

LuxFLAG Microfinance Label Eligibility Criteria

In order to obtain the LuxFLAG Microfinance Label, an Applicant Investment Fund and its Manager must comply with the following Eligibility Criteria set by LuxFLAG:

1) The Applicant Investment Fund shall:

- have a microfinance/inclusive finance strategy in line with its sustainable investment objective;
- have a microfinance/inclusive finance¹ portfolio corresponding to at least 70% of the Applicant Investment Fund's total assets excluding cash²;
- have liquidity levels in line with its investment policy;
- have an exclusion list or policy in line with international standards or frameworks³.
- conduct initial and ongoing due diligence with a social performance dimension on 100% of investees (MFIs/MSPs)⁴ and is expected not to engage with MFIs/MSPs and any other financial intermediary which have direct or indirect involvement with activities listed in the above-mentioned exclusion policy.

2) The Manager of the Applicant Investment Fund shall:

- demonstrate best market practices⁵; and
- be duly authorized by a competent supervisory authority of an EU Member State, or subject to a regulatory and/or supervisory regime that could be considered equivalent to that of EU Member States⁶.

¹ See definitions in Appendix - Definitions.

² A transition period of three (3) years as from the date of the implementation of the revised criteria applies for Fund managers to reach 70%.

³ A non-exhaustive list includes those established by development finance institutions (DFIs), UN organizations, the International Finance Corporation (IFC) Exclusion List, or any other recognized standards.

⁴ The due diligence on MFIs/MSPs are expected to cover a client protection dimension using proprietary methodology or recognized frameworks.

⁵ This documentation could be such as but not limited to SFDR Pre-contractual disclosures, Impact/Social report, CSR/Sustainability guidelines/policy, Annual CSR/Sustainability report, Engagement policy, Active ownership policy, etc. published at the level of the Manager of the Applicant Investment Fund or at the level of its group.

⁶ The equivalence of regulatory and/or supervisory frameworks of non-EU countries with the EU framework will be assessed on the equivalence decisions of the European Commission and the Luxembourg national supervisory authority.

Appendix – Definitions

Microfinance is the provision of productive micro-loans (including but not limited to loans supporting income-generating activities education loans and salary-based loans to micro-entrepreneurs and micro and small enterprises) and/or savings and/or insurance (micro-insurance) and/or transfer services and/or other financial products and services to low-income groups and the ones excluded from the traditional financial system. Microfinance doesn't take into consideration consumer loans. This definition applies at a Microfinance Service Provider level.

Inclusive finance refers to a wide range of financial products and services (loans, savings, insurance, money transfers, payment solutions) that meet the needs of the entire population, including of the poorest people. These products and services aim to ensure that small and medium-sized enterprises have the opportunity to access and use financial services effectively.

Microfinance institution (“MFI”) / Microfinance Service Provider (“MSP”) is a registered institution that provides one or more of the microfinance / inclusive finance services mentioned above (such as banks, non-banking financial institutions, NGOs, mobile and electronic money providers, insurers, mutual investment funds).

“Micro-loan” definition of LuxFLAG: average loan amount / GNI per capita (PPP method, current international USD) of operating country lower or equal to 150%.

Annex – Microfinance Label Exclusion Policy

The exclusion list or policy should be set up at the fund level or asset manager level and should exclude at minimum controversial jurisdictions, controversial behavior and controversial weapons.

Controversial behavior: the Applicant Investment Fund should not engage with MSPs or provide financing to MSP which may be involved (whether alleged or actual involvement), whose management bodies or any other party financed by the MSP may be involved in severe or very severe harm in violation of the UN Global Compact Principles⁷, the UN Guiding Principles on Business and Human Rights⁸, ILO conventions⁹, and OECD Guidelines for Multinational Enterprises on Responsible Business Conduct¹⁰.

Controversial Jurisdictions: the Applicant Investment Fund should not engage with MSPs listed in countries, or related to individuals or other entities in a particular country identified and as specified in the United Nations Security Council Sanctions¹¹ and those high-risk jurisdictions subject to a “Call for Action” identified by the Financial Action Task Force¹².

Controversial Weapons: the Applicant Investment Fund should not engage with MSPs involved in controversial weapons trade and production. Controversial weapons include anti-personnel mines, cluster munitions, chemical, and biological weapons, white phosphorus, depleted uranium weapons and nuclear weapons.

⁷ <https://unglobalcompact.org/what-is-gc/mission/principles>

⁸ <https://www.ohchr.org/en/publications/reference-publications/guiding-principles-business-and-human-rights>

⁹ <https://www.ilo.org/global/standards/introduction-to-international-labour-standards/conventions-and-recommendations/lang--en/index.htm>

¹⁰ <https://www.oecd.org/corporate/mne/>

¹¹ <https://www.un.org/securitycouncil/sanctions/information>

¹² <https://www.fatf-gafi.org/en/home.html>