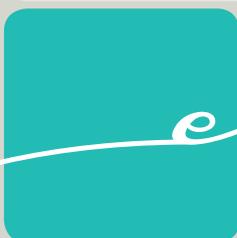
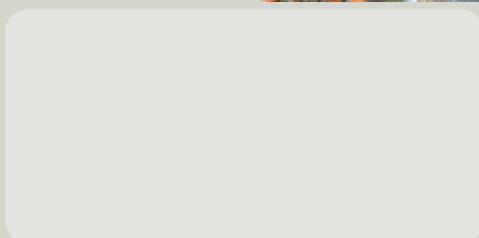


September  
2014

# EMN POLICY NOTE on the EMN Overview of the Microcredit Sector in the European Union 2012-13



EUROPEAN  
MICROFINANCE  
NETWORK



## Steady growth of microcredit provision in value and number of microloans surveyed in the EU

In this new iteration of the EMN Overview Survey report, MFIs from 24 countries took part. In total, 150 out of 447 MFIs that were contacted provided data to the survey, translating to an overall response rate of 34%. Although this represents a decrease compared to the response rate of the previous survey, the absolute number of responses remained stable.

Both the overall total volume and the number of microloans reported, i.e. covering microloans for both personal and business purpose, show a steady growth of microcredit provision among the MFIs surveyed in Europe compared to past years. In detail, MFIs covered from the 24 countries disbursed a total of 387,812 microloans with a total volume 1.53 billion EUR in 2013 (benchmark from 2011: 204,080 microloans with a volume of 1.05 billion EUR). The trend is the same for organizations based in EU member states only: 207,335 microloans with a total volume of 1.26 billion EUR (benchmark from 2011: 122,370 loans with a total volume of 872 million EUR). Compared to the survey data from 2011, this translates to an increase of 45% of the total value of microloans and 69% of the number of loans in 2013 reported by the EU-based participants of the survey. The overall allocation between microloans for business and personal purpose has slightly shifted towards loans for business purpose. In 2013, 79% of the total value of microloans was issued for business purpose, i.e. 21% for personal consumption purpose (2011: 74% for microloans for business purpose, 26% for microloans for personal consumption purpose). Combined with the results of the past EMN surveys, this indicates remarkable growth of the observed micro-lending activities among the MFIs surveyed in Europe since 2009. The number of loans disbursed increased by more than 400%, the reported total loan volume has more than doubled since 2009. What are the primary driving forces behind this development?



Firstly, it is important to note that the survey data is not a panel data set, so it is only possible to show more general interpretations and impossible to show any representative insights since the composition of the MFI sample differs throughout the survey editions. The survey does not include all MFIs within Europe or within a given country, so the data does not fully represent microfinance markets in the individual countries or on a European basis. For this iteration of the survey, the coverage, in terms of absolute numbers of responses, increased substantially in some countries, thereby increasing the overall number of reported microloans issued in the respective countries in the survey. In Poland, for instance, a country with a high level of micro-lending activities that was underrepresented by previous survey editions, twelve organizations have reported to the survey. The same is true for Romania, which for the first time also provided data on the ten biggest credit unions. Furthermore, the years between 2012 and 2013 saw a steep rise in the number and value of loans provided in certain countries (e.g. where the number of organizations reporting to the survey remained the same or decreased compared to the last iteration of the survey).

Secondly, MFIs covered by the survey reported more loans per institution than in the last survey round, as 93% of the organizations that provided data on their lending activity in 2013 distributed more than 20 loans in that year (2011: 78%). Eighty-five percent issued more than 50 loans (2011: 69%) and 74% issued more than 100 loans in 2013 (2011: 54%). This development is mainly related to the survey covering a higher share of large institutions than the previous versions. However, a smaller sample of MFIs that participated in the previous survey reported a growing number (+20%) and volume (+40%) of loans in 2013 as compared to 2011. Compared to 2010 the surveyed growth is even bigger (number of loans: +40%, volume of loans: +60%).

Thirdly, the average loan size increased, reaching a level similar to that observed in 2009 for the covered EU member states. The average volume of loans disbursed in 2013 was 8,507 EUR (2011: 5,135). In the covered EU member states the average volume was 9,234 EUR, which is an increase compared to the results from the previous edition (2011: 7,129 EUR. 2009: 9,641 EUR).

#### KEY FINDINGS SCALE AND DEVELOPMENT:

- The survey results indicate a steadily increasing trend of the scale (both in terms of numbers as well as total volume) of microfinance provision in the EU in 2012 and 2013, compared to 2011.
- Three aspects contributed to this development: an increased coverage of organizations in certain EU-member states, more loans provided per institution covered (e.g. in France) and a higher average loan size per institution.

## Institutional diversity in types and missions prevails

The survey results show that the institutional diversity in the sector is still high. Non-Governmental Organizations (NGOs) or foundations, non-bank financial institutions (NBFIs), governmental bodies, savings and commercial banks, credit unions, cooperatives, Community Development Financial Institutions (CDFIs), microfinance associations, and religious institutions are active in microcredit provision in Europe and are represented among the MFIs surveyed. The distribution in the year 2013 among the institutional types shows that the highest shares of institutions surveyed are NBFIs (29%) and NGOs or foundations (23%), accounting for more than half of all surveyed organizations. While the share of NGOs and foundations is similar to the share identified by the last survey in 2011 (22%) the share of NBFIs in the sample rose compared to 2011

(20%). The prevalence of both institutional types is observable as well in the sub-groups of small, medium and large MFIs.

The stated missions of the surveyed organizations also show a high diversity with regard to economical and societal policy goals. Microenterprise promotion is the most widespread goal, with more than two thirds of all surveyed organizations including it as part of their mission, followed by job creation (58%), social (56%) and financial inclusion (50%). Organizations with a specific focus on women and migrant empowerment form a smaller part of the surveyed organizations (29% and 20% respectively). The vast majority of the surveyed MFIs (85%) include at least one dedicated employment goal in their mission (microenterprise/SME promotion and/or job creation).

### KEY FINDINGS INSTITUTIONAL TYPES AND MISSIONS:

- The European microfinance sector is still characterized by a wide range and diverse set of institutions active in the market.
- The highest shares of institutional types prevalent are non-bank financial institutions and NGOs or foundations.
- The emphasis of the majority of European MFIs' mission, statements centers on employment goals: microenterprise/SME promotion and/or job creation.



## Available data indicates substantial employment impact and increased outreach to target groups

The impact of European microfinance on employment is hard to measure since most European MFIs do not regularly track how many jobs are created or saved by their activity. As a proxy, the reported number of supported enterprises and start-ups is used here, which needs to be interpreted cautiously. The survey shows that in 2013, a minimum of 121,270 microenterprises and start-ups were supported by the surveyed organizations, resulting in an approximate impact of at least 250,000 jobs throughout Europe.

The availability of data on the outreach of European MFIs to specific target groups and social performance indicators also remains limited. The results of the survey indicate that women continue to

be underrepresented as a target group (compared to the gender balance in the total population), although to a lesser extent than in the previous years. In 2013, roughly a third of all surveyed organizations offered information about the share of loans to women. Forty-one percent of all microloans distributed by these organizations were given to women, an increase of 3% compared to 2011 and 14% compared to the survey in 2009. Information on the outreach to ethnic minorities and immigrants is even scarcer. The available information indicates that the share of loans to this target group of microfinance increased among the MFIs surveyed compared to 2011 (18% vs. 12%).

### KEY FINDINGS OUTREACH:

- The availability of data for employment impact, client outreach and social performance is still limited among the MFIs covered in Europe.
- Based on the number of supported startups/enterprises, the microcredit sector in Europe had an impact on at least 250,000 jobs by their lending activity in 2013.
- The outreach to women and ethnic minorities increased, at least by the organizations that provided data on target groups.

## Transparency on the rise

One of the main efforts of this iteration of the EMN survey was to increase the overall transparency of the sector's developments and to support the MFIs to provide more and higher quality performance data. As a result, the survey shows overall higher response rates for specific and important indicators, which leads to a broader picture of the situation in the sector and thus, to more transparency and knowledge about the sector. For example, the response rate for the portfolio quality indicators increased significantly, e.g. the response rate increased to 63% of the MFIs surveyed compared to 41% in the previous survey round. The same is true for basic

financial performance indicators, e.g. the response rate for portfolio yield increased by 14 percentage points.

The progress to more transparency and standardization is also confirmed by the results about the knowledge and willingness to adhere to the European Code of Good Conduct for Microcredit Provision (Code). Knowledge of the Code has increased to 83% of the MFIs covered (2011: 75%) even though the intention to implement the Code has decreased to 66% (2011: 76%). Awareness of the Code is widespread in the European sector. Further effort is needed to increase the willingness of the MFIs to implement the Code.

### KEY FINDINGS TRANSPARENCY:

- Improved survey methodology increased the quality and quantity of information provided by the participating MFIs.
- In combination with the efforts undergone by initiatives like the European Code of Good Conduct for Microcredit Provision, this effort leads to more transparency about the development and performance of the sector presented here in the report.

## Financial performance and sustainability still a complex issue

One of the major issues of the European microfinance sector is the question of organisational sustainability. In previous versions, the response rates regarding indicators about portfolio quality, profitability and cost structure were not sufficient to provide a consistent picture. As mentioned above, this iteration of the survey significantly increased responses to these indicators even though the survey still features some disparities in the quality across survey participants.

The total value of the microcredit portfolio affected by overdue loans for more than 30 days was lower for both 2012 and 2013 (2012: 12.8%, 2013: 13.1%) compared to 2009 (16%), although a bit higher than in 2011 (12%). Nevertheless, this illustrates an ongoing positive trend in the microloans sector, as institutions with lower portfolio at risk have lower impairment loss expenses and higher return on assets. Although the overall situation

for portfolio at risk shows a positive evolution, PAR30 remains quite high in some of the covered countries.

Regarding profitability and cost structure, more than half of the survey participants provide information with regard to the requested indicators in this section. The microfinance providers manage to achieve overall positive return on assets (2012: 6.7%, 2013: 5.6%). Unfortunately, a reliable benchmark measure from two previous survey iterations is missing, so it is not possible to provide a substantial statement regarding the evolution of financial returns in the sector. The participating institutions managed to decrease their expenses compared to 2011 with an operating expense ratio of ~18% in 2013. In combination with lower impairment loss expenses, this indicates overall decreasing expenses, which might lead to an improvement of the financial sustainability in the sector.

### KEY FINDINGS FINANCIAL PERFORMANCE AND SUSTAINABILITY:

- The availability of data for portfolio quality and financial performance is improving among the MFIs covered in Europe.
- There is an ongoing trend of decreasing impairment loss and operating expenses, which might lead to improvements in financial sustainability.



## Future Challenge and Trends: increase awareness and publicity of EMN activities and benefits for EU MFIs

Over the past two years, support for microfinance initiatives remained high on the agenda of policy makers in many European countries. Especially in Western Europe, the provision of microloans is regarded as a suitable tool for addressing financial exclusion by commercial banks and creating employment opportunities in the microenterprise sector. After years of continuous political support, the sector is expected to deliver on a larger scale its promises to ease the ongoing situation of high unemployment rates, low economic growth and unstable financial sector. An important part of this expectation is being fulfilled by the growing outreach in the number and value of microloans disbursed in European countries in recent years. This can be seen as a success of the efforts and activities of all microfinance actors and especially of MFIs in Europe.

The ongoing support by the European Union and especially the Commission has also played an important role in fostering the growth of microfinance activities in Europe. The Commission established the Progress Microfinance facility, a successful, centrally managed funding instrument that combines the Commission and EIB's resources for refinancing and guaranteeing microfinance portfolios throughout Europe. This support has been vital over the past years and will continue to provide support in the new EU funding period with DG Employment preparing a successor of the Progress facility in the framework of the new EaSI programme.

Despite success in widening the sector's outreach, the development of stable funding patterns remains a challenge for microfinance providers in many countries. Aside from public sources, the availability of affordable funding is limited and prone to external influences. A prominent example is Spain, where the sector experienced a significant downturn in the wake of the financial crisis which strongly affected the savings banks that were the dominant funding source for the Spanish microfinance providers.

The growth of microfinance operations also invites closer scrutiny by funders and policy makers on both the EU and national level regarding MFI financial and social performance. Consequently, a concentrated effort by MFIs, funders and policy makers is necessary to produce suitable transparency in this regard. As a result,

this iteration of the overview survey put an emphasis on the issue of more transparency (see above). The same is true for the pilot implementation project of the EU Code of Good Conduct, which was introduced by DG REGIO after the publication of the previous version of the overview survey report. The vision behind these efforts is to implement a transparent and central tool/platform for the European microfinance sector similar to the Mix Market. Related to the promise of creating jobs and supporting financial inclusion, it is necessary to increase knowledge about the social impact of the microfinance activities in Europe. Therefore, quality datasets apart from the overview survey (i.e. not supply-oriented, but based on microfinance clients' data) is needed, which would enable policy makers, the European Microfinance Network and the sector, i.e. the MFIs, to demonstrate the impact microfinance can supply to the objective of job creation and financial inclusion. The same debate has already occurred in the international microfinance sector.

Besides job creation, there is a new trend on the agenda –promoted by politicians as well as researchers– green microfinance. Therefore, one related question was included in the survey to extend the knowledge about the activities of MFIs in this field. So far, green microfinance is not a widespread focus of the MFIs, but an already substantial number of MFIs are involved in this field. Around 13% of the responding MFIs stated that they offer specific green microloans to finance renewable energy, energy efficiency and environmentally friendly activities. In addition, another 37% mentioned that they cover such activities with their normal microcredit programs.

The general public support for microfinance provision is expected to decline in the coming years, due to budget restrictions and high deficits at national and regional levels. MFIs are attempting to prepare for this by developing more efficient and lean processes and reducing costs. To address these challenges, the ongoing digital transformation of the economy offers several opportunities, but creates some challenges to the European microfinance sector as well. Challenges include new competitors such as crowdfunding and crowd-lending platforms, which cater to similar target groups as existing MFIs. Nevertheless, the opportunities

of these societal changes are substantial, as the new competitors can also be seen as complementary actors or pioneers for new tools and ways to address the target groups of microfinance. Recent examples include new providers for mobile payment solutions, providers offering credit scoring via social media data or digital lending clubs among friends, which can be easily scaled up online. The most relevant market and business opportunities for microfinance providers are: new online application tools, scoring measures, repayment solutions and business development measures to support microenterprises with low digital threshold approaches. From our perspective, we believe it's necessary that European MFIs and the EMN continue to discuss the opportunities of this development and establish strategic partnerships with actors from this field.

Last but not least, the survey unearthed some challenges for the EMN as a network that need to be addressed to continue the successful work of channelling and representing the interests of European MFIs. The survey team, especially the national coordinators, experienced difficulties convincing MFIs to take part in the survey. MFIs that are non-EMN members seem to be unaware of the existence and work of the network and therefore see no benefit in participating. Furthermore, not every MFI that is a member of EMN took part in the survey, which leads to the conclusion that they are not completely aware of the importance of the survey for the network and the sector as a whole. Consequently, it is necessary to increase awareness about the network beyond the current MFI member base and emphasize the advantages and support of the network for its members.

#### KEY FINDINGS FUTURE CHALLENGES:

- Ongoing public awareness for the microfinance sector provides further support, but also increases the expectations to achieve political goals such as job creation and reducing youth unemployment.
- A need for more transparency is still prevalent. A European-wide platform for this, similar to the Mix Market, could be an anchor to promote transparency.
- The digitalization of the European economy and society provides new business and efficiency opportunities for the microfinance sector.

The full edition of the “EMN Overview of the Microcredit Sector in the European Union 2012-13” can be downloaded

[here](#)



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