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ABSTRACT

# Efficiency and Outreach in the European Microfinance Sector

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This research aimed to investigate a possible correlation between the variables used in assessing the social and economic performance of MFIs and their financial sustainability, proxied by efficiency measures. Using original data from the EMN-MFC Survey Report 2016-2017, we carried on an analysis in the particular and understudied context of the European microfinance sector.

We use Data Envelopment Analysis (DEA) to calculate cost efficiency scores as a proxy of financial sustainability for the MFIs included in the sample. The Data Envelopment Analysis allows measuring the efficiency of a variable number of Decision Making Units (DMUs) using linear programming techniques. This methodology can be applied even when it is not possible to justify the conventional functions of cost and profit, dependent on the optimization of price reactions. Then, the relationship between efficiency scores and financial variables, on the one hand, and between efficiency and measures of outreach, on the other hand, has been investigated through regression analysis.

Regression analysis provides evidence of a significant correlation between MFIs' efficiency and outreach in the period of interest, highlighting complementarities between

financial sustainability and depth of outreach average loan amount shares of female borrowers. The same holds as regards the breadth of outreach, measured by the number of borrowers. Our results suggest that, in the specific context of the European microfinance sector, an improvement in financial performance over time would support the service of both the poorest and of females, while there are ambiguous relations between MFIs' efficiency and their growth.

These results may suggest that an improvement in financial performance and, specifically, more efficient use of resources over time tends to support the diffusion of MFI services to the poorest, despite the regulatory limitations present in various European countries. However, since more efficiency is not significantly related to any increase MFIs' loan portfolio, it does not seem to represent a solution to the problem of the small size of European MFIs.

The study is based on an original dataset obtained from a survey of 156 microfinance institutions (MFIs) operating in 28 European countries in 2016-2017. The survey included detailed (financial and quantitative) information about the institution analyzed.

**Keywords:** Microfinance, European Union, outreach, mission drift.



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