 – 1