**Sector composition**

- Three types of institutions have comparable presence: NGOs, cooperatives/credit unions and NBFIs.
- Western Europe has more bank microcredit providers, while Eastern Europe has more credit unions.

**Distribution of MFIs by institutional type**

(N=143)

- NGO: 37%
- Cooperative/Credit union: 26%
- NBFI: 27%
- Bank: 9%
- Govt. body: 1%

**Distribution of MFIs by institutional type and region**

(N=143)

- East:
  - NGO: 32
  - Cooperative/Credit union: 27
  - NBFI: 36
  - Bank: 1
  - Govt. body: 2
- West:
  - NGO: 21
  - Cooperative/Credit union: 10
  - NBFI: 2
  - Bank: 2
  - Govt. body: 11
Human resources

- 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.

Average share of volunteers among total staff by institutional type \( (N=117) \)

<table>
<thead>
<tr>
<th>Institution Type</th>
<th>Average Share of Volunteers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td>34%</td>
</tr>
<tr>
<td>Cooperative</td>
<td>8%</td>
</tr>
<tr>
<td>NBFI</td>
<td>10%</td>
</tr>
<tr>
<td>NGO</td>
<td>30%</td>
</tr>
</tbody>
</table>

Avg. share of women among paid staff by MFI type \( (N=107) \)

<table>
<thead>
<tr>
<th>MFI Type</th>
<th>Average Share of Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cooperative</td>
<td>79%</td>
</tr>
<tr>
<td>NBFI</td>
<td>58%</td>
</tr>
<tr>
<td>NGO</td>
<td>60%</td>
</tr>
<tr>
<td>Bank</td>
<td>52%</td>
</tr>
</tbody>
</table>
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.
Non-financial services

Only 28% of MFIs use digital channels to deliver non-financial services and these are mostly large MFIs.
At the end of 2019, the total number of active borrowers was 1.26 million (+14% compared to 2018).

The gross microloan portfolio outstanding of EUR 3.7 billion (+15%).

Distribution of the total gross loan portfolio by region and institutional type \((N=129)\)

Distribution of active borrowers by region and institutional type \((N=129)\)
Business and personal loans

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%).

Personal loans are mostly used for family needs, and only 13% are used for professional development.

Distribution of the total gross loan portfolio by loan type and institutional type (N=122)

Distribution of the personal microloan portfolio by loan purpose (N=51)
Loan characteristics

- Business microloans are larger on average, with longer maturity and lower APR compared to personal loans.
- APRs vary substantially between institutional types and region.
- NBFI and Eastern European MFIs charge the highest interest rates.

### Business and personal microloan attributes by region

<table>
<thead>
<tr>
<th></th>
<th>Business microloans</th>
<th>Personal microloans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average outstanding loan balance</td>
<td>6,145</td>
<td>2,420</td>
</tr>
<tr>
<td>Average term (months)</td>
<td>42.5</td>
<td>33.5</td>
</tr>
<tr>
<td>Average interest rate APR</td>
<td>13.0%</td>
<td>16.3%</td>
</tr>
</tbody>
</table>

### Average interest rate APR on business loans of NGOs and NBFI

<table>
<thead>
<tr>
<th>Region</th>
<th>NBFI</th>
<th>NGO</th>
<th>West</th>
</tr>
</thead>
<tbody>
<tr>
<td>East</td>
<td>12.9</td>
<td>25.5</td>
<td>14.8</td>
</tr>
<tr>
<td>West</td>
<td>7.3</td>
<td>15.3</td>
<td>6.0</td>
</tr>
</tbody>
</table>
Financial inclusion remains the number one goal of MFI operations.
Social performance

Women and the rural population are the two main target groups. A third of institutions also prioritise ethnic minorities/migrants/refugees.

Target groups served by MFIs
(N=114 for number of MFIs, N=81 for number of borrowers from specific target groups)
Financial indicators

- 76% of institutions are operationally self-sustainable.
- Banks have the highest OSS and NGOs the lowest, but above 100%, on average.
- Eastern European MFIs have higher portfolio yields and financial expenses while the operating expenses were comparable with Western European MFIs.

**Average operational self-sufficiency ratio by institutional type** *(N=85)*

<table>
<thead>
<tr>
<th>Institutional Type</th>
<th>Average OSS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td>136%</td>
</tr>
<tr>
<td>Cooperative</td>
<td>117%</td>
</tr>
<tr>
<td>Government body</td>
<td>105%</td>
</tr>
<tr>
<td>NBFI</td>
<td>105%</td>
</tr>
<tr>
<td>NGO</td>
<td>103%</td>
</tr>
</tbody>
</table>

**Average values of income and expense by ratios**

<table>
<thead>
<tr>
<th>Portfolio yield</th>
<th>Operating expense ratio</th>
<th>Loan loss provision expense</th>
<th>Financial expense ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>N=83</td>
<td>N=82</td>
<td>N=66</td>
<td>N=72</td>
</tr>
<tr>
<td>16%</td>
<td>15%</td>
<td>2.0%</td>
<td>3.5%</td>
</tr>
</tbody>
</table>
Portfolio quality

- Average PAR30 – 10.6%
- Banks report the healthiest portfolio
- Western NGOs and NBFIs exhibit lower portfolio quality than Eastern institutions

Distribution of MFIs by institutional type and PAR30 ratio (N=87)

Distribution of MFIs by institutional type and PAR30 ratio (N=54)
Funding structure

Long-term borrowed funds remain the main source of financing of the loan portfolio.

Distribution of funding source by institutional type

- **Funding Sources**
  - Long-term time deposit (>1 year)
  - Long-term borrowed funds (>1 year)
  - Subordinated debt
  - Other long-term liabilities (including conditional grants)
  - Short-term liabilities
  - Paid-up share capital
  - Donated equity
  - Reserved/retained earnings/accumulated losses
  - Other equity

- **Institutional Types**
  - NGO
  - NBFI
  - Cooperative/Credit Union
  - Bank

<table>
<thead>
<tr>
<th>Institution</th>
<th>Long-term time deposit (&gt;1 year)</th>
<th>Long-term borrowed funds (&gt;1 year)</th>
<th>Subordinated debt</th>
<th>Other long-term liabilities (including conditional grants)</th>
<th>Short-term liabilities</th>
<th>Paid-up share capital</th>
<th>Donated equity</th>
<th>Reserved/retained earnings/accumulated losses</th>
<th>Other equity</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>NGO</td>
<td>0%</td>
<td>45%</td>
<td>5%</td>
<td>3%</td>
<td>28%</td>
<td>2%</td>
<td>3%</td>
<td>13%</td>
<td>13%</td>
<td>100%</td>
</tr>
<tr>
<td>NBFI</td>
<td>0%</td>
<td>45%</td>
<td>4%</td>
<td>1%</td>
<td>23%</td>
<td>13%</td>
<td>1%</td>
<td>9%</td>
<td>5%</td>
<td>100%</td>
</tr>
<tr>
<td>Cooperative/Credit Union</td>
<td>15%</td>
<td>20%</td>
<td>4%</td>
<td>27%</td>
<td>11%</td>
<td>1%</td>
<td>6%</td>
<td>17%</td>
<td>1%</td>
<td>100%</td>
</tr>
<tr>
<td>Bank</td>
<td>0%</td>
<td>68%</td>
<td>5%</td>
<td>5%</td>
<td>16%</td>
<td>15%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>100%</td>
</tr>
</tbody>
</table>
The total value of needed funding is EUR 800 million.

The aggregate need for funding is higher in Eastern Europe (EUR 482 million) than in the West (EUR 356 million).

Distribution of the value of funding needs of MFIs by type of instrument and region (N=61)
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).
Green microfinance

Many MFIs engage in green technologies, with 16% of MFIs having dedicated energy-efficiency loan products.

23% of institutions plan to introduce more of such products in the future.

Distribution of MFIs by region and engagement in green microlending (N=114)
The majority of providers have digital solutions to support clients during the loan lifecycle.

About half of MFIs plan to introduce new digital solutions in the next three years.
In May 2020, 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.

**Average rating of the severity of challenges**
(from 1-negligible to 5-very significant) (N=108)

- Income volatility of client: 3.1
- Digital capability of clients: 3.0
- Financial capability of clients: 2.7
- Funding: 2.7
- Political interference: 2.6
- High default rates of clients: 2.5
- Regulation: 2.3
- Low demand: 2.3
- Technology management: 2.1
- Strategy: 2.0
- Staffing: 2.0
- Client relationship: 1.8
- Social climate inside the MFI: 1.6
MFIs are optimistic about the future: more than half of institutions think that business prospects will improve in the next 12 months.

Distribution of MFIs by perception of state of business in the next 12 months (N=112)
Impact of the Covid-19 pandemic

- 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.
Conclusions

- High concentration of the sector - small number of large MFIs and numerous small MFIs more vulnerable to the impact of the pandemic.

- Continued growth of personal loans segment, with purpose of financing general family needs – not in line with new ESF+ definition of microfinance.

- Growing demand from microenterprises for loans above EUR 25,000

- Continued engagement of MFIs in provision of non-financial services, more often in the West than in the East.
Conclusions

- On-going digitalization of MFI-client interactions, mainly in lending process; delivery of non-financial services through personal interaction.

- Prevalence of the positive assessment of current MFI situation in May 2020, with expectations for further improvement.

- Key challenges are associated with clients: income volatility, low digital and financial capabilities.