Luxembourg Microfinance and Development Fund

Annex I Principles of Adverse Impact disclosure

Reporting period FY 2022

Table 1

Statement on principal adverse impacts of investment decisions on sustainability factors

Financial market participant: Product name: **Investing for Development SICAV –Luxembourg Microfinance and Development Fund (LMDF)** Legal entity identifier: **549300HPOC2R0U7FV725**
Summary Investing for Development SICAV – Luxembourg Microfinance and Development Fund considers principal adverse impacts of its investment decisions on sustainability factors. The present statement is the consolidated statement on principal adverse impacts on sustainability factors of LMDF and covers the fiscal year 2022.
Description of the principal adverse impacts on sustainability factors The Sub-Fund collected and reported PAI data to the best of its ability and, when applicable, by collecting data directly from microfinance institutions (MFI) or using reputable and recognized data providers and proxy data sources. Nevertheless, we note that PAIs are challenging to collect from microfinance institutions operating in developing countries. Since the regulatory and industry standardization around the methodologies and tools used to perform PAIs assessment is evolving and in order to serve the spirit of the regulation in determining the impact of MFIs, efforts are being made to work with the MFIs and/or data providers as the case may be to calculate or estimate the exposure of the MFI's underlying portfolio for the following PAIs. Despite the reservation raised above, some MFIs might be in a position to report on the following PAIs as presented on a case-by-case basis.

Indicators applicable to investments in investee companies							
Adverse sustainability indicator		Metric	Unit	Impact 2022	Data Coverage	Explanation	Actions taken, and actions planned and targets set for the next reference period
CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS							
Greenhouse gas emissions	1. GHG emissions	Scope 1 GHG emissions	tCO2e	440	96%	Note 2	Note 1
		Scope 2 GHG emissions	tCO2e	69	88%	Note 2	Note 1
		Scope 3 GHG emissions	tCO2e	10,369	90%	Note 2	Note 1
		Total GHG emissions	tCO2e	10,879	91%	Note 2	Note 1
	2. Carbon footprint	Carbon footprint	tCO2e/Meur	11	91%	Note 3	Note 1
	3. GHG intensity of investee companies	GHG intensity of investee companies	tCO2e/Meur	579	83%	Note 4	Note 1
	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	%	N.A.	N.A.	Note 5	Note 1
	5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed	%	60%	99%	Note 6	Note 1

		as a percentage of total energy sources					
	6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	%	N.A.	N.A.	Note 7	Note 1
Biodiversity	7. Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas		N.A.	29%	Note 8	Note 1
Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average	t/Meur	N.A.	N.A.	Note 9	Note 1
Waste	9. Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average	t/Meur	0.0003	65%	Note 10	Note 1

INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS							
Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	%	0%	92%	Note 11	Note 1
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	%	10%	92%	Note 12	Note 1
	12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	%	N.A.	N.A.	Note 13	Note 1
	13. Board gender diversity	Average ratio of female to male board members in investee	%	0%	98%	Note 14	Note 1

		companies, expressed as a percentage of all board members					
	14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	%			Note 15	Note 1

Description of policies to identify and prioritise principal adverse impacts on sustainability factors

Refer to LMDF website / ESG & SFDR Disclosures

Engagement policies

No engaement policy, refer to Note 1 on actions taken

References to international standards

Refer to LMDF website / ESG & SFDR Disclosures

Historical comparison

First year of report, no historical comparison available

Note: tCO2e: in tons of CO2 equivalent emissions // Meur: in millions of euros // GWh: Gigawatt hours // t: tons // %: percentage // N.A.: Not applicable

Table 3

Additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters

INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS						
Adverse sustainability indicator		**Unit**	**Impact 2022**	**Data Coverage**	**Explanation**	**Actions taken, and actions planned and targets set for the next reference period**
Social and employee matters	5. Lack of grievance/complaints handling mechanisms related to employee matters	%	17%	90%	Note 2	Note 1
	6. Insufficient whistle-blower protection	%	36%	90%	Note 2	Note 1

Notes on the Qualitative explanation for each PAI indicator and its calculation method

Table 1

Note 1 Actions taken

LMDF has not set specific quantified improvement targets for the PAIs, as this is the first year the Sub-Fund reports on certain indicators. Accuracy and depth of data collection is expected to progressively increase in the coming years. The Sub-Fact is working in partnership with the impact investors of the SPTF (Social Performance Task Force) to refine and further develop standard methodologies to collect and assess in a uniform and structured fashion the PAI indicators. Several pilots and tests are going to be conducted in the course of 2023 to ensure enhanced data collection.

Note 2

PAI 1, 2, 3 is the sum of the total greenhouse gas emissions in tonnes of the microfinance institution (MFI) in the portfolio weighted by the company's most recent available business value calculated in line with the PCAF approach for project finance.

PAI 1 scope 1 is calculated using proxy data and, more specifically, as direct emission of the MFI based on country emission per capita as reported by World Resources Institute's Climate Watch database multiplied by the MFI total staff and a working hours attrition factor, as well as the Sub-Fund’s own emissions. The emissions are weighted for the LMDF portfolio attribution factor (PCAF method).

PAI 1 scope 2 is calculated using proxy data and, more specifically, as a share of indirect emissions from electricity and heat (MtC02) as reported by IEA of the MFI based on country electricity consumption by the MFI total staff and a working hours attrition factor. The emissions are weighted for the LMDF portfolio attribution factor (PCAF method). The amount is negligible because MFI just consumes electricity and heating and does not produce it.

PAI 1 scope 3 is calculated using proxy data and, more specifically, as direct emission of the MFI based on country emission per capita as reported by the World Resources Institute's Climate Watch database multiplied by the number of clients and a working hours attrition factor adjusted for an additional attrition factor of 41% based on a review of relevant studies. The result is the adjusted for average outstanding loan balance (CGAP Consensus calculation) / GNI per capita. The emissions are weighted for the LMDF portfolio attribution factor (PCAF method). PAI 2 and 3 are calculated per the guidelines provided in Annex 1 Regulation (EU) 2019/2088.

Note 3

PAI 2 is calculated in accordance with the formula presented in the Annex I of Commission Delegated Regulation (EU) .../... supplementing Regulation (EU) 2019/2088.

Note 4

PAI 3 is calculated in accordance with the formula presented in the Annex I of Commission Delegated Regulation (EU) .../... supplementing Regulation (EU) 2019/2088.

Note 5

PAI 4 data are unavailable, but the Sub-Fund notes that MFIs do not directly derive revenues from the exploration, mining, extraction, production, processing, storage, refining or distribution in the fossil fuel sector, thus considering the specific PAI not applicable. However, to serve the spirit of the regulation in determining the impact of FMPs, efforts are being made to calculate or estimate the fossil fuel exposure of the MFI's underlying portfolio. All contracts signed by the portfolio investees forbid MFIs from engaging in any activity linked to fossil fuels.

Note 6

PAI 5 is calculated using proxy data by attributing the renewable energy share in total final energy consumption (TFEC) as reported by the 2022 UN Energy statistics pocketbook to the countries where the investees are located. The share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources weighted for the LMDF portfolio attribution factor (PCAF method).

Note 7

PAI 6 is non-applicable as MFIs do not classify as high-impact climate sectors.

Note 8

PAI 7 is the sum of companies in the portfolio that conduct activities in biodiversity-sensitive areas and/or are involved in controversies with serious environmental consequences. The specific indicator has been calculated using a sampling approach (based on location of branches of financed microfinance institutions). The share of loans allocated to the agricultural sector has been recorded for each investee. Investees with more than 40% of loans allocated to agriculture have been identified as specifically higher risk. For each investee, a sample of branches has been identified using a randomised approach, by locating them using the World Database score of Key Biodiversity Area as reported by the Integrated Biodiversity Assessment Tool (IBAT) as an indication for biodiversity sensitive areas. For MFIs with larger exposure to the agricultural sector, 35% of the branches have been checked against KBA scores, and 21% for those with no significant exposure to agriculture. The definition of what constitutes sufficient safeguards to be checked in the due diligence process is ongoing.

Note 9

PAI 8 is non-applicable as MFIs generate negligible emissions to water. However, to serve the spirit of the regulation in determining the impact of MFIs, efforts are being made to calculate or estimate the MFI's underlying portfolio emissions to water.

Note 10

PAI 9 is calculated using proxy data using the hazardous waste generated per capita (kg per capita) as reported by UNSD to the countries where the investees are located and the share of clients served. The result has been weighted for the LMDF portfolio attribution factor (PCAF method).

Note 11

PAI 10 is the sum of the weight of companies in the portfolio that have committed serious violations of the UN Global Compact and or the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises. The due-diligence process included a review of the organisation's labour relations and working practices, including written human resources policies protecting employees and creating a safe working environment, transparent communication and equal opportunities and effective feedback mechanisms. Discrimination against protected categories and responsible loan collection practices were also verified. MFIs are going monitored with World Check to ensure no serious violations are committed.

Note 12

PAI 11 is the sum of the portfolio companies' weight that has provided no evidence of a mechanism to monitor compliance with the UN Global Compact and or the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises. The due-diligence process included a review of the organisation's labour relations and working practices, including written human resources policies protecting employees and creating a safe working environment, transparent communication and equal opportunities and effective feedback mechanisms. Discrimination against protected categories and responsible loan collection practices were also verified. Considering that emerging microfinance institutions may be small in size with limited staff and limited degree of formalized procedures, it is acceptable that a small portion of the portfolio is implementing and enhancing certain practices as prescribed in the UNGC and by the OECD Guidelines.

Note 13

PAI 12 data are currently not available as the Sub-Fund is today not capable of reporting on the specific indicator, but efforts are being made to calculate or estimate the MFI's underlying portfolio unadjusted gender pay gap in the next reporting period.

Note 14

PAI 13 is the average ratio between male and female board members in investee companies, expressed as a percentage of all board members.

Note 15

PAI 14 is the share of investees involved in manufacturing or selling controversial weapons. All investees sign a contract with a clear exclusion list stating that MFI commits to not engage in or provide financing which may support the following activities: Production or trade in ammunition and weapons, military/police equipment or infrastructure.

Table 3

Note 16

PAI 5 is the lack of grievance/complaints handling mechanisms related to employee matters, and this was verified at the time of the due diligence process and as part of the ongoing monitoring of the MFI. Considering the small size and initial stage of development of the investees in the Sub-Fund portfolio, it is considered acceptable that a small portion of the portfolio is in the process of implementing and enhancing certain practices as prescribed by the specific indicator.

Note 17

PAI 6 is insufficient whistle-blower protection, which was verified during the due diligence process and as part of the ongoing monitoring of the MFI. Considering the small size and initial stage of development of the investees in the Sub-Fund portfolio, it is considered acceptable that a small portion of the portfolio is in the process of implementing and enhancing certain practices as prescribed by the specific indicator.