



CAPITAL MARKETS STREAM

Conference Summary



Within the framework of the “Luxembourg Round Table on Microfinance”, these conclusions were prepared at the request of ATTF by Mr Patick Goodman (Part I) and Mr Pierre Bultez (Part II), consultants, with the support of the Luxembourg Ministry of Finance.

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Luxembourg Round Table on Microfinance

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PROPOSALS TO ESTABLISH LUXEMBOURG AS A CENTRE OF EXCELLENCE FOR MICROFINANCE INVESTMENT FUNDS

Microfinance is increasingly seen as a powerful tool to alleviate poverty around the world. Originally it was a development tool used by donor agencies which essentially contributed grants and donations to the microfinance sector. Over the last few years a number of investment structures have been put in place, essentially by charitable organisations, donor agencies and development finance institutions, to provide funding collectively to Microfinance Institutions (MFIs).

Even more recently private and institutional investors have taken a serious look at microfinance as a means of providing them with a social return as well as with a financial return. Investment funds, targeted to these investors, have been set-up in a number of jurisdictions such as the Netherlands, Cayman Islands, Mauritius, the United States of America as well as Luxembourg.

Until August 2005, there were only three microfinance investment funds domiciled in Luxembourg. The two largest are probably the most successful ones in the world in terms of their growth rates, breadth of distribution and total assets under management. By early 2006 at least eight new investment structures investing in microfinance are expected to be set up in Luxembourg. The legal forms cover the whole spectrum of structures available in Luxembourg, from traditional SICAVs and FCPs to SICARs and securitisation vehicles.

One of the main objectives of the Luxembourg Microfinance Week was to propose concrete steps by which Luxembourg could support microfinance in developing countries such as by establishing the country as a key player in the development and growth of microfinance within the traditional capital markets.

A number of proposals were made and debated during the two Capital Markets days of the conference. Two studies had been commissioned by the ATTF, on behalf of the Ministry of Finance, within the framework of the Luxembourg Microfinance Week. The first one was entitled "Advantages and expertise of - and opportunities for - the Luxembourg Financial Sector in the creation and registration of microfinance investment funds" and was presented by Mr Jacques Elvinger and Mr Marc Elvinger. The second study was prepared and presented by Mr Damian von Stauffenberg. It suggested the implementation of a quality label for microfinance investment funds. Mrs Nathalie Dogniez also presented the suggestions of the ALFI SRI Working Group¹ which confirmed the main findings of the two studies mentioned above.

Full details of the proposals put forward by the speakers in the conference can be found in their respective studies. The main proposals which were made are the following:

1. Creation in Luxembourg of a Quality Label for Microfinance Investment Funds

The ALFI SRI Working Group suggested setting up an assessment body in Luxembourg that would grant a Socially Responsible Investment Fund Label which would also apply to microfinance investment funds. The establishment of such a body might face delays since the definition of socially responsible investments is not as clear as for microfinance funds.

Damian von Stauffenberg, from MicroRate, provided clear guidelines for setting up a Quality Label for microfinance investment funds. A specific agency would be set up to analyse funds domiciled in Luxembourg or in other duly approved jurisdictions and would grant the label. Although the investment funds would be asked to contribute financially, there would not be a sufficient critical mass of microfinance funds to allocate permanent staff members to this agency. A transitory solution could be to entrust some of its tasks to ADA in Luxembourg with the board of such agency retaining the final decision in the granting of a label.

¹ Association of the Luxembourg Fund Industry: Socially Responsible Investment Funds Working Group

The following steps are recommended:

- The ALFI SRI Fund Working Group, in coordination with Mr Damian von Stauffenberg and ADA, prepares a short business plan for the creation and the on-going management of an agency which would grant a Quality Label.
- The founding partners agree on the framework for the creation of the agency.
- This initiative is put into action and the first Quality Label for a microfinance investment fund is awarded, ideally in the first half of 2006.

2. Exemption from the Taxe d'Abonnement for Microfinance Investment Funds

The second proposal which was made by all the speakers was to exempt microfinance investment funds which have obtained the above mentioned Quality Label from the "taxe d'abonnement".

This exemption would have a limited impact on government revenues as the assets of the Luxembourg investment funds which currently invest in microfinance and which would most probably benefit from the Quality Label, considering their microfinance portfolios, are still low (impact of less than € 50,000).

Moreover this measure would have a very positive impact on the image of Luxembourg in the microfinance business community.

Steps to take:

- Ministry of Finance to advise the Luxembourg Round Table on Microfinance if further information is required as a proposal in this direction has already been submitted to Parliament.

3. Fiscal stimulus for Luxembourg tax payers investing in Microfinance Investment Funds

The third proposal which was made during the conference was to put in place a mechanism very similar to the Loi Rau which was recently abolished: each Luxembourg tax payer investing up to a certain amount in microfinance investment funds (for example € 2,000 for a single person or € 4,000 for a couple) could deduct a percentage of these investments (for example 50%) from his/her taxable income. These investments would have to be kept for a minimum number of years (for example 5 years).

This would make Luxembourg the second country in Europe and probably in the world to establish tax breaks in favour of microfinance investment funds. In the Netherlands, which is the other European centre active in microfinance funds, these tax breaks are included in a wider context involving other socially responsible investment funds and has contributed to the growth of the general SRI market in the Netherlands and to the development of microfinance investment funds.

Steps to take:

- Ministry of Finance, in coordination with the Ministry of Cooperation, to advise the Luxembourg Round Table on Microfinance if further information is required.

4. Establishment of the Microfinance Investment Forum as a yearly event in Luxembourg

In order to contribute to the reputation of Luxembourg as a centre of excellence in microfinance, the proposal was made during the conference for the Luxembourg Round Table on Microfinance to organise on a yearly basis a forum or conference that would bring together the top MFIs, investment fund managers and investors in microfinance around the world to share information on new product innovation (securitisation, bond issues, etc.), new opportunities and best practices in managing microfinance investment funds.

PART I: MICROFINANCE INVESTMENT FUNDS

Luxembourg is known in the microfinance world thanks to the involvement and commitment of ADA, which far outweighs its actual size, but Luxembourg as a financial centre is only just beginning to be known in this industry. Such a yearly event would clearly position Luxembourg as a country combining development skills and financial skills to the benefit of all involved, from the private or the institutional investor right through to the end beneficiary, micro-entrepreneur in Cambodia or in Peru.

Steps to take:

- The Luxembourg Round Table on Microfinance to prepare a proposal that can be presented to its member associations for agreement and action.

5. Additional marketing effort to promote the competencies of the Luxembourg market place

Additional efforts need to be pursued by the Luxembourg market place to promote its competencies to potential initiators or promoters of microfinance investment funds. The organisation of the Luxembourg Week of Microfinance as well as of the ALFI microfinance conference in March 2005 has definitely contributed to improving the visibility of Luxembourg as a key player in the field of microfinance investment funds.

Continued marketing initiatives could be conducted within the context of the Microfinance Investment Forum described above or could originate directly from the competent authorities (for example through specific CSSF circulars or communications by ALFI).

6. Microfinance Training

Training was only briefly discussed during the Luxembourg Week of Microfinance. During debriefing sessions held just after the conference, participants in the Luxembourg Round Table on Microfinance nevertheless felt that training in microfinance should be an integral part of the programme that Luxembourg needs to implement in order to promote the development of microfinance within the country and around the world.

Training in microfinance would be organised along two main lines:

- The ATTF plans to develop a microfinance training programme that would respond to the needs of the countries which it has chosen to work with. The ATTF would organise a pool of microfinance experts who would deliver these training sessions.
- Together with the IFBL (Institut de Formation Bancaire, Luxembourg) and the University of Luxembourg (notably with the Luxembourg School of Finance), the ATTF will also consider organising training sessions on microfinance targeted at the Luxembourg financial sector.

CONCLUSION

With the necessary growth of the microfinance sector to meet the increasing needs of micro-entrepreneurs around the world and the growing financing needs of this sector, the timing is ideal for Luxembourg to establish itself as a bridge between the development world and the financial world. The six proposals above would go a long way to build Luxembourg's reputation as a centre of excellence in the field of microfinance and more particularly in the field of microfinance investment funds, thereby building on its already excellent reputation in the broader investment fund sector.

Patrick Goodman

MICROFINANCE AND MONEY TRANSFERS FROM MIGRANTS WORKERS

Findings of a study conducted by Jean-Louis Guarniero at the request of the Ministry of Cooperation through the intermediary of ATTF.

The study was conducted regarding the migrants from Cape Verde. It shows the various flows of remittances and impacts on the microfinance in Cape Verde. Through this highly detailed study, we could derive some very important information how to identify and tackle the various issues.

The target of the study was to:

- Understand the transfer of money between Luxembourg residents of Cap Verde to their home country
- Measure the “importance” of it
- Check the possible interconnection with the microfinance network in Cape Verde
- Identify the possible improvements in both countries to facilitate the flow and the use of this money
- Evaluate the possible extension to other countries' residents in Luxembourg and/or abroad

1. Transfer of the money:

We identify various ways to transfer the money from Luxembourg to Cape Verde.

The **Formal** being either Bank wire transfers (BCEEL is the most important banking institution in Luxembourg) and Western Union. It has the advantage to be quick and secured with an easy access in remote areas especially in Cape Verde.

The **Informal** is the long existing “hand” delivery and the Customer-friendly features with a huge disadvantage: the risk of loss of this money as well as the possible money laundering suspicion.

We also could identify that the following problems have to be addressed, namely:

- the cultural approach
- the density of the actors
- the beneficiaries access
- the costs of the transfers, that can vary from 0.15% to 15%

2. The importance of the flows:

Over the last few years, the volumes were increasing significantly:

- 2002: 0.75 MM €
- 2003: 1.24 MM €
- 2004: 1.50 MM €

It represents an increase by 22.3% between 2003 & 2004

What could it mean? We could interpret it from different ways, either:

- a. An improvement of the situation of the Cape Verde residents in Luxembourg
- b. An increase in the family care of the resident in Luxembourg vis-à-vis the family in Cape Verde
- c. An Increased trust in the mother country

We think that it's probably a combination of the three that creates the increase in the volumes. We also know that solidarity is very important in Cape Verde.

3. Connection with the Microfinance sector:

For the time being, the NGO's at present in Cape Verde are the only relay between the poorest and the "financial" market. As anywhere, they are looking for funding and the needs are increasing as the donors are lacking to provide any new money. In that respect, the Cape Verde expatriates represent an important source of funding, keeping in mind the solidarity aspect of the population whatever resident or not in Cape Verde.

CONCLUSION

If we try to draw a conclusion from these findings we can divide it into what we can do in and from Luxembourg to improve these remittances and increase the funding of the microfinance sector in Cape Verde.

- From Luxembourg:

We can provide a Technical assistance in:

- helping the authorities to draft an appropriate legislation regarding the microfinance sector
- providing assistance in the various financial topic
- encouraging the financing activities in this sector

- In Luxembourg:

We can improve the flow of money transfers in:

- Improving the information to the Cape Verde residents in Luxembourg
- Formalising and analysing the costs of the "formal" ways of transfers

We also think that we could extend that analysis to other residents from other countries Analyse other flows of transfers from Luxembourg to other countries in:

- stimulating these transfers
- promoting the image of the microfinance sector
- ensuring an appropriate local follow up to assist the sector

These approaches should drive to an improvement of the Microfinance sector in the various countries.

Pierre Bultez

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