



HRH the Grand-Duchess Maria Teresa of Luxembourg at the ALFI Spring Conference :

"What started out as an NGO-centered program, has become an issue of high finance with considerable margins and a high payback."

MICROFINANCE FUNDS

Luxembourg label enters the home straight

ALFI's "microfinance fund quality label" should provide guidance for investors and facilitate fund distribution.

The Luxembourg "microfinance fund quality label" for collective investment schemes investing in the micro-finance area is taking shape. The Luxembourg Stock Exchange, the non governmental organisation Appui au Développement Autonome ADA and the Luxembourg Chamber of Commerce have already agreed to join ALFI's initiative to make Luxembourg an attractive domicile for microfinance investment funds. Other potential partners such as the ministry for Cooperation and Humanitarian Affairs, the Bankers Association ABBL and ATTF, the Agency for Technology Transfer in the Financial sector, have welcomed the project. The proposal to create a Luxembourg microfinance fund quality label was officially presented to the financial community at the ALFI Spring Conference.

During 2005, which was proclaimed by the United Nations as the International Year of Microcredit, ALFI gave its support to two studies on microfinance investment funds commissioned by ATTF. These studies addressed, respectively, the issues of rating/labeling and the attractiveness of Luxembourg structures for this type of investment vehicle. Both studies called for a quality label for microfinance investment funds.

The primary objective of the microfinance fund quality label will be to reassure investors that the fund actually invests, directly or indirectly, in the microfinance sector. The label 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.

Foreign microfinance funds applying for the label will have to demonstrate that they meet Luxembourg regula-

tory standards with regard to transparency and investor protection.

Microfinance is defined as the supply of loans, savings, insurance, transfer services, micro-credit loans and other financial products to poor and low-income clients excluded from the traditional banking system.

The label will contribute to the visibility of the relatively young microfinance sector

Typically, microfinance includes providing financial services to micro-entrepreneurs to set up a business. For the purposes of the label, the term "microfinance institution" refers to all types of formal and semi-formal institutions that offer microfinance services and devote more than 50 % of their resources to providing microfinance services and/or whose client base consists 50% or more of poor and low income people and the micro-enterprises owned by them. Typically, the average loan size would be lower than 5,000 USD.

The label will be granted by an independent not-for-profit agency (a.s.b.l.) the structure of which will be reduced to a minimum. It will draw on secretarial support from ALFI and be hosted on ALFI premises. The "intellectual" review of label candidates will be performed by a panel including a specialist from ADA. The statutes of the association are in preparation but the name of the agency has not yet been fixed. The agency will be financed by fees to be paid by funds applying for a quality label and by a membership fee from companies wishing to join the association as ordinary members.