

How we can support you

Audit and Legal services

- Selection of the optimal legal and tax structure for your MIV;
- Setting-up of structures for NGO/ public-private partnerships;
- Assessment and due diligence of MFIs across the globe;
- Audit services for your MIV.

Tax services

- Choice of an appropriate domicile and tax efficient organisational structure;
- Review, consultations and liaison with local regulatory authorities, where and if appropriate;
- Advice and consultation regarding regulatory and fiscal compliance requirements;
- Tax due diligence;
- Regulatory, tax and accounting advice regarding the repatriation of funds to investors, e.g. management schemes.

Advisory services

- Trainings on Operational, Financial and Industry aspects of microfinance;
- Development of Strategic and Operating Frameworks for MIV;
- Assessment and Structuring of Private Equity Investment models;
- Social/Environmental Impact Assessment (SEIA) and Sustainability Reporting of MIV;
- Socio-Economic Efficiency Optimisation of the MIV and MFIs;
- Development and Optimisation of Governance, Risk and Compliance structures and processes of MFIs;
- Microfinance sector diagnostics, Knowledge Management, surveys and research on microfinance themes;
- Third Party Assurance for all microfinance stakeholders.

Why PwC Luxembourg?

PwC Luxembourg (www.pwc.com/lu) has about 2,100 professionals from 57 different countries. PwC firms provide industry-focused assurance, tax and advisory services to enhance value for their clients. More than 169,000 people in 158 countries in firms across the PwC network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

Our people working alongside you

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Microfinance in Luxembourg



Investing in People

Microfinance, which started as a small movement to help the poorest households of developing countries by providing them with access to finance and savings services, has soared tremendously over the past few years.

Grand claims have been made that microfinance can end poverty. What makes microfinance such an appealing idea is that it offers hope to those who are traditionally marginalised and financially excluded.

Microfinance

Time to take the credit

With foreign capital investments in microfinance over USD 24 billion in December 2010 according to CGAP (Consultative Group to Assist the Poor), this asset class is attracting a broad range of socially and financially oriented institutional, private and public investors. According to Symbiotics, there are more than 100 microfinance investments vehicles (MIVs) worldwide, with a total of USD 6.8 billion in assets under management at the end of 2010. MIVs asset growth has slowed down for the third consecutive year to 10% in 2010 (against 25% in 2009, 34% in 2008 and 86% in 2007) and are set to grow an estimated 21% in 2011.

(Source: Symbiotics 2011 MIV Survey Report)

Potential issues

With the economy subdued, MIVs face a paradox situation as,

1. They are striving to maintain and increase their profitability in a difficult environment which could see the surge of bad loans and increased risk for microfinance institutions (MFIs) in which they invest.
2. The opportunities for MIVs to invest in Tier 1 MFIs defined as being mature, regulated and financially sustainable - which account for only 1-2% of all MFIs is diminishing. Hence the trend is clearly to invest in Tier 2 MFIs, which have not yet reached a mature institutionalised stage as yet.



How to go forward?

MIVs will have to strengthen their due diligence and analysis of MFIs, as well as their own risk management systems. For MFIs they will have to develop their governance, risk and compliance processes in order to be able to compete for capital from MIVs.

In addition, the selection of the optimal structure to maximise shareholder value and the implementation of a clear social impact assessment metrics will be crucial with investors demanding not only the optimal investment return but also the social impact of the vehicle.

How does Luxembourg compare?

Luxembourg is the Europe's leading domiciliation country for MIVs with 29 microfinance UCIs (Undertakings for Collective Investments), representing a total value of USD 3.5 billion according to the CSSF. This represents:

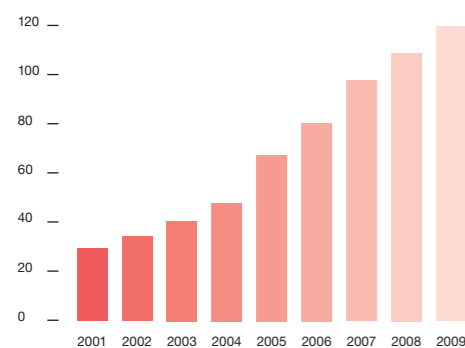
- 51% of worldwide MIVs assets (source: ALFI brochure: Microfinance Investment Vehicles)
- 28% of all MIVs

Supportive regulations and proximity to service providers such as auditors and custodians, facilitate a fast and effective set-up of investment structures.

MIVs one can choose from a wide variety of structures in Luxembourg such as:

- UCIs Part II funds (under the 2002 Law)
- Specialised Investment Funds (SIFs)
- "Société d'Investissement à Capital Risque" (SICARs)
- Securitisation vehicles
- Structured products

Number of MIVs worldwide



Source: CGAP

Case study

Strengthening the Internal Control Systems of microfinance institutions (MFIs)

Context

A well-known Development Agency, in partnership with the "Banque Centrale des Etats d'Afrique de l'Ouest" (BCEAO), undertook an ambitious programme that aims to strengthen the inclusive financial sector in eight countries in Western Africa (WAEMU zone).

The programme was designed to address multiple challenges facing the WAEMU countries. This included adapting the legal and regulatory framework for microfinance sector; strengthening sector surveillance through a common credit bureau; improving financial information reporting through effective auditing, and strengthening the institutional capacities of MFIs.

PwC was requested by the Development Agency to assist, along with others, to develop the Internal Control Systems for MFIs.

This was to be done by providing the MFIs with a number of tools (guides, training toolkits), train local dedicated deployment agents and support them during the implementation process.

Our approach

Objectives

PwC Luxembourg designed and deployed a practical internal control framework guide which includes all recent regulation updates of the microfinance industry for adaptation and direct use by MFIs. This was done in two distinct phases in all eight countries in the WAEMU region.

First phase: Preparation of the Guide

PwC Luxembourg applied a participative approach to understand the specificities of

MFIs in the geographical area and leveraged on the expertise of various stakeholders. This included:

- Identifying and documenting all types of MFIs and their characteristics;
- Engage in dialog with a sample of 42 MFIs in the 8 countries to gather their views on what could be an adequate internal control system (this included visits, interviews, exchange of information and documentation);
- Exchanging views with a number of auditors to microfinance institutions in Western Africa;
- Documenting all internal control processes and practices that existed in the microfinance industry;
- Understanding the specificities of the microfinance industry and the large number of products;
- Identifying gaps between local practices and internal controls best practices;
- Preparing a draft guideline for Internal Controls Systems for MFIs;
- Submitting the guide for review to 42 MFIs and the auditors which participated to the exercise ;
- Finalising the internal control methodological guide based on the inputs received.

Second Phase: Deployment of the Guide

PwC applied a pyramidal approach to foster the most effective understanding and ownership of internal control concepts. The project worked with 240 MFIs in the eight countries. The phase of the project included:

- Training 15 local professionals in the 8 countries, called local agents;
- Training selected staff from the 240 MFIs by the 15 local agents to the content of the guide and concepts of an effective internal control framework;

- Set-up of a dedicated website collecting data and providing statistics regarding internal controls of MFIs and available to all parties through different user profiles;
- Design of a questionnaire allowing MFIs to self-assess their Internal Control System;
- Based on the answers to the questionnaire, creation of a personalised Institutional Action Plan (IAP) automatically generated via the website to be implemented within the MFIs;
- Support and technical assistance provided to the MFIs on the field.

The outcomes

- We provided our client with an internal control guide designed for the microfinance industry updated with all new regulations applicable to the microfinance sector in Western Africa;
- Our client benefited from a report on the existing level of internal control of microfinance institutions;
- The participative approach facilitated the stakeholders' ownership of internal control concepts;
- A large number of MFIs were trained on the guide's content and concepts linked to internal control;
- A large number of institutional action plans were deployed within the MFIs;
- We provided a wide assistance to more than 200 institutions in the deployment of their action plan, mitigated difficulties they faced and provided solutions to continue smooth running of the deployed Internal Control System.

You can download this guide for free in French, from: <http://www.lamicrofinance.org/content/article/detail/27851>

Microfinance Investment Vehicles
domiciliation in Luxembourg

3.5
US\$ billion