LuxembourgforFinance
Relying on Expertise, Building on Innovation

Luxembourg Responsible Finance Platform

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THE CHALLENGE

Eradicating poverty and achieving sustainable development are fundamental global challenges. We have the technology and the resources to eradicate extreme poverty in our lifetime, but priorities must be aligned with this goal.

In recent years, Luxembourg's official development assistance has amounted to 1% of Gross National Income,, but such aid on its own is not sufficient.

This is where the private sector can help, by finding ways to attract new pools of funding, by sharing technical expertise and responding to demand for positive social impact and ecological accountability.

Over the past fifty years, Luxembourg has developed into a centre of excellence in international finance. Thanks to a community of professionals accustomed to working with over a hundred markets on a daily basis and motivated by demand from institutional and private clients, Luxembourg also leverages its expertise in the field of responsible finance, bringing together the forces required to make it a reality where it is most needed.

This brochure is about how existing financial sector expertise has been deployed to create a social impact.

We encourage you to consider Luxembourg as the base for your responsible investing activity.

Pierre Gramegna

Minister of Finance

Romain Schneider

Minister for Development Cooperation and Humanitarian Action

SCOREBOARD

By staking a claim to be a platform for responsible finance, Luxembourg is committing itself to a continuous process of self-appraisal, correction and renewed effort.

	TARGET	STATUS
1	CONTRIBUTE ACTIVELY TO EUROPEAN EFFORTS TO PROMOTE INCLUSIVE FINANCE	Luxembourg facilitated the establishment of the European Microfinance Platform and has spearheaded field research in the inclusive finance sector.
2	ESTABLISH A COMPETENCE CLUSTER FOR RESPONSIBLE INVESTMENT FUND MANAGERS	Luxembourg is the top ranked domicile for promoters of responsible investment funds: 28% of all European RI vehicles (and 26% of RI assets) are managed out of Luxembourg.
3	ADVOCATE TRUTH IN LABELLING	The LuxFLAG agency grants three recognised labels to funds following responsible investment strategies.
4	RAISE PRIVATE SECTOR CAPITAL FOR MICROFINANCE	Luxembourg is the leading domicile for microfinance investment vehicles, accounting for over 50% of assets under management worldwide.
5	CREATE AN ENVIRONMENT THAT FACILITATES IMPACT INVESTMENT PROJECTS	The EIIL (European Impact Investing Luxembourg) association contributes to international research. A draft law creating a dedicated *société d'impact* is currently before Parliament.
6	SHARE FINANCIAL EXPERTISE WITH DEVELOPING MARKETS	ATTF delivers financial training to 30 partner countries with the help of Luxembourg practitioners.
7	ENCOURAGE PRIVATE PHILANTHROPIC ACTIVITY	48 private foundations have been set up under the *Fondation de Luxembourg*, established in 2008.

1 CONTRIBUTE ACTIVELY TO EUROPEAN EFFORTS TO PROMOTE INCLUSIVE FINANCE

Luxembourg has been active in the field of inclusive finance for over 20 years, chairing the UN Advisors Group in 2005-6 and supporting the foundation of the European Microfinance Platform (e-MFP). Today, an umbrella organisation co-ordinates all Luxembourg initiatives in this area.

WHAT IS INCLUSIVE FINANCE?

Inclusive finance is making financial products and services available to low income individuals excluded from the traditional banking system.

The Luxembourg Government, through the Directorate for Development Cooperation and Humanitarian Affairs, recognised early on the importance of financial inclusion as a tool for poverty alleviation and economic development. As a result, successive Directors drew on expertise that was abundantly available in the financial centre.

In 2003, the Luxembourg Round Table on Microfinance was set up to act as an informal platform of exchange between representatives of the public, private and civil society sectors active in the field. This resulted in a series of ground breaking of public-private initiatives that included the foundation of a European microfinance industry association (e-MFP), a major annual conference and the creation of a responsible investment fund labelling agency, to name but a few.

LEADING THROUGH RESEARCH

Cooperation has been particularly beneficial in the area of research.

Products focusing on rural farmers, the linking of remittance payments to savings accounts, eco friendly microfinance and Islamic microcredit have been field tested through Luxembourg microfinance agencies such as ADA[1] and SOS Faim.

Another important joint initiative is the Luxembourg Micro-Insurance Network. A recent report from CGAP[2] on financial inclusion highlighted micro-insurance as the product that has the highest impact on lifting families out of poverty, by reducing vulnerability to financial shocks and encouraging diversification.

LEADING THROUGH EUROPEAN COOPERATION

The Grand Duchy has been a driving force behind European cooperation in the field of inclusive finance. Three initiatives illustrate this commitment:

- Luxembourg facilitated the foundation of the European Microfinance Platform (e-MFP), the federating body for European microfinance industry, and hosts its secretariat.
- Luxembourg hosts the annual European Microfinance Week, one of the highlights of the microfinance calendar which brings together stakeholders in the microfinance sector. The 2013 conference brought together some 380 participants from 59 countries to work in 30 focus groups.
- The European Microfinance Award promotes innovation by granting a prize of EUR 100,000 to promote microfinance initiatives and highlight their contribution to the development of the sector.

[1] ADA : Aide au Développement Autonome
[2] CGAP : the Consultative Group to Assist the Poor, a federation that acts as a global voice for financial inclusion

THE INCLUSIVE FINANCE NETWORK, LUXEMBOURG

In 2014, the Luxembourg Round Table on Microfinance was replaced by a formal association, the Inclusive Finance Network Luxembourg (InFiNe.lu). InFiNe.lu links a group of stakeholders around the common objective of promoting financial inclusion through the development of knowledge and collaboration among its members.

In so doing, InFine.lu will strengthen and promote Luxembourg as a centre of excellence in the field of inclusive finance.

© e-MFP

HRH Grand Duchess Maria Teresa of Luxembourg and Nobel Peace laureat Professor Muhammad Yunus congratulate the Executive Director of ASKI, Rolando B Victoria, for winning the 2012 Luxembourg Microfinance Award. The Grand Duchess is a knowledgeable and committed patron of the sector.

The bi-annual European Microfinance Award is organised jointly by the Luxembourg Directorate for Development Cooperation and Humanitarian Affairs, the Inclusive Finance Network Luxembourg and the European Microfinance Platform.

In 2012, twenty candidate MFIs from Latin America, Africa and Asia were submitted by e-MFP members to compete for best project on the theme of Microfinance for Food Security. The winning candidate, ASKI, has used the Award to increase its outreach from 19,000 to 24,600 farmers.

The theme for the 2014 Award, is Microfinance and the Environment.

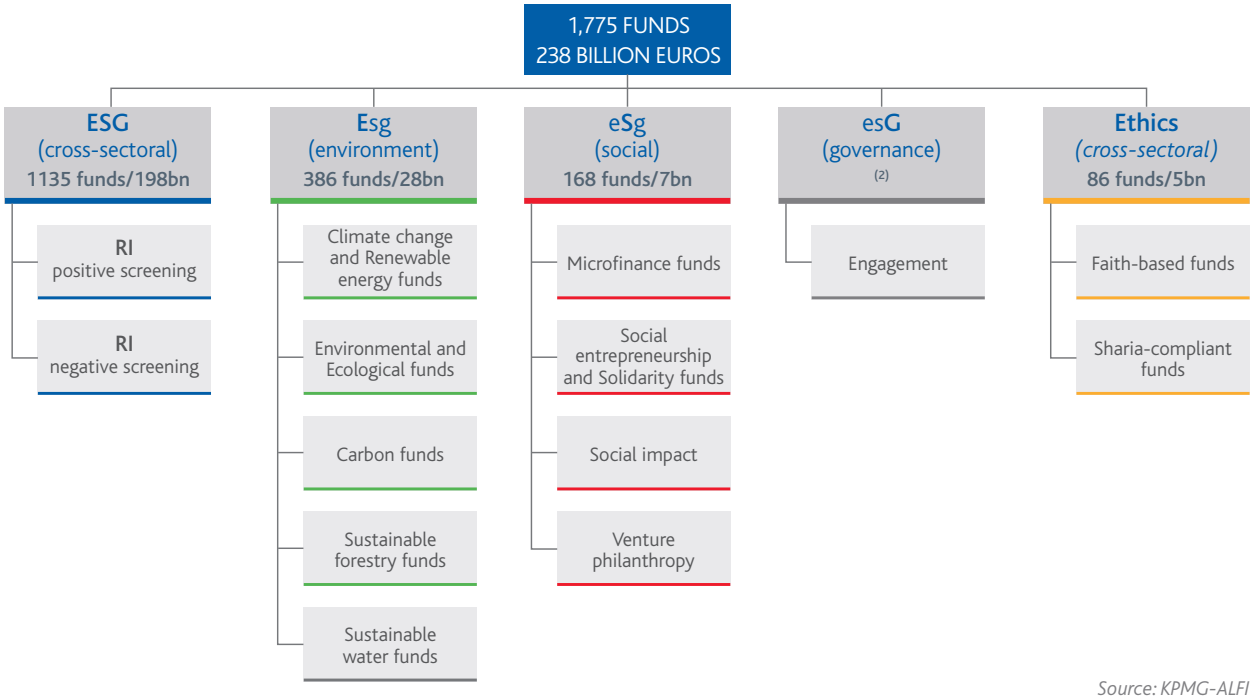
2 ESTABLISH A COMPETENCE CLUSTER FOR RESPONSIBLE INVESTMENT FUND MANAGERS

Luxembourg has played a major role in the expansion of responsible investing in the retail investment fund market.

Luxembourg is the second largest investment fund centre in the world and a global centre of expertise in cross-border distribution: Luxembourg funds are registered for sale in 70 jurisdictions worldwide. Over the last 20 years the Grand Duchy has built up a unique concentration of skills in support of the asset management industry. These factors make Luxembourg an attractive choice for fund promoters.

In 2004, the Luxembourg investment fund association, ALFI, set up a Standing Committee on Socially Responsible investing. One of the ongoing tasks of the Committee has been to engage in the European debate concerning the definition of strategies and ESG[1] labels.

BREAKDOWN OF EUROPEAN RESPONSIBLE INVESTMENT FUNDS BY INVESTMENT STRATEGY: (NUMBER OF FUNDS AND ASSETS UNDER MANAGEMENT (EUR) AT DEC 2012)



Source: KPMG-ALFI

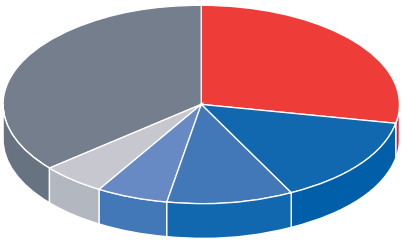
[1] Environment, social and governance
[2] All "engagement" funds have been allocated to their predominant investment strategy.

The tree diagram on the previous page illustrates the investment policy of 1,775 responsible investment funds identified in Europe at December 2012. The sector accounted for assets under management of €238bn at that date.

Of these, 63% of funds (1,135 funds, managing a total 83% of assets) apply broad positive or negative screening techniques to a cross-sectoral portfolio of assets.

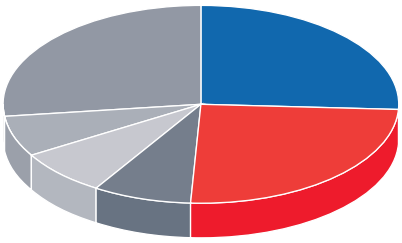
The pie chart below identifies Luxembourg as the foremost domicile for responsible investment vehicles, with a 28% share of the market.

SHARE OF RI FUNDS IN EUROPE : NUMBER OF FUNDS, 2012



Luxembourg	28.2%
France	14.3%
Belgium	10.4%
Denmark	5.8%
United Kingdom	5.2%
Rest	36.1%

SHARE OF RI FUNDS IN EUROPE : AuM, 2012



France	25.9%
Luxembourg	25.1%
Norway	7.9%
Denmark	7.6%
Finland	6.6%
Rest	26.9%

Source: KPMG

Responsible investment fund of funds index

Over the years, Luxembourg has developed into a major asset allocation centre and is a market leader in "funds of funds". In 2013, the Luxembourg stock exchange launched a Responsible Investment Fund Index, compiled of Luxembourg domiciled funds operating in the area of responsible finance.

3 ADVOCATE TRUTH IN LABELLING

By granting a label to responsible investment funds, Luxembourg gives confidence to investors and helps raise capital for responsible investment.

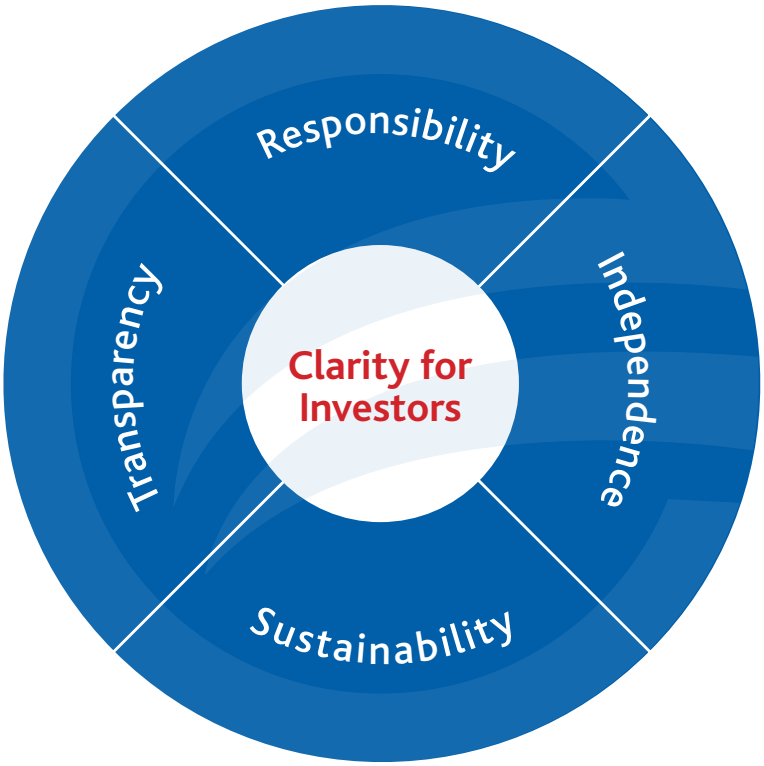
A major challenge in the responsible investment fund market is the ongoing verification of information published by self-declared ESG funds.

Since 1996, the Luxembourg NGO Etika has promoted socially motivated investing by providing independent information on a wide range of locally available funds.

However, the proliferation of ESG labels and uneven standards of transparency have made it difficult for non-specialists to verify what they are getting and compare like with like.

To tackle this, in 2006 the Luxembourg government, together with the European Investment Bank and six other partners from the civil and private sectors, set up a fund labelling agency, LuxFLAG. This joint venture provides clarity for investors by awarding labels to investment funds that meet specific, published, criteria.

THE ROLE OF LuxFLAG IN THE RESPONSIBLE INVESTING INDUSTRY



LUXFLAG
Supporting Sustainable Finance

[1] ESG : envirionment, social and governance

The agency currently grants three responsible investing labels:

- LuxFLAG Microfinance Label
- LuxFLAG Environment Label
- LuxFLAG ESG Label (launched in May 2014)

The new LuxFLAG ESG Label is for funds with a broad environment, social and responsible governance policy.

Eligibility criteria are set by a panel of experts that includes consultants and practitioners. A similar panel is retained to approve and review funds on a biannual basis.

Luxflag Labels are widely recognised internationally and are open to any qualifying fund, irrespective of its country of domicile.

As of June 2014, 37 funds held a LuxFLAG Label, representing over four billion dollars in assets under management.

The LuxFLAG Microfinance Fund label is one of several LuxFLAG responsible investment fund labels designed to give confidence to investors.

4 RAISE PRIVATE SECTOR CAPITAL FOR MICROFINANCE

Luxembourg has successfully raised private capital for microfinance projects, enabling microfinance institutions (MFIs) to increase their reach into populations excluded from the formal banking sector.

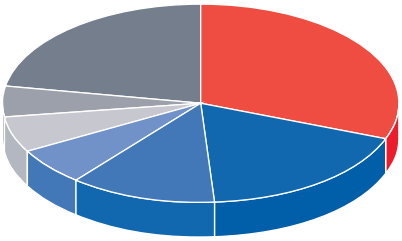
Luxembourg recognises that microfinance cannot expand to satisfy potential demand without access to the capital markets. Development finance on its own will never be enough. The slogan "putting the finance into microfinance" was coined as a masthead for this effort, which has focused on microfinance investment vehicles (MIV).

Today, over 50% of all assets in MIV are held in Luxembourg domiciled funds[1].

Several factors have contributed to this:

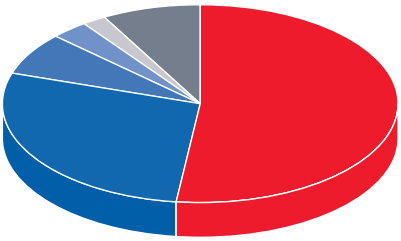
- a legal framework that offers a choice of suitable investment vehicles;
- highly experienced service providers;
- a global network of tax treaties;
- an experienced supervisory authority;
- expertise in handling cross-border distribution;
- exemption from the annual subscription tax.

MIV MARKET SHARES BY NUMBER OF FUNDS, 2012



Luxembourg	31%
USA	18%
Netherlands	12%
Cayman	6%
Mauritius	6%
Belgium	5%
Other	22%

MIV MARKET SHARES BY AuM, 2012



Luxembourg	52%
Netherlands	28%
USA	7%
Belgium	3%
Mauritius	2%
Other	8%

Source: Microrate

[1] Source : Microrate

The Luxembourg government has granted a zero rate of annual subscription tax to Microfinance investment funds.

Development Finance Institutions continue to play an important role, enhancing the reach of private capital. An example is the structured MIVs that offer share classes with different levels of risk to public, institutional and private sector investors.

5 CREATE AN ENVIRONMENT THAT FACILITATES IMPACT INVESTMENT PROJECTS

Luxembourg is fully engaged in developing the impact investing sector.

Impact investment projects have a formal, quantifiable non-profit objective. Whereas the target of most funds with responsible investment screens is to "avoid doing harm", an impact fund seeks to "do good" in a particular area. Typically, profits will not be distributed until and unless the performance indicators have been successfully met.

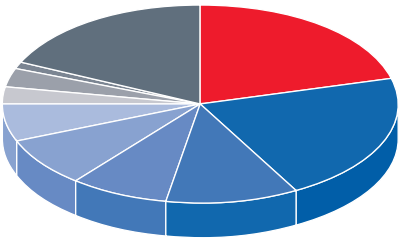
Impact funds therefore fill the gap between traditional, for profit, companies and the world of philanthropy. However, there is no standard definition.

A recent study by GIIN, the Global Impact Investing Network[1], identified 125 impact investment vehicles worldwide with some USD13bn under management. Another, unpublished, study identified that around 60 impact funds were launched in 2012, over half of which were domiciled in the United States or Luxembourg.

The local trade association, European Impact Investing Luxembourg (EIIL), works closely with GIIN and the European Venture Philanthropy Association (EVPA) to conduct research on impact measurement.

Project promoters are attracted to Luxembourg by the presence of a private equity industry and an experienced regulatory authority. Most important of all, however, is the presence of a large community of wealth managers, family offices and foundations. The presence of the European Investment Bank, a pioneer in both microfinance and impact investment, acts as a stimulating factor.

IMPACT FUNDS BY SECTOR



Microfinance	21%
Financial services (excl MF)	21%
Energy	11%
Housing	8%
Food & agriculture	8%
Healthcare	6%
ICT	3%
Education	3%
Water & sanitation	1%
Other (2)	18%

Source: GIIN + JP Morgan

TARGET: A DEDICATED LEGAL FRAMEWORK

A draft law creating a dedicated *société d'impact* is currently before the Luxembourg parliament.

The *société impact* would allow philanthropic and for profit shareholders to co-exist in the capital of the same company.

While encouraging the startup of socially oriented projects with profit potential, the *société d'impact* would also provide ideal target investments for EU Social Enterprise Funds created under the EU Regulation of 2013.

[1] GIIN & JP Morgan, impact Investor Survey, May 2014

[2] "Other" strategies include forestry, land conservation, sustainable agriculture, arts & culture and manufacturing

6 SHARE FINANCIAL EXPERTISE WITH DEVELOPING MARKETS

There is increasing demand from emerging and transition countries for the acquisition of financial know-how. Sharing such knowledge helps countries to build up human capital and is one of the most effective methods of delivering assistance.

In 1999, the Luxembourg government set up a public-private partnership, the Financial Technology Transfer Agency (ATTF) to conduct all financial training programmes delivered in emerging and transition economies. Shareholders are the Luxembourg central bank, the financial sector supervisory authority (CSSF), the Institute for training in banking (IFBL), the University of Luxembourg and the federation of financial sector professionals (PROFIL).

Cooperating with more than 30 partner countries around the world, the aim of ATTF is to strengthen the financial structure by building capacity, thereby supporting sustainable development.

The overriding objective is to provide technical assistance in financial matters by the transfer of knowledge.

Training and consultancy services are delivered by experienced, Luxembourg based practitioners from the financial centre.

In a typical year the agency organises some 90 sessions abroad and 20 in Luxembourg.

Over time, cooperation has been built with countries from Central and Eastern Europe, Northern and Western Africa, the Middle East, Central and East Asia and Central America.

Programme participants come from private sector financial institutions, universities, central banks and government ministries and agencies.

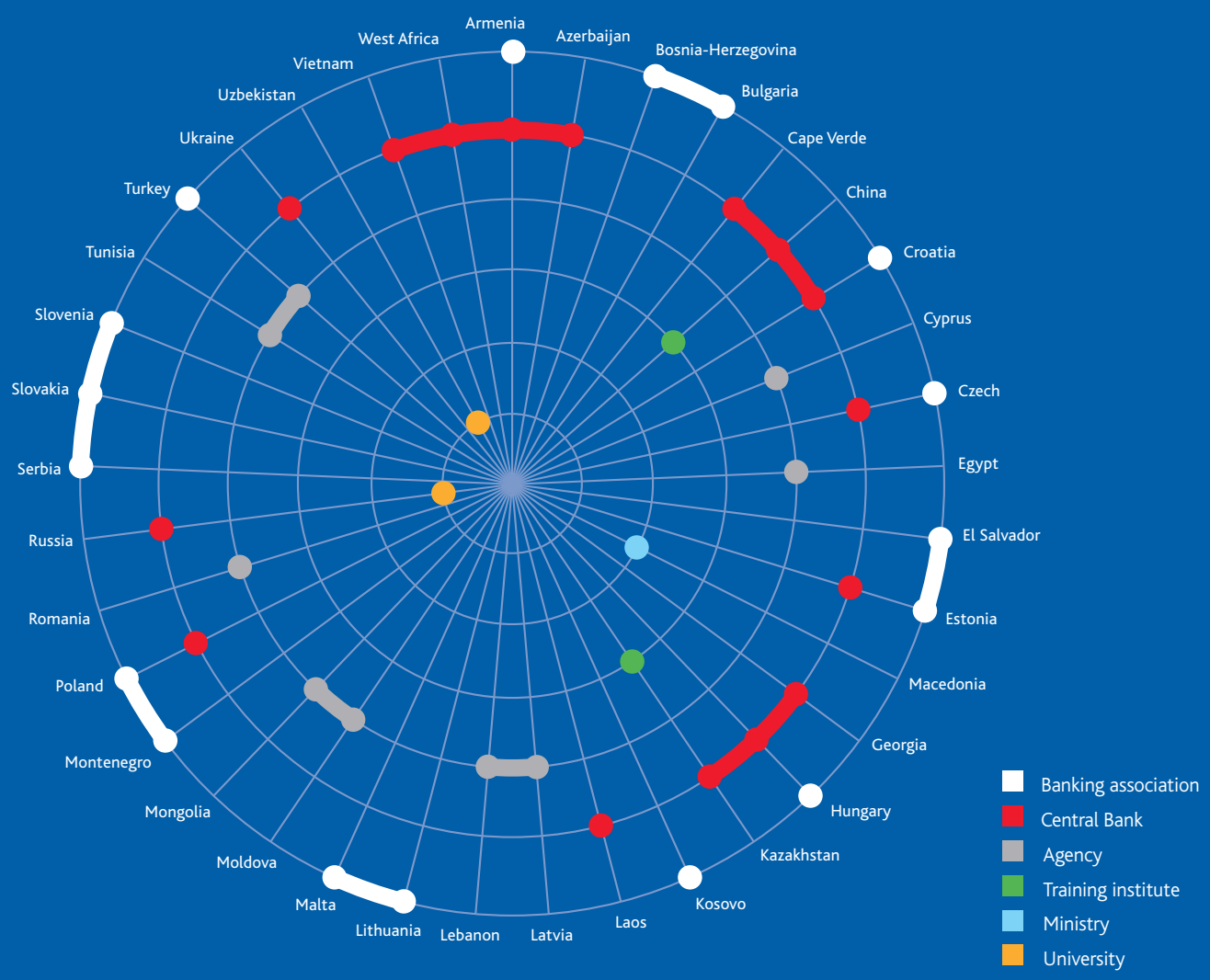
Wherever possible, the programmes provide certification to an internationally recognised standard.

The work carried out by private sector experts on behalf of ATTF is a showcase for the know-how available in the financial centre. Long term, it has helped build up relationships with developing countries and brought business to the financial centre.

© ATTF

A practical training session in Eastern Europe

PARTNER COUNTRIES IN THE ATTF TRAINING PROGRAMME



Source : ATTF

7 PROMOTE PRIVATE PHILANTHROPIC ACTIVITY

Luxembourg has responded to the need for a centre of expertise in philanthropic engagement that can provide advice and guidance to donors and private bankers.

The *Fondation de Luxembourg* is a public-private partnership that combines finance and philanthropy. Established in 2008 by the State of Luxembourg and the Oeuvre National de Secours Grand-Duchesse Charlotte, the Foundation seeks to guide and assist donors who wish to make a long-term commitment to a significant philanthropic project.

The Foundation acts as a consultant and service provider. It is a gateway to associations and NGOs around the world and can assist donors in the selection of their ideal charitable project. By providing an umbrella structure, donors benefit from a simplified structure that relieves them of the day to day administration of the foundation. At the same time they can influence and control their project through board meetings and the provision of detailed impact reports.

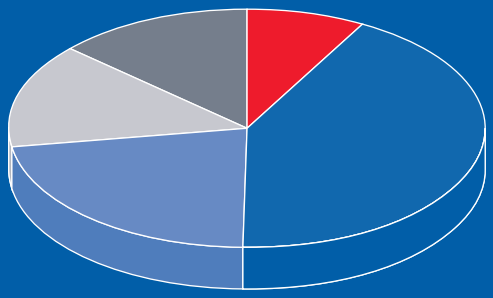
Projects typically fall under one of five themes: health and research, poverty and social cohesion, culture and diversity, universal education and biodiversity and climate change. The government removed bureaucratic impediments and facilitated a tax regime that recognises cross-border donations in 15 markets as tax deductible.

A pupil at the SOS school at Ziguinchor, Senegal (Germanus Stiftung, SOS Village d'enfant Monde)

The Foundation has been a success with clients of the Luxembourg private banking community, where it has met with growing demand. In just five and a half years, 48 foundations have been created under the scheme, 80% of them by private individuals or families. This can be compared to 100 charitable foundations created in the 80 years between 1928[1] and 2008.

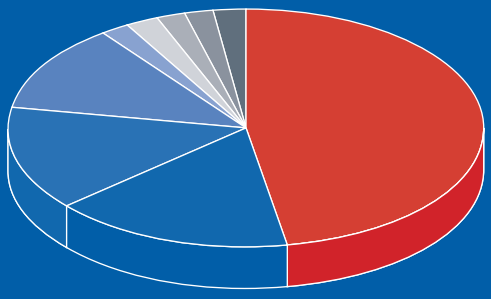
The wide ranging origin of donors and their target beneficiaries reflect the diversification and international reach of the Luxembourg financial centre.

BREAKDOWN OF PROJECTS BY SECTOR



Health and research	8.1%
Poverty and social cohesion	42.4%
Culture and diversity	22.2%
Universal education	14.1%
Biodiversity and climate change	13.1%

RESIDENCE OF FOUNDERS



Luxembourg	47%
Germany	16%
France	14%
Belgium	12%
Denmark	2%
Finland	2%
Italy	2%
Switzerland	2%
UK	2%

Source: Fondation de Luxembourg

[1] The year the law on foundations was introduced

GLOSSARY

ADA	Aide au développement autonome
AIFMD	Alternative investment fund management directive
ATTF	Agence de transfert de technologie financière
CSSF	Commission de surveillance du secteur financier
DFI	Development finance institutions
EIIL	European impact investing, Luxembourg
e-MFP	European Microfinance Platform
ESG	Ethical, social, governance
EVPA	European venture philanthropy association
GIIN	Global impact investing network
IFBL	Institute de formation bancaire, Luxembourg
InFiNe.lu	Inclusive finance network, Luxembourg
LUXDEV	Luxembourg agency for development cooperation
LUXFLAG	Luxembourg fund labelling agency
MFI	Microfinance institution
MIV	Microfinance investment vehicle
NGO	Non-governmental organisation/ONG
ODA	Official development assistance
RIM	Risk management initiative in microfinance
SRI	Socially responsible investing

USEFUL ADDRESSES

Association of the Luxembourg Fund Industry
www.alfi.lu

ADA
www.microfinance.lu

European Impact Investing, Luxembourg
www.eiil.lu

European Microfinance Platform
www.e-mfp.eu

Etika
www.etika.lu

Financial Technology Transfer Agency
www.attf.lu

Fondation de Luxembourg
www.fdlux.lu

InFiNe
www.infine.lu

LUXDEV
www.luxdev.lu

Luxembourg Bankers' Association
www.abbl.lu

LuxFLAG
www.luxflag.org

Microinsurance network
www.microinsurancenetwork.org

SOS Faim
www.sosfaim.org

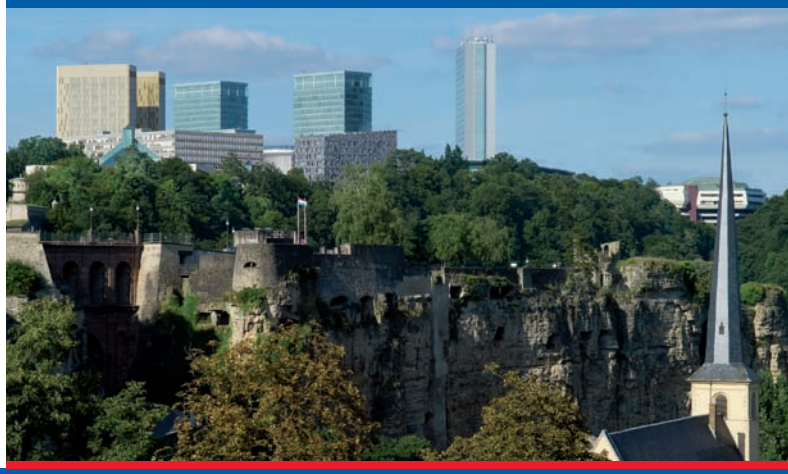
Luxembourg for Finance
Agency for the Development of the Financial Centre

Luxembourg for Finance (LFF) is the Agency for the Development of the Financial Centre. It is a public-private partnership between the Luxembourg Government and the Luxembourg Financial Industry Federation (PROFIL), under the Presidency of the Minister of Finance. Founded in 2008, its objective is to promote the expertise of the financial centre and the diversification of its services abroad through different communication channels.

The agency continuously monitors global trends and evolutions in finance in order to identify development opportunities for the Luxembourg financial centre and to adapt communicational measures to different target markets and target groups. It is also the first port of call for foreign journalists.

In cooperation with the various professional associations, LFF develops documentation on products and services available in Luxembourg and their relevant legal and regulatory framework.

Furthermore, LFF organises seminars in international business locations and takes part in selected world-class trade fairs and congresses.



www.luxembourgforfinance.com

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