Microfinance in Europe: Survey Report

2020 edition

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Executive Summary

This Overview Survey presents a snapshot of the microfinance sector from 2018-2019, before the start of the Covid-19 pandemic. However, since the data was collected during the summer 2020, this report is being published post-pandemic. This leads to a special result since the report can be seen as the most recent data available on the European microfinance sector before it was hit by the pandemic. Nevertheless, for this reason, the report also includes a chapter on the preliminary impact of the pandemic in 2020.

This is the 9th edition of this Overview Survey for the European Microfinance Network (EMN), and the third time it was carried out in collaboration with the Microfinance Centre (MFC). The collaboration between these two networks allows the survey to cover the lion's share of the European microfinance sector, delivering the most complete dataset available at this time.

The study covered 143 institutions from 29 countries and captures data for 2018-2019 time period.

Key findings

In terms of **institutional characteristics**, the sector is primarily made up of non-bank MFIs (91%) operating in the market under various legal types. Western Europe has more bank microcredit providers, while Eastern Europe has more credit unions. Microcredit providers employ approximately 11,000 staff directly, of which 22% are volunteers often seen in NGOs and banks in Western Europe. There is a clear gender skew, with 65% of paid staff being female, particularly amongst cooperatives and credit unions. The institutional characteristics have remained largely stable, with the results not deviating strongly from the previous survey, which was to be expected.

A majority (63%) of MFIs provide **non-financial services**, particularly in Western Europe. Institutions serving personal loans tend to more often have client development services, such as financial education. MFIs without personal loans on offer tend to deliver business development services (e.g. mentoring, consulting). Only 28% of MFIs use digital channels to deliver non-financial services and these are mostly large MFIs. Overall, this wave of the survey confirms the importance of the non-financial services and the shift towards the digital provision of (at least part of) these key services.

Both the microloan portfolio and the number of active borrowers showed a growing trend that resulted in a significant expansion of the **sector's size**, in line with previous survey results. In 2019, the total number of active borrowers was 1.26 million (+14% compared to 2018) with a gross microloan portfolio outstanding of EUR 3.7 billion (+15%). A large percentage of the portfolio is in the hands of a few providers. Business loans constitute 55% of the total microloan portfolio while personal loans make up 45% of the portfolio. The personal loan segment observed higher growth (23%) than business loan segment (12%). This growth follows the same pattern observed in previous years, with the market growing and becoming more mature every year. The consistent growth of personal loans is worth highlighting, as these are mostly used for family needs, and only 13% are used for professional development. This is particularly remarkable due to the lack of policy framework for such increasing needs.

The **characteristics of loans** have also stayed relatively stable compared to other years. Business microloans are larger on average, with longer maturity and lower APR compared to personal loans. APRs vary substantially between institutional types and region. NBFIs and Eastern European MFIs charge the highest interest rates.

In terms of **social objectives**, financial inclusion remains the number one goal of MFI operations, illustrating a stable vision for the sector. Women and the rural population are the two main target groups. A third of institutions also prioritise ethnic minorities/migrants/refugees.

The **financial performance** of most institutions remains in good health: 76% of institutions are operationally self-sustainable. The survey measured trends across several financial variables that are further elaborated in the report.

In terms of **funding**, long-term borrowed funds remain the main source of financing of the loan portfolio. The total value of needed funding is EUR 800 million with the median value of EUR 7.6 million. The aggregate need for funding is higher for Eastern Europe (EUR 482 million) than in the West (EUR 356 million). In both regions, the highest demand is for debt financing. Additionally, Western MFIs seek more grants/subsidies and guarantees than MFIs in the East.

The main challenges to access required funding is unavailability of funding (41% of MFIs), the lack of guarantees to cover risk (38%of MFIs) and funding price (37% of MFIs). Four-fifths of the institutions do not experience any challenges to access funding.

Regarding **recent trends**, we found many MFIs engaged in green technologies, with 16% of MFIs having dedicated energy-efficiency loan products. Moreover, 23% of institutions plan to introduce more of such products in the future. A majority of providers have digital solutions to support clients during the loan lifecycle, with smaller-scale MFIs having less sophisticated digital tools available. About half of respondents plan to introduce new digital solutions in the next three years.

Key findings in perspective

Overall, the results reflect a steady growth of the microfinance sector over the past two years. Total growth remained high in terms of portfolio size and new customers, while the sector's social mission and organisational characteristics remained largely unchanged. We observe some differences between Western and Eastern Europe, but there are more similarities than differences in general.

If we contrast the supply of microcredit in 2019 (EUR 3.7 billion) to the estimated annual financing gap of EUR 12.9 billion proposed by a May 2020 European Commission market analysis publication[1] (based on unmet demand), **we can conclude that the sector still has substantial growth opportunities before it fully serves the market**.

Anticipated impact of Covid-19 pandemic

As mentioned before, it is impossible to look at a snapshot of 2018-2019 without acknowledging that the immediate future of the sector will be drastically impacted by Covid-19. As we gathered data for this report, we conducted several interviews with MFIs to do a stocktaking exercise and determine the areas most likely impacted by the crisis.

Despite the pandemic, most MFIs perceive their situation as good. Nearly 70% of MFIs considered themselves to be in a good situation while only 6% assessed their situation as bad. The key challenges identified by MFIs are associated with the income volatility of clients, as well as clients' low digital and financial capabilities. The external challenges were less acute, with access to funding and political interference as the most frequent concerns.

MFIs are optimistic about the future: more than half of institutions think that business prospects will improve in the next 12 months. The impact of the lockdown in March-April 2020 was severe in the beginning because of its suddenness and the severity of restrictions, but over time most institutions found ways to ensure business survival and the continuity of operations. MFIs that operate in an environment with strong government support for micro and small businesses felt the impact of the pandemic less strongly, as did MFIs with strong partners and supportive stakeholders.

Institutions that completed their digital transformation could more easily adapt to safety requirements and were more ready to use digital tools to communicate with clients, process loans and implement options for remote work.

1 Microfinance in the European Union: Market analysis and recommendations for delivery options in 2021- 2027

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