

# Microfinance in Europe: A Survey of EMN-MFC members

REPORT 2014-2015

## Executive Summary



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# Executive summary

This seventh edition of the Report on microfinance in Europe provides an overview of the sector developments on the main institutional characteristics, microloan portfolio, social and financial performance for the period 2014-2015, based on data collected through the Survey carried out for the first time as a collaboration between the European Microfinance Network (EMN) and the Microfinance Centre (MFC). The EMN-MFC Survey 2014-15 improves in the selection criteria of participant institutions compared to previous editions. The group of 149 surveyed actors is part

of a pre-selected set of microcredit providers: members of EMN and MFC networks (66 MFIs) and members of National Networks affiliated with the EMN (83 MFIs). Quantitative data and information collected through the Survey questionnaire has been combined with qualitative interviews from key European microlenders. As a result, the EMN and MFC joint report offers a wide-ranging perspective on the European microfinance industry and establishes the creation of a consistent panel dataset for the coming years.

## KEY FINDINGS

### Survey approach

Overview of the European microfinance sector in 2014-2015 based on data collected from members of the European Microfinance Network (EMN) and the Microfinance Centre (MFC), and members of National Networks affiliated with the EMN.

## Institutional diversity of European microfinance

The 2014-15 EMN-MFC Survey involved a broad range of actors from 22 countries (14 EU Member States). Different regional development paths persist for MFIs in Western and Eastern Europe but also show signs of potential convergence.

Microloan providers use a variety of institutional models to operate in heterogeneous legal and regulatory frameworks: survey participants are primarily non-bank financial institutions (60%) and NGOs (31%) but also include other legal forms (i.e. commercial banks, cooperatives/credit unions, government body).

The European microcredit sector, as depicted by the 149 surveyed MFIs, is diverse, relatively young and dynamic. The majority of respondents (77%) initiated their microlending activities after 1995. Approximately half of the sample started lending activities between 1995-2004.

The vast majority of responding MFIs selected financial inclusion (72%) and job creation (70%) as their primary missions, followed by microenterprise promotion (60%) and social inclusion and poverty reduction (59%). A smaller share of respondents' mission statements (20%) emphasize ethnic minorities and/or immigrant empowerment as well as youth employment (18-25 years) goals.

More than half of the surveyed MFIs are specialised in microlending activities, which contribute to more than 75% of their overall turnover. The total number of paid staff reached 7,076 full-time equivalent employees in 2015, with a substantial share of women staff (56%) and a significant presence of MFIs with less than 10 employees (42%).

## KEY FINDINGS

### Institutional diversity

The European microcredit sector, as depicted by the 149 surveyed MFIs from 22 countries, is diverse in terms of institutional models (although the majority are NBFIs and NGOs). The sector is relatively young (most MFIs started operations after 1995), and its mission statements primarily focus on financial inclusion and job creation goals.

## Microlending activities: trends and outreach

In the period 2014-2015 both the total volume and the number of microloans disbursed showed a growing trend. In 2015, the MFIs surveyed disbursed a total of 552,834 loans (+12% compared to 2014) with a total volume of almost EUR 1.6 billion (+16%).

Overall in 2015, surveyed institutions served 747,265 active borrowers (+13% compared to 2014), and the gross microloan portfolio outstanding reached EUR 2.5 billion (+15%).

The outstanding portfolio is predominantly allocated for business purposes (71% of the total in 2015, 75% in 2014). Nevertheless, the overall distribution is shifting towards personal loans (29% of the total in 2015) due to the fastest grow of number and value of personal microloans disbursed compared to business microloans.

In 2015 the number of active borrowers supported by business microloans reached a total of 402,365. During the year the MFIs surveyed disbursed

a total of 220,305 business microloans (+8% compared to 2014) corresponding to a total lending volume of EUR 917 million (+6%).

The survey shows also that a minimum of 207,983 enterprises were supported with business microloans in 2015 with informal businesses and self-employed representing the main clients segment served. The reported number of enterprises supported by the MFI surveyed increased by 9% from 2014 to 2015.

In terms of personal microloans, in 2015 MFIs surveyed disbursed a total of 332,529 microloans (+15% compared to 2014) corresponding to a total volume of EUR 654 million (+34%). During the same year, the number of active borrowers supported by personal microloans reached a total of 344,900.

Business and personal loan products differ greatly with regards to their terms and conditions. In terms of average characteristics personal microloans are much smaller in size than business microloans (EUR 1,697 vs. EUR 7,947), are offered on shorter terms (30 months vs. 41 months) and are pricier (19% interest rate vs. 10.7%).

Overall, in terms of clients served with both business and personal microloans, surveyed MFIs show a partial commitment to the different target groups proposed in the Survey: rural or urban population, unemployed people or people on welfare, women, ethnic minorities and/or immigrants, youth aged 18-25 years old, disabled people, and financially excluded individuals. MFIs diversify their portfolio risk by serving multiple categories of disadvantaged borrowers (more than 4 on average), each of them representing a limited share of total active borrowers served.

## KEY FINDINGS

### Outreach

- EMN-MFC extended members contributed to a significant expansion of the scale of the sector both in terms of number and volume of microloans disbursed.
- The overall outstanding portfolio is predominantly allocated to business purposes, although an increasing number of clients are served with personal microloans in the period 2014-15.
- In terms of support for entrepreneurship, the number of active borrowers supported by business microloans reached a total of 402,365 in 2015.

## Non-financial services as a prevalent component of European microfinance provision

The provision of both financial and non-financial services is a distinctive feature for a large portion of survey participants.

A negligible number of institutions offer financial services beyond business and personal microloans, but additional products include: insurance (4%), current/checking accounts (3%), mortgages (3%), mobile banking (1%), and money transfer services (1%). Two exceptions to this trend are MFIs that provide larger size business loans (>25,000 EUR to microenterprises and SMEs; 42%), and offer savings (18%). Although green microfinance is still considered a young and underdeveloped trend in the European industry, the promotion of environmentally friendly practices through

microloans for renewables, energy efficiency and environmentally-friendly activities is currently carried out or planned to start by almost a third of survey respondents.

A large number of the surveyed MFIs also offer non-financial services (58% of participating MFIs). The most common non-financial services include business development services (BDS, 32%), financial education (31%), and mentoring (30%). MFIs mostly internalise the provision of non-financial products and services (88% of the 85 responding MFIs) and mainly deliver them "in person" to their clients (56%) or combine personal and online methods (40%).

## KEY FINDINGS

### Beyond microloans

Most of surveyed MFIs follow an integrated approach to microfinance allowing for the provision of financial products (primarily personal and business microloans but also savings and business loans) and non-financial services (mostly BDS, financial education and mentoring).

## Financial performance: improving financial reporting and soundness

A substantial share of the surveyed institutions provides reliable financial performance data, which is consistent with the on-going maturity process of the European microfinance sector and signals the gradual development of management information systems and the institutional capacity to adhere to standard reporting requirements.

Financial performance and portfolio quality trends document an increasingly financially viable European microfinance sector despite a few critical, specific cases.

In terms of portfolio quality, surveyed institutions show an overall improvement during the period 2014-2015: PAR30 decreased from 10.4% to 9.7% and write-offs from 2.8% to 2.6%.

The overall financial sustainability as measured by the return on assets (ROA), the return on equity (ROE) and operational self-sufficiency (OSS) is lower for Western MFIs compared to their Eastern counterparts, where most of the operationally sustainable and best financially performing MFIs are located.

Overall, the average ROE increased from 2.8% in 2014 to 5.7% in 2015. This trend is primarily driven by MFIs in Eastern countries, where ROE more than doubled (from 3.6% to 7.7%). In Western countries, the average ROE is negative and declining. ROA (3% in 2015) and OSS (90.6% in 2015) have not undergone major changes in the two surveyed years. Only 43 out of 94 institutions are operationally self-sufficient in 2015: only seven of them are from Western European countries.

## KEY FINDINGS

### Financial performance

- Financial performance shows an overall positive trend: portfolio quality is improving and sustainability is stabilizing.
- Most operationally sustainable and financially best performing MFIs are located in Eastern European countries.

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