Luxembourg Microfinance
and Development Fund

FINAL

SOCIAL AND ENVIRONMENTAL PRINCIPLES

[JUNE] 2023

Preface

1. This document describes the Social and Environmental ("SE") Principles of the Investment for Development SICAV – Luxembourg Microfinance and Development Fund ("LMDF" or the "Fund").

2. A "principle" for this purpose is a fundamental proposition (SOED, Oxford University Press 1973 p.1672) incorporated in the Fund's Theory of Change. It is aspirational in characteristic, reflected in the impacts that the Fund seeks to bring about as well as in the risks and opportunities that the Fund seeks to manage. The SE Principles translate into SE standards and underpin the SE aspects of its policies, practices and financing.

3. The SE Principles underpin the Fund's Theory of Change, which aims to provide finance to emerging microfinance institutions (MFIs) addressing the financial needs of poor individuals, especially women, youth and rural population. The Fund also aims to be an attractive sustainable and accessible investment product.

4. The SE Principles of the Fund - along with its SE standards, policies and practices - are operationalised through the Fund's Social and Environmental Management System.

5. The SE Principles are also reflected in the Fund's contractual and informal relationships with investees and all other stakeholders, as well as in the governance of the Fund. They are an integral part of the Fund's monitoring and reporting system. Implementation may be promoted through Technical Assistance Programs associated with the Fund's activities.

Overarching Principles

6. The Fund's vision and mission statement and its theory of change anchor its objectives in the interest of sustainable development and poverty reduction by addressing the financial needs of those micro and small entrepreneurs most excluded from traditional finance. This focuses on less and least-developed countries and groups with a high degree of exclusion, particularly women, youth and those living in rural areas.

7. The Fund's investments priorities is to contribute positively to Sustainable Development Goals, particularly the goal to mobilise the resources to end poverty (SDG 1), to end hunger, achieve food security and promote sustainable agriculture (SDG 2), to end discrimination against women and girls (SDG 5), to promote universal access to banking, insurance and financial services (SDG 8) and to encourage development assistance and investment in the least developed countries to reduce inequalities (SDG 10).

8. While firmly focused on social development, the Fund recognises that growth is only sustainable if nature is managed sustainably. Therefore, the Fund strives to align itself with the Paris Agreement under the UNFCCC, preserving biodiversity as set out in the Montreal Agreement under the UNCBD and the land restoration objectives under the UNCCD.

9. The Fund requires that all its investments comply with national laws and applicable regulations, including legal obligations of the host country's adherence to relevant international legal frameworks, notably those cited above.

10. The Fund recognises the responsibility of economic agents not only to respect human rights but also to address adverse human rights impacts that its financing might cause or contribute to. In this regard, the Fund adheres to the relevant provisions of the UN Global Compact and the OECD Principles for Multinational Enterprises.

11. The Fund's procedures are designed and applied to ensure that its financings do not facilitate money laundering or the financing of terrorist activities or arms proliferation.

12. The Fund further adheres to several standards and frameworks, including the Cerise + SPTF (Social Performance Task Force) Universal Standards for Social and Environmental Performance Management and the relevant LuxFlag labels' provisions.

Social Principles

13. The Fund's financing shall contribute to social advancement through access to appropriate financial services. The Fund invests in financial actors:

    - having objectives and practices which strive for a positive change in the lives of ultimate beneficiaries, particularly among women, youth and rural populations.

- who do not discriminate on the ground of ethnicity, religion, gender, or age.

- having policies and procedures which treat clients responsibly and prevent harm to ultimate beneficiaries. Taken as a whole, the financial actor has constituted adequate safeguards, including for risks arising from the prevalent over-indebtedness of clients, harmful collection practices and more in general fair and respectful treatment of clients.

- ensuring adequate protection of client data and their treatment, while promoting the transparent communication with clients, including comprehensible contracts and their terms and conditions and effective complaint mechanisms.

- having sound governance systems which facilitate the consideration of clients' interests alongside their own interests, including a reasonable balance between pricing to clients and their own financial objectives and reflecting the diversity of shareholders or members, clients and stakeholders, including an adequate representation of women on the board of directors.

- treating their employees with respect and fairness, paying adequate salaries while maintaining justifiable differences in salary levels across its ranks and working towards the elimination of any gender pay gap. The financial actor must respect local labour laws and offer adequate social protection to employees. In addition, the financial actor needs to respect and monitor compliance with core labour standards as defined by the International Labour Organisation.

- who are committed to transparency in their operations and financial and non-financial position and performance.

- operating in jurisdictions which have conducive frameworks for the above goals.

14. Conversely, the Fund shall not invest in financial actors:

- Who are or have been in gross violation of Client Protection Standards.

- Who do not and are not open to adhering to industry standards in terms of social and environmental performance, client protection and treatment of employees.

- Financing acquisition, distribution or transport of any weapons or ammunition.

- Financing any activity or project which leads to the forceful resettlement of communities, affects negatively indigenous people and/or harms cultural heritage.

- Financing any activity involving gambling, casinos, pornography, or prostitution.

- Financing any activities involving harmful or exploitative forms of forced labour or harmful child labour.

15. At any time during the investment, the Fund should avoid and minimise any potential negative impact and promote appropriate measures to reinforce positive effects on the investees. Therefore, the Fund shall have processes to assess compliance with minimum standards and set limits when it considers practices to be at risk of causing harm.

16. The Fund shall not intentionally facilitate excessive credit growth by providing substantial financing to multiple actors active in the same geographies and targeting the same beneficiaries.

17. The Fund accepts that its investment strategy entails a crowding in of additional investors, who may be able to provide finance at a larger scale and more attractive conditions, which may eventually render the Fund's financing of the financial actor obsolete. Accordingly, the Fund may actively promote such a trend through collaboration with other investors.

Environmental Principles

18. The Fund recognises that microfinance and inclusive financial services are not, per default, beneficial to nature and may contribute to the loss of forests, biodiversity and land degradation. The Fund and its financial partners should ensure that their financing practices minimise environmental harm. The Fund also recognises the sector's role in fostering positive change in agricultural, forestry and micro-enterprise production practices, through the development of financial products with positive environmental impact and training and awareness building for clients and communities.

19. The Fund subscribes to the objectives of the Paris Agreement under the UNFCCC to limit global warming to below 2 degrees Celsius compared to pre-industrial levels. Accordingly, the Fund aims to systematically measure the scope 1, scope 2 and scope 3 emissions across its portfolio in accordance with accepted carbon accounting standards and ensure alignment with the Paris Agreement, including the Nationally Determined Contributions of the financial actor's host country.

20. The Fund recognises that biodiversity loss is a global threat comparable to and interlinked with climate change. Therefore, in the due diligence process the Fund systematically evaluates the risks its financing poses to biodiversity loss, particularly in regions with areas critical to preserving biodiversity, as established by the International Union for Conservation of Nature (IUCN). Furthermore, the Fund ensures that its financing shall not contribute to deforestation or degradation of natural forests.

21. The Fund shall not invest in financial actors:

- Operating in environmentally sensitive areas without having established or being in the process of implementing adequate minimum safeguards to prevent environmental harm.

- Promoting financing of activities harmful to the environment and/or contributing to significant greenhouse gas emissions (for example, converting forests into agricultural land or pasture).

- Financing activities which lead to significant water pollution, the production and use of hazardous materials, or the generation of hazardous waste.

- Financing entities generating material revenues from exploration, mining, extraction or distribution of coal, refined fossil fuels, including gaseous fossil fuels.

- Financing of any activity involving the illegal trade or transport of wildlife or wildlife products included in the endangered species list maintained under the CITES Convention.

- Financing any activity involving the production, use, trade-in, or distribution of Genetically Modified Organism seeds or transgenic horticultural crops.