

LuxFLAG Microfinance Label

Eligibility Criteria

In order to obtain a 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 portfolio corresponding to at least 50% of the Microfinance Investment Vehicle's total assets;¹
- determine its social performance objective and report accordingly;
- have at least 50% of its microfinance portfolio invested in Microfinance Institutions rated by an independent microfinance rating agency recognized by LuxFLAG or regulated/supervised by competent local authorities;
- be classified as an Article 9 financial product within the meaning of the Sustainable Finance Disclosure Regulation (“SFDR”);
- have exclusionary criteria; and
- comply with the following legal and governance criteria:
 - take the form of a distinct legal entity;
 - segregate the functions of custody and management of assets;
 - regularly report and publish audited financial and other information for investors (minimum annual reporting); and
 - apply the principle of risk diversification.²

2) The Manager of the Applicant Investment Fund shall:

- demonstrate best market practices;³ 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 States.⁴

¹ LuxFLAG’s Board of Directors may permit allowance to be made in this calculation (a) under certain exceptional circumstances (including, but not limited to committed investments, market constraints, portfolio or capital reorganizations), for balances of cash or cash equivalents which are temporarily unusually high and (b) for central bank deposits required to be made by investee entities, whose ability to on lend the full amount invested by the applicant is thereby restricted. In both cases, the applicant must duly justify the application of the allowance to the calculation.

² This criterion does not apply to entities specialized in risk capital

³ This documentation could be without limitation in the form of 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.

⁴ The equivalence of regulatory and/or supervisory frameworks of non-EU countries with the EU framework will be assessed premised on the equivalence decisions of the European Commission and the Luxembourg national supervisory authority.