EMN Working Paper nº 6

2008-2009

Overview of the Microcredit Sector in the European Union

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Fundación Nantik Lum
June, 2010

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The seven-year Programme targets all stakeholders who can help shape the development of appropriate and effective employment and social legislation and policies, across the EU-27, EFTA-EEA and EU candidate and pre-candidate countries.

The mission of PROGRESS is to strengthen the EU contribution in support of Member States' commitments and efforts to create more and better jobs and to build a more cohesive society. To that effect, PROGRESS will be instrumental in::

- *providing analysis and policy advice on PROGRESS policy areas;*
- *monitoring and reporting on the implementation of EU legislation and policies in PROGRESS policy areas;*
- *promoting policy transfer, learning and support among Member States on EU objectives and priorities; and*
- *relaying the views of the stakeholders and society at large.*

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Table of contents

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Executive Summary

This edition of the EMN microfinance sector survey will be the first of its kind to analyse the impact of the economic and financial crisis on the microfinance sector in Europe. In spite of the recent slowdown and contrary to the mainstream finance sector, the microfinance sector has continued to grow. The sector continues to be diverse; however, most lenders are using microcredit as a tool for microenterprise promotion, the creation of jobs, as well as for social and financial inclusion. One new development in the current edition of the survey is the introduction of "personal microcredit" in the microfinance market, a loan to those excluded from the traditional financial system with the goal of covering basic necessities, such as rent, emergencies, education, and other needs.

This fourth sector survey covers the years 2008 and 2009 with data from 170 microfinance actors operating in 21 countries from the European Union (EU) 27, current EU candidate country Croatia and countries belonging to the European Free Trade Area (EFTA). The survey used the accepted definition of microloans as loans of 25,000 euros or less made to microenterprises or businesses with nine or fewer employees. Nevertheless, some EU lenders have reported loans for higher amounts and have been included in the report to give a better picture on how microcredit is being used by their main providers. These were specific loans and did not represent their overall lending practices.

For the first time since the survey began, the number of microloans disbursed suffered a negative growth rate of -7% between the years 2008 and 2009. This is in stark contrast to the positive growth rates experienced in 2006-2007 of 14% (EMN, 2008), in 2004-2005[1] where the growth rate was 15% and in years 2003-2004 where the growth rate was 11% (EMN, 2006; nef, 2005). The economic and financial crisis could be responsible for the reversal of this trend. Institutions seem to be more concerned with portfolio quality than about growth. As the number of total loans disbursed has decreased and the overall value of loans disbursed has increased, institutions may be targeting a different sector of the population, as clients graduate from one financial stratum to the next.

The microfinance market in Western Europe is predominated by NGOs and microfinance associations, followed by non-banking financial institutions. This might be because of the lack of regulation of the sector in Western Europe. However, in Eastern Europe where for-profit organizations, credit unions and non-bank financial institutions are regulated and can provide credits as well as accept deposits, these types of institutions are more common. Most lenders are geographically limited to their local or national area and distribute fewer than 50 loans per year.

Twenty-four percent of respondents, mostly non-bank financial institutions, are involved solely in microlending, compared to 28% in 2006 and 16% in 2005 (EMN, 2008). The remaining 76% of respondents are dedicated to other complementary activities. This number has changed relatively little from the previous survey to the current edition. The remaining 76% of respondents carry out a number of other activities which focus on business development and employment related services. Many institutions cross-sell financial services such as insurance or mortgages to current microfinance clients.

In Eastern EU countries, more than fifty percent of institutions began lending between 1980 and 1996, while in Western EU countries the percentage of institutions that began disbursing during the same time period is around 15%. This means that the sector in Eastern Europe is more mature than in Western Europe.

In the Eastern countries (Bulgaria, Croatia, Estonia, Hungary, Latvia, Lithuania, Poland and Romania), the total number of loans disbursed was 18,293, for the equivalent of 307 million euros, whereas in the Western countries (Belgium, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and United Kingdom), the total number of loans disbursed came to 51,027, equivalent to 477 million euros. Eastern countries represent 26% of total loans and 40% of total value, whereas Western countries represent 74% of total loans and 60% of total value. Institutions that disbursed the greatest number of loans in

[1] The 2004-2005 EMN survey covered the EU-15, Norway and Switzerland and 3 new member states with active microlending programmes: Hungary, Poland and Slovakia (EMN, 2006). This second survey report is available from the EMN website (www.european-microfinance.org)

the West can be found in France, Germany and Spain and in Hungary, Romania and Bulgaria in the East. The number of active clients in the EU was 135,815 at the end of 2009.

Microlenders surveyed in the EU focus on start-up businesses and on the consolidation of existing small microenterprises, i.e. those with nine or fewer employees. Clients targeted, in order of importance, are financially excluded individuals followed by women, ethnic minorities and/or immigrants, unemployed people, youth and disabled people. There is considerable overlap amongst many of these groups. Youth (18-25 years) and disabled people remain as lower priority groups. Urban and rural populations are almost equally targeted.

In 2009, 27% of microloan clients were women, 13% of clients were immigrants and/ or ethnic minorities, 11% were youth. Women continue to be under-represented amongst microloan clients when compared to their proportion in microlending programmes operating in developing countries, where they represent 83.2% of the poorest clients reached by microfinance institutions (Daley-Harris, 2009). The relevance of other at risk groups such as immigrants and youth as microcredit clients is significant in some countries. For example, in Norway and Spain, immigrants are represented well over their proportion of the population.

The weighted average loan size across the sample has decreased in recent years from 11,002 euros in 2007 to 9,641 euros in 2009[2].

Eastern European countries are disbursing larger loans, as lenders in these countries are focusing on microenterprise promotion and SME promotion, while in Western countries lenders are focusing on social and financial inclusion, for which a smaller average loan was disbursed.

Financial performance reporting continues to be weak across the sector. However, amongst organisations providing data, loan portfolio performance ratios have improved once again since the last survey. Amongst the 30% of lenders that provided information on their operational self-sufficiency rates, the average rate in 2009 was 93% (up 13 points over the previous survey) and forty percent of the respondents were operationally self-sustaining, representing a decline of 7% over the previous survey.

The most frequently monitored ratios are repayment rates, portfolios at risk, write-offs and rescheduled loans. In 2009, the average repayment rate was 63%, a drop of over twenty points from the previous survey. The average portfolio at risk rate was 16% (2 points higher than 2007), the average write-off rate was 9.5% (3.5 points higher than 2007) and the average refinancing ratio was 14% (9 points higher than 2007) (EMN, 2008)[3]. These decreases across the board in operational performance ratios can be taken as evidence of the impact of the economic and financial crisis on the microfinance sector. The best financially performing organisations continue to be found in the Eastern EU countries of Bulgaria and Romania, characterised by their for-profit legal status.

The most important challenge for the sector continues to be reaching sustainability, which has not changed over the previous survey and continues to be a challenge for the microfinance sector as a whole. Whereas social performance was the next most important challenge for institutions in the previous survey, in this survey institutions listed outreach to the most excluded, implying a slight change of focus. As many microcredit clients can be said to be impacted by the economic and financial crisis, it can be expected that the number of people excluded would grow as a result, and therefore the goal of focusing on these clients becomes more urgent.

The lack of institutional capacity and the legal regulatory environment regarding usury and borrowing for lending were the most important constraints listed by institutions in this edition of the survey. Lender efforts to cover costs and achieve scale have been impacted as a result. Funding operational costs was also cited as a significant challenge for lenders. The majority are highly dependent on public and private sources for both operational costs and loan capital. Very few are able to cover their operational costs through earned income. Greater regulatory flexibility is needed in the upcoming years to adapt to challenges faced by the recent crisis, by allowing institutions to tap into new resources for growth and by providing long term access to capital. This will help the sector continue to grow and reach self-sufficiency.

[2] The decrease in average loan size could also be due to the difference in sample size. For more information, please refer to the Methodology section.

[3] These comparisons are carried out keeping in mind the methodological differences explained in greater detail in the Methodology section.

Introduction 1

Microfinance in Europe is gradually being consolidated as an essential tool of social policy, for the promotion of self-employment, microenterprise support and the fight against social and financial exclusion. This is demonstrated by the initiatives that the European Commission has launched, such as the Jasmine[4] initiative and the European Microfinance Facility for Employment and Social Inclusion (Progress Microfinance Facility[5]), to promote and support the development of the sector. However, since the economic and financial crisis began in 2008, many of the microfinance models in various countries in Europe have been redesigned with the goal of adapting to the new challenges they face.

In January 2010, Fundación Nantik Lum launched the fourth EMN survey of the microcredit sector covering activity in 2008 and 2009. The purposes of this edition of the survey are to track changes in the industry; deepen the understanding of core issues such as scale, outreach, sustainability and financial performance; uncover future plans for growth; and ask about funding sources, marketing and impact.

One of the most fundamental changes in the sector during this period is the integration of the personal microcredit with notable intensity. Personal microcredit is not usually designed to permit access to financing for the start-up of new businesses, but to help families confront specific needs, at times with greater priority, that have emerged in this new economic and financial context.

This year's survey has a record participation. This year, a total of 432 institutions in 28 European countries were contacted, of which 170 institutions in 21 countries responded (see the Appendix for the complete list). Of the total MFIs that responded to this version, 97 participated for the first time. The increase in the number of responses is believed to be for two main reasons: first, the increasing interest that various institutions have demonstrated in the European sector which has led to the participation of new actors in the microfinance field, and second, the active work of 10 country coordinators that collaborated in the collection of data in different regions. As a result, over recent years, a deeper understating of the European microfinance sector and the different actors involved has been obtained.

[4] JASMINE stands for "Joint Action to Support Microfinance Institutions in Europe" and is a pilot initiative which has been developed by the European Commission (EC), the European Investment Bank (EIB) and the European Investment Fund (EIF) to provide effective support for the promotion of microcredit in the European Union.

[5] PROGRESS is the EU's employment and social solidarity programme implemented by the European Social Fund (ESF). It was established to financially support the implementation of the objectives of the European Union in employment, social affairs and equal opportunities, as set out in the Social Agenda.

With the implementation of the 2009-2011 Strategic Plan, EMN has developed a way to strengthen the involvement of its members and to work alongside with them through the Working Groups. Each of these groups is headed by an EMN member and also includes core members and associate members. Moreover, a representative of the Secretariat is involved in each of the groups and a member of the board acts as a liaison. The following Working Groups have been set up:

1. Legal Environment and Regulation
2. Social Performance Measurement
3. Growth
4. Research
5. IT and Innovation

In the fourth edition for 2008-2009, the survey has maintained the same number of questions as in the past edition. However, the structure of the survey and the corresponding report has been changed as new questions have been included and other questions have been deleted. With the aim of incorporating specific research topics for the Workings Groups, four new sections have been included in this edition: Information Technology, Crisis, Social Environment and Regulation, and Social Performance and Impact. These sections are either newly created or have been a result of extracting questions from the previous surveys and creating separate sections. Sections on funding, sustainability and financial performance have also been expanded.

Financial indicators were aligned based on those recommended by CGAP and those that utilize the MIX Market information platform, incorporating new measurements that are key for the performance of the institutions in Europe. Even though these questions had a low response rate in general, EMN sets out to foster a healthy microfinance sector, providing a tool for assessment and comparison and ultimately providing a path for creating strong institutions.

The sources of information used by Fundación Nantik Lum in the current edition are principally made up of the information gathered by a questionnaire on behalf of EMN, as well as drawing on pre-existing data released to EMN and information available in the public domain.

As stated above, in this edition of the EMN survey we have chosen to include in our survey the European Union 27 countries (as of December 2009), the candidate country Croatia, as well as the countries that belong to the European Free Trade Association (EFTA)[6]. We aim to include more countries during each edition of the survey. As Europe continues to grow, so will our inclusion of European countries.

[6] The European Free Trade Association (EFTA) includes Iceland, Norway, Switzerland and Liechtenstein.

Methodology 2

This is the fourth edition of the Pan-European Microfinance Survey carried out for the European Microfinance Network. The last two editions of the survey were coordinated by Fundación Nantik Lum as Coordinator of the Research Working Group. The first survey of the sector, undertaken by the new economics foundation (nef) on behalf of EMN, covered the years 2002 and 2003, and counted on the participation of 32 organisations. The second survey covered 2004 and 2005 with 109 organisations participating. Out of these organisations, 89 disbursed microloans directly. In the third edition of the survey, for the years 2006-2007, 94 agencies[7] involved in microfinance in 16 countries participated. This brings us to our current edition, with 170 participants from 21 countries.

The number of responses to the present survey has witnessed a spectacular growth, with an increase of over 80%. This increase can be explained by two important reasons: first, there was a notable increase in the number of responses from Bulgaria, from five responses in the 2006/2007 survey to 16 responses in the 2008-2009 survey. On the other hand, Hungary is an exceptional case - in the 2004-2005 edition of the survey, one of the participants was the Hungarian Microfinance Network, an association of 20 Local Enterprise Agencies (LEAs) and whose response was counted as but one. However, in the current edition, the members of this network have responded individually, thereby explaining the jump in responses from this country. At the same time, there was a notable increase in the number of institutions that responded in Romania, Spain and the United Kingdom. The growth can also be explained by the incorporation of countries that were not represented in previous editions: Croatia (2 institutions), Estonia (1), Latvia (2) and Lithuania (2), or by countries with a lack of responding institutions from the previous edition, Ireland (1), Norway (2) and Sweden (4).

The resounding success of the current edition would not have been possible without the collaboration of each and every country coordinator who did a wonderful job in raising the total number of participating microfinance institutions in their respective countries, translating the EMN questionnaire from English into Bulgarian, French, German, Hungarian, Italian or Spanish, sending out the respective questionnaire, following up with respondents, translating open ended questions back into English and submitting all questionnaires to Fundación Nantik Lum for data analysis. The 11 collaborating agencies are as follows:

[7] These 94 organisations represented 114 organisations, as the nation-wide network of 20 LEAs (Local Enterprise Agencies) of the Hungarian Microfinance Network (HMN) had been considered as one single organisation instead of 20 individual organisations.

- Centre for Entrepreneurship and Executive Development (CEED), Bulgaria.
- Deutsches Mikrofinanz Institut (DMI), Germany.
- EUROM Consultancy, Romania.
- European Microfinance Network (EMN), France.
- Fundación Nantik Lum, Spain.
- Giordano Dell'Amore Foundation (FGDA), Italy.
- Hungarian Microfinance Network (HMN), Hungary.
- INHolland University of applied sciences, Center for Microfinance and Small Business Development, the Netherlands.
- Nätverk för Entreprenörer från Etniska Minoriteter (NEEM), Sweden.
- Réseau Financement Alternatif ASBL (RFA), Belgium.
- Veronika Thiel – Independent Microfinance Consultant and Director of the Centre for Responsible Credit, United Kingdom.

This edition of the survey was made available once again in Microsoft Word format and the online format provided by Survey Monkey. With each edition, institutions are gradually increasing their familiarization with the electronic format, which represents an advance for the sector. The number of responses that were manually introduced from Microsoft Word in this survey was minimal.

For the period 2008-2009, institutions from Austria and Slovakia that participated in the previous survey, did not participate in the present one due to the absence of current microcredit programmes in each country. In Slovakia the organisation Integra no longer works in microfinance in Europe and in Austria the new microcredit programme was only set up in March 2010. Bulgaria and Romania, which participated in the EMN survey for the first time for the period 2006-2007, increased their participation significantly.

As occurred in the last survey, in the case of the United Kingdom, the community development finance association (cdfa)[8], which carries out its own annual survey, assisted the respective Country Coordinator in obtaining permission to access this data and in forwarding all cdfa held data for analysis, and in sending a complementary survey to cdfa to complete the missing information needed by this survey. Of the 37 institutions contacted to complete the complementary survey for the current edition, 18 participated. Other UK organisations responded directly to the EMN questionnaire. The data provided by cdfa covers only one year, from April of 2008 to the end of March 2009. This data was treated as figures from 2009. Therefore, there is no data available for some UK organisations for the year 2008 for comparison purposes. Of the 38 institutions contacted in the last survey, 13 responded, so it is also worth noting that the response rate from the UK increased almost 70% in this edition.

Due to the financial crisis, various microcredit programs of the Savings Banks in Spain were reduced or closed definitively. This has created the necessity to reconsider the model in this country and look for new formulas for its development. In this context, various Social Microcredit Support Organisations (SMSOs), both public and private in nature, that would usually only act as intermediaries between Savings Banks and the beneficiary, have begun their own microcredit concession programs. For this reason, Spanish entities that found themselves in this situation were asked to complete the questionnaire with only the information that was not linked to financing by the Savings Banks, with the aim of avoiding duplication of information. The efforts of these entities to carry out a separate evaluation of their data and collaborate in the transparency of the microfinance sector in Europe should be acknowledged. With this in mind, 11 SMSOs and six Savings Banks participated in Spain in this edition.

This survey notes a high participation level of the MFIs from Eastern Europe. 32% of the institutions that participated in the survey come from this region. Nonetheless, information was not received from an important institution in Poland, Fundusz Mikro. With the goal of having an accurate overview of the sector, public data on this institution has been extracted from the Mix Market for the key indicators: loans disbursed in number and value and average loan size. It is important to keep in mind that these indicators have been included for these three analyses.

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[8] The cdfa is the umbrella organisation of Community Development Finance Institutions (CDFIs) which are sustainable, independent financial institutions that provide capital and support to enable individuals or organisations to develop and create wealth in disadvantaged communities or under-served markets. While some CDFIs specialise in microfinance loans, the sector as a whole consists of a range of product offerings to address financial exclusion (www.cdfa.org.uk).

Italy was, once again, the country with the highest number of respondents. This was possible thanks to the combined efforts of members of the Italian Microfinance Network (RITMI) and the lead coordinator Giordano Dell'Amore Foundation, and due to the large number of actors that consist of a large number of small social microcredit initiatives and other religious organisations providing microcredit on a small scale.

To the extent that year after year the Pan-European Microcredit survey is carried out, and in spite of an enormous effort on behalf of EMN, Fundación Nantik Lum and the country coordinators, the disparate collaboration between editions makes it very difficult to draw accurate comparisons between reports. The main motivation to track the evolution of microfinance in Europe is hampered by the difficulty in obtaining uniformity in the data sample.

To better understand this difficulty, Table 1 below gives the total number of responses obtained from MFIs over the last two editions of the survey. We can observe that only 58 MFIs responded to both editions, representing only 61% of the institutions that participated in 2006-2007 that responded to the 2008-2009 edition. For this reason, only general data with comparable samples in both 2006-2007 and 2008-2009 will be analysed. The total number of institutions that responded for the first time, that is to say, that have never participated in the study, is 97 institutions. Moreover, there were 113 institutions that responded to the present edition that did not participate in the 2006-2007 edition but did participate in earlier editions (2004-2005 or 2002-2003).

Therefore, the data provided in this report will refer exclusively to the 2008-2009 survey, and in some cases, efforts have been made to compare data in order to highlight sector trends. When comparisons are used, it is important to keep in mind these aforementioned sample differences. This report will continue using the same structure as the previous one in order to make the analysis easier for readers.

Table 1: Comparison of responses in the last two survey editions

Total number of respondents for the 2008-2009 survey	170
Total number of newcomers for the 2008-2009 survey	97
Total number of respondents for the 2006-2007 survey	94
Number of institutions that responded for 2006-2007 and 2008-2009	58

The 2008-2009 survey questionnaire, which was translated from English into six languages, covered the majority of the relevant topics that were included in the 2004-2005 and 2006-2007 surveys. However, some modifications were made based on an agreement reached by the Core Members of the EMN Research Working Group. With these modifications in mind, the Research Working Group held two face-to-face meetings, one on June 3rd in Milan and the other on September 7th in Madrid, and two conference calls over the span of 2009.

Briefly, the conclusions drawn from this process by the Research Working Group were:

a) To include questions that targeted information on personal credit, but not to differentiate personal and business credit this throughout the entire questionnaire;

b) To remove specific questions to simplify and make coordinators' work more efficient;

c) To include new questions to cover the topics of IT and technology, regulation and legal environment, sustainability and how the economic crisis has affected the sector;

d) To establish a set of indicators on social, financial and operational performance to be asked systematically in the survey, in collaboration with the social performance and sustainability working group;

e) To explain clearly these indicators and illustrate how to calculate them by using examples;

f) To edit questions specifically regarding the interest rates charged so the reported rates would be more transparent.

The survey used the European Union accepted definition of microloans as loans of 25,000 euros or less made to microenterprises or businesses with nine or fewer employees. Nevertheless, some EU lenders have reported loans for higher amounts that have been included in the report to give a better picture of how microcredit is being used by the main providers. These were specific loans and did not represent their lending practice as a whole. Immigrants were defined as "those individuals, not born in their country of residence".

Not all questionnaires were complete. The percentage figures used in the analysis throughout the report relate to the number of responses received for each individual question. Where response rates were low, this is indicated in the report text.

When discussing the microfinance sector in Europe, it is important to note that the terms "microcredit" and "microfinance" are used interchangeably. This is due to the fact that microcredit remains the primary focus of the microfinance sector in Europe. As we are moving into the next generation of microfinance which includes savings mobilization, insurance, business development services and a range of new products and services implicit in the growth of the microfinance sector, terminology used should follow this movement, but in the present time we will continue to use the terms interchangeably.

Out of 432 organisations contacted for the survey, 170 responded, representing a response rate of 39%, a similar rate to previous years but it is a figure very much larger in absolute terms. By country, the response rates varied. In those countries where five MFIs or less were contacted, the response rate was 100% (Belgium, Croatia, Estonia, Finland, Ireland, Latvia, Lithuania, Norway and Switzerland) with the exception of Poland and Slovakia where five were contacted and one responded and four MFIs were contacted and none responded, respectively. The data from four countries were included for the first time in this research: Croatia, Estonia, Latvia and Lithuania.

The breakdown of respondents by country is as follows:

Table 2: Survey respondents by country

N°	Countries	2008 / 2009		2006 / 2007		2004 / 2005	
		Contacted	Participated	Contacted	Participated	Contacted	Participated
1	Austria	1	0	1	1	1	0
2	Belgium	4	4	5	4	4	2
3	Bulgaria	66	16	5	5	0	0
4	Croatia	2	2	0	0	0	0
5	Cyprus	1	0	1	0	0	0
6	Czech Republic	3	0	0	0	0	0
7	Denmark	1	0	0	0	0	0
8	Estonia	1	1	0	0	0	0
9	Finland	1	1	1	1	1	1
10	France	14	6	8	4	5	2
11	Germany	25	16	34	11	20	9
12	Hungary	55	21	6	4	2	20
13	Ireland	1	1	1	0	2	1
14	Italy	94	33	40	27	9	9
15	Latvia	2	2	0	0	0	0
16	Lithuania	2	2	1	0	0	0
17	Luxembourg	9	0	0	0	0	0
18	Macedonia	1	0	0	0	0	0
19	The Netherlands	16	4	6	6	0	0
20	Norway	2	2	1	0	1	1
21	Poland	5	1	5	1	5	3
22	Portugal	7	2	1	1	1	1
23	Romania	18	9	9	5	0	0
24	Slovakia	4	0	2	1	2	2
25	Spain	53	20	40	9	61	32
26	Sweden	6	4	2	0	2	2
27	Switzerland	1	1	1	1	1	1
28	United Kingdom	37	22	38	13	22	23
	Total	432	170	208	94 (rep.114)	13	109

Sector Characteristics 3

3.1 Country Base

Table 2 in the previous section shows the difference in the number of actors in each country. The largest number of actors is found in Italy, which, as mentioned earlier, is made up of a large number of small social microcredit initiatives and anti-usury associations. Bulgaria and Hungary have the next highest number of institutions, in Bulgaria because the majority of commercial banks have some form of microfinance initiative and in the case of Hungary because of the existence of the multitude of savings cooperatives and Local Enterprise Agencies (LEAs). The countries with the next highest number of institutions are Spain and the United Kingdom. In Spain, all savings banks that had microfinance programs in the years 2008-2009 were contacted as well as the Social Microcredit Support Organisations (SMSOs) that had a microcredit program that was financially independent from the savings banks. Finally, in the UK, a large number of actors can be found due to the strong activity of public, private and non-profit development finance agencies. In particular, Community Development Financial Institutions play an important role in the UK microcredit sector and the majority of microlending intuitions in the United Kingdom could be grouped into this category.

3.2 Scale

In 2009, the organisations surveyed[9] disbursed a total of 84,523 microloans worth 828 million euros. 138 of the 170 participating institutions gave information regarding the number of loans and loan value for 2009 and 118 gave information for the same information for 2008. In the Eastern countries (Bulgaria, Croatia, Estonia, Hungary, Latvia, Lithuania, Poland and Romania), the total number of loans disbursed was 18,293, for the equivalent of 307 million euros, whereas in the Western countries (Belgium, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and United Kingdom), the total number of loans disbursed came to 51,027, equivalent to 477 million euros. Eastern countries represent 26% of total loans and 40% of total value, whereas Western countries represent 74% of total loans and 60% of total value. This means that in the Eastern EU countries the average loan value is higher than in Western EU countries[10].

[9] For these numbers, the data of Fundusz Micro have been included, although they did not responded to the survey, the public information reported to the Mix Market was included.

[10] For these numbers, the data of Fundusz Micro have not been included.

Despite the methodological difficulties that exist for comparing figures across years[11], the European microfinance sector continues to grow in terms of value.

Table 3: Number and value of loans disbursed

	2005	2006	2007	2008	2009	Growth Rate 2008 - 2009[12]
Number of loans	27,000	35,553	42,750	90,605	84,523	-7%
In millions of euros	210	295	394	802	828	3%

With the goal of having an accurate vision of the evolution of microfinance in Europe spanning over time, a sample of 58 institutions that responded to both the 2006-2007 and 2008-2009 surveys was taken. These 58 institutions are found in 13 countries: Belgium, Bulgaria, Finland, France, Germany, Hungary, Italy, the Netherlands, Portugal, Romania, Spain, Switzerland and the United Kingdom. In this sample, the Hungarian Microfinance Network is counted as one institution, even though in 2006-2007 the 20 individual LEAs responded as one, and in 2008-2009 these organisations reported individually.

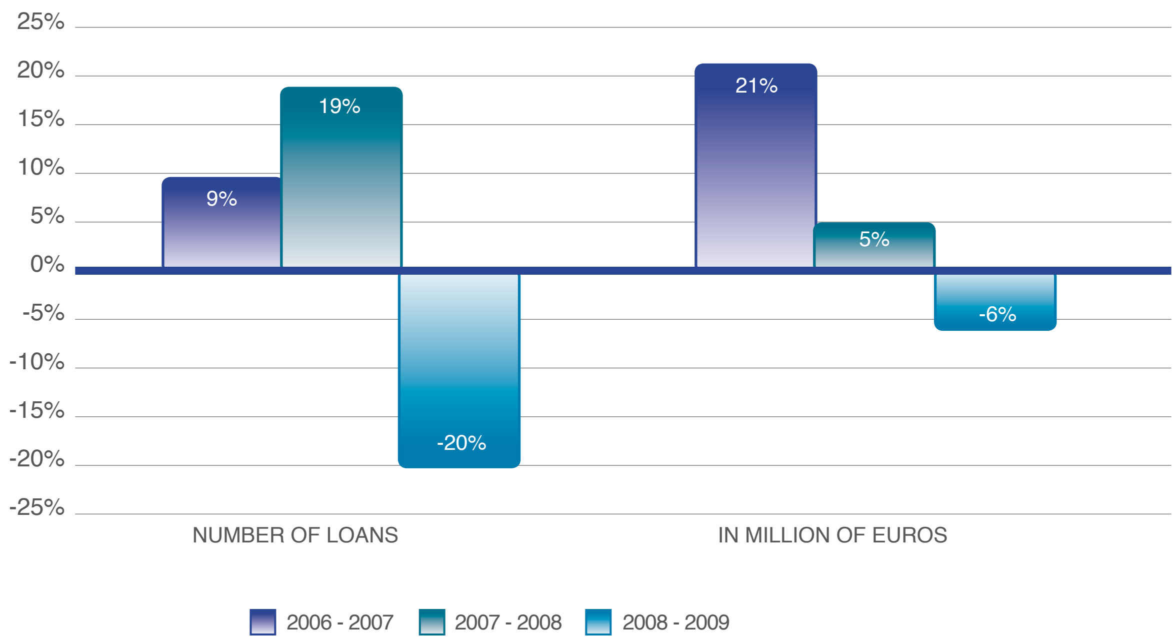
For this sample, the microcredits disbursed, in number as well as in monetary value, can be seen in Table 4 below:

Table 4: Number and Value of Loans Disbursed in the 58 Institution Sample

	2006	2007	2008	2009
Number of loans	33,462	36,936	45,401	37,714
In millions of euros	282	357	375	353

It can be observed that from 2006 to 2008 the sector underwent important growth in the number of loans as well as in the value of the portfolio in millions of euros. Furthermore, between 2008 and 2009, the rates are negative for both indicators, as the decrease is almost threefold in the number of microcredits disbursed in Europe.

Graph 1: Growth rate of the 58 institution sample



[11] Please refer to the Methodology chapter.

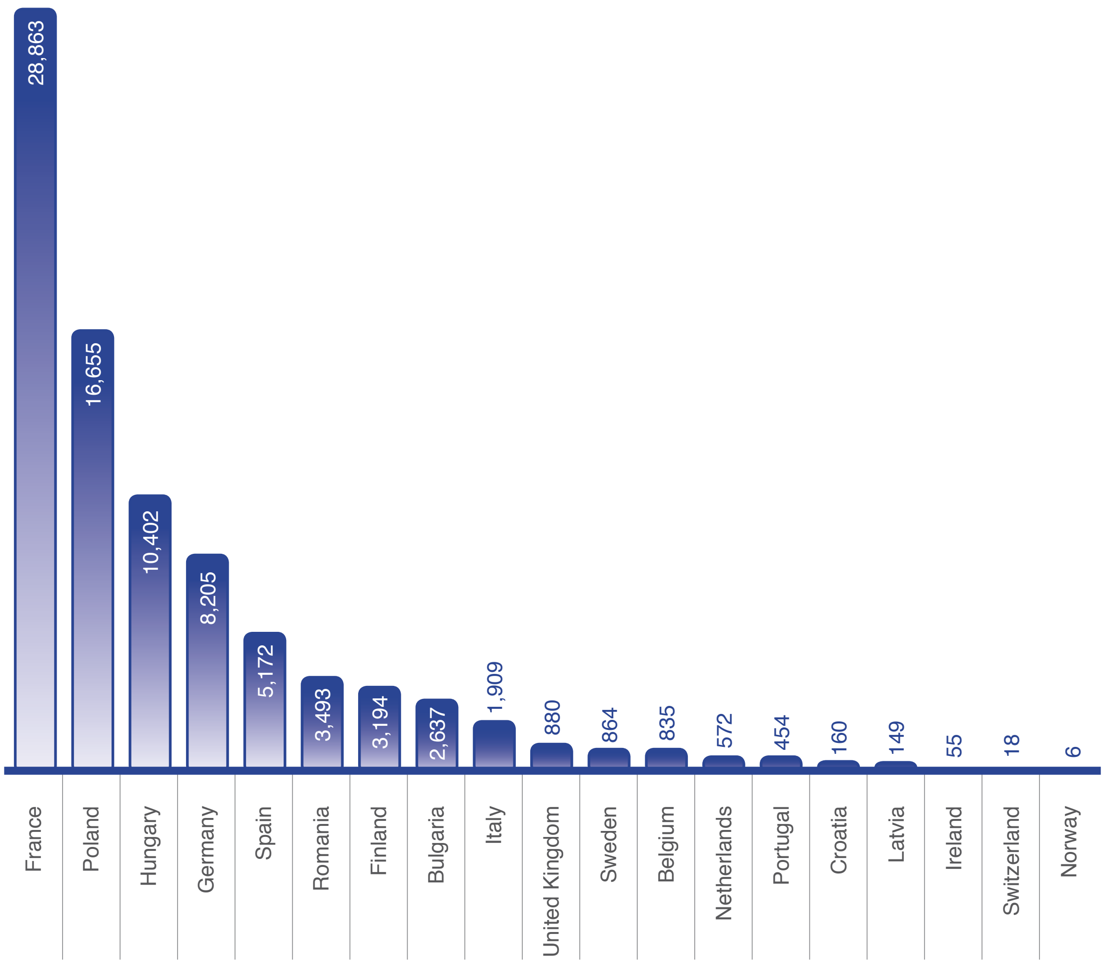
[12] Some lenders in the UK reported loan data in 2009 but did not do so for 2008. For more information, please see the Methodology section.

The greatest rate of decrease between 2008 and 2009 for this sample was found in Romania (-70% in number of loans and -71% in millions of euros) and in Bulgaria (-57% in number of loans and -60% in millions of euros). On the other hand, in Germany and France, even though there was an important slowdown in growth in both countries, the growth rates in the number of microcredits disbursed remained positive. Seventy-two percent of organisations disbursing microloans reported on active borrowers in 2009. This group included 135,815 active borrowers at the end of 2009 compared to 121,677 in 2007 (EMN, 2008) and 48,000 at the end of 2005 (EMN, 2006)[13].

When we look at the number of loans disbursed by country, we see that the greatest coverage on average was in France, Poland, Finland, Germany and Hungary[14]. The major institutional players were found in France, Germany, Romania and Finland.

Of these, two organisations disbursed 14,050 and 13,997 loans in France, a not-for profit organisation and an NGO respectively. However, it should be mentioned that the 14,050 loans provided by the non-for-profit organization are in fact zero-interest quasi-equity loans that allow beneficiaries to access significant complementary bank credits. A bank in Hungary disbursed 9,500 loans, a government body disbursed 7,000 loans in Germany, a bank disbursed 4,131 loans in Spain and 3,194 loans were disbursed in Finland by a government body (Graph 2).

Graph 2: Number of loans disbursed in 2009



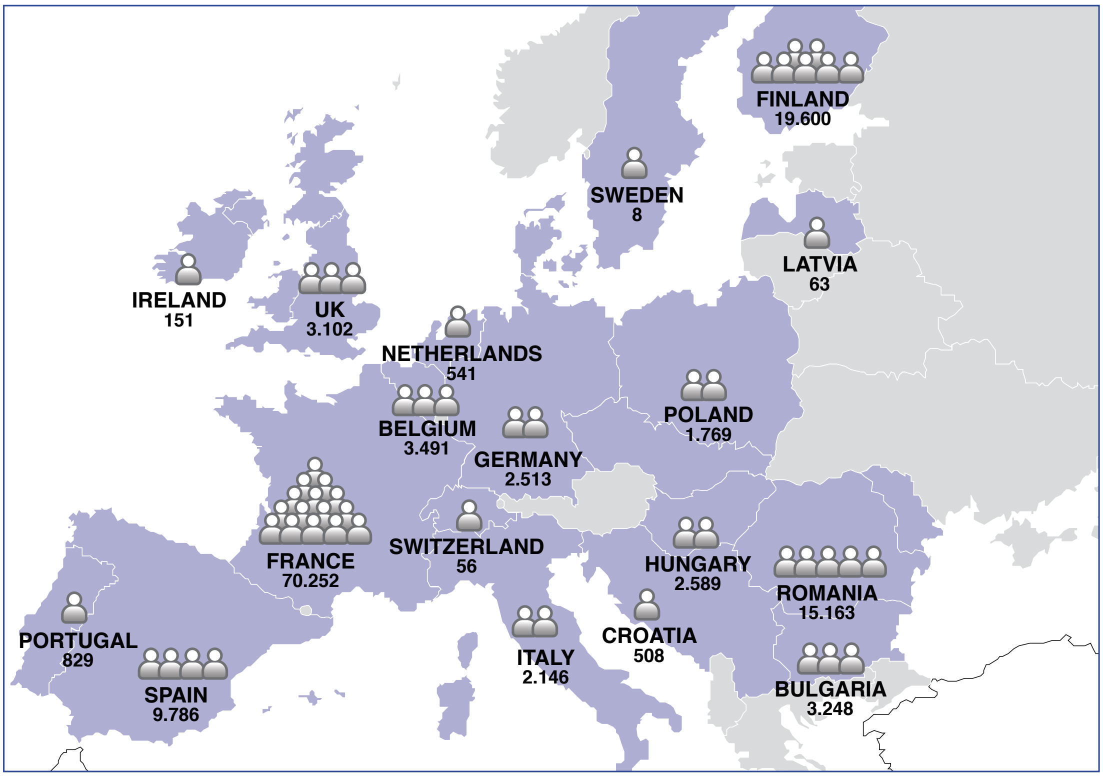
The majority of organisations in Europe work at a national (70%) or local level (32%). Only 6% operate internationally.

As seen in the graph below, the country with the largest number of active clients is France with 70,252 clients followed by Finland, Romania and Spain.

[13] Please refer to the Methodology chapter in relation to the differences in samples across surveys.

[14] Information on Fundusz Mikro, obtained from the Mix Market, was included in this analysis.

Graph 3: Number of active clients by country



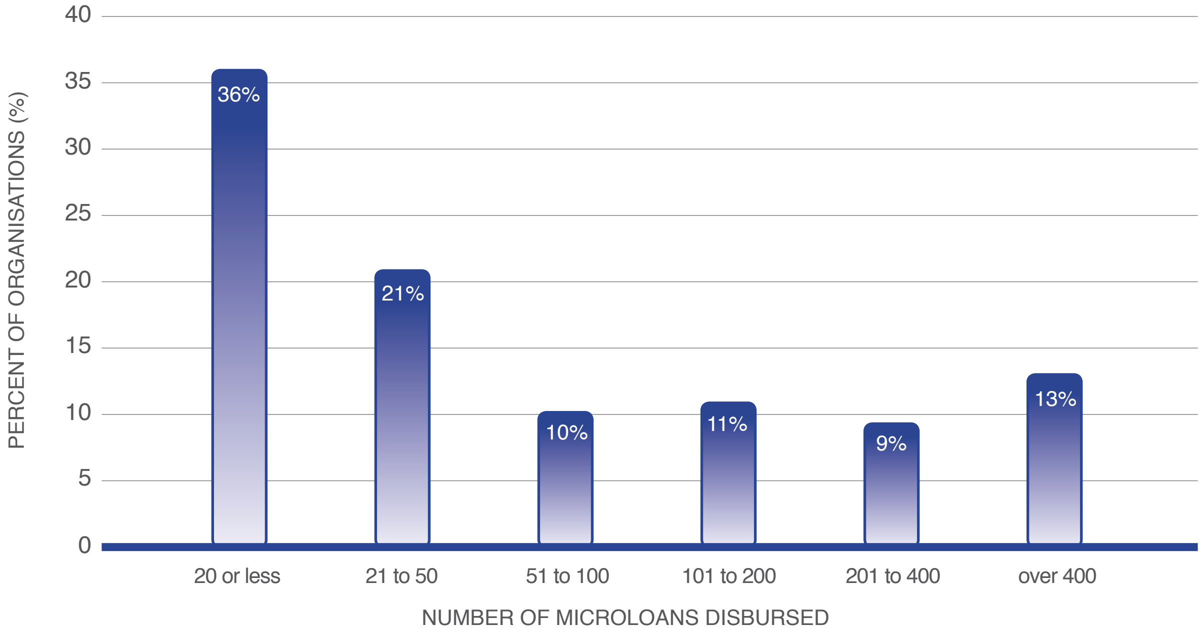
There are also organisations that have reported more numbers of loans disbursed than numbers of active borrowers. This is the case for Germany (big provider), Hungary (big provider), Latvia, Norway, Spain and Sweden. There are also organisations that have responded more number of loans disbursed than number of active borrowers (e.g. in the Netherlands). In the case of Poland the difference is due to the fact that in number of loans disbursed Fundusz Micro is included but not in number of active clients.

In Europe as a whole, unbankable clients made up 70% of loans disbursed. In contrast to the "nearly bankable" who can upgrade to mainstream financial services in the short to mid term, unbankable persons are financially and often socially excluded persons who will remain excluded from mainstream financial services in the mid to long term. The highest number of unbankable clients can be found in Belgium and Italy. This is not surprising for the Italian sector, where a greater focus on religious and social microcredit programs can be found. The countries with greater focus on bankable clients are countries that have disbursed a small number of loans, such as Finland, the Netherlands, Latvia and Lithuania as well as Hungary.

As shown in the graph below, 57% percent of the European organisations disbursed less than 50 loans in 2009. On the other hand, just 13% of the organisations disbursed more than 400 loans in 2009. These organisations are mainly located in Western EU countries (France, Germany and Spain). This represents a change over previous years, where institutions that disbursed more than 400 loans were located principally in Eastern Europe, where the sector is more mature. There are also two institutions that disbursed more than 10,000 loans and both are located in France. There are also some organisations in Bulgaria, Hungary, Romania and Poland operating on a large scale. In the previous survey, the percentage of organisations disbursing fewer than 50 loans per year was 50% and for those disbursing over 400 loans the figure was 20% (EMN, 2008). The increase in the number of organisations at the bottom-end of the market between 2005 and 2009 may be explained by the fact that new organisations have entered the market over the last few years, disbursing small numbers of loans while. At the same time, existing players are growing, increasing their number of loans disbursed per year.

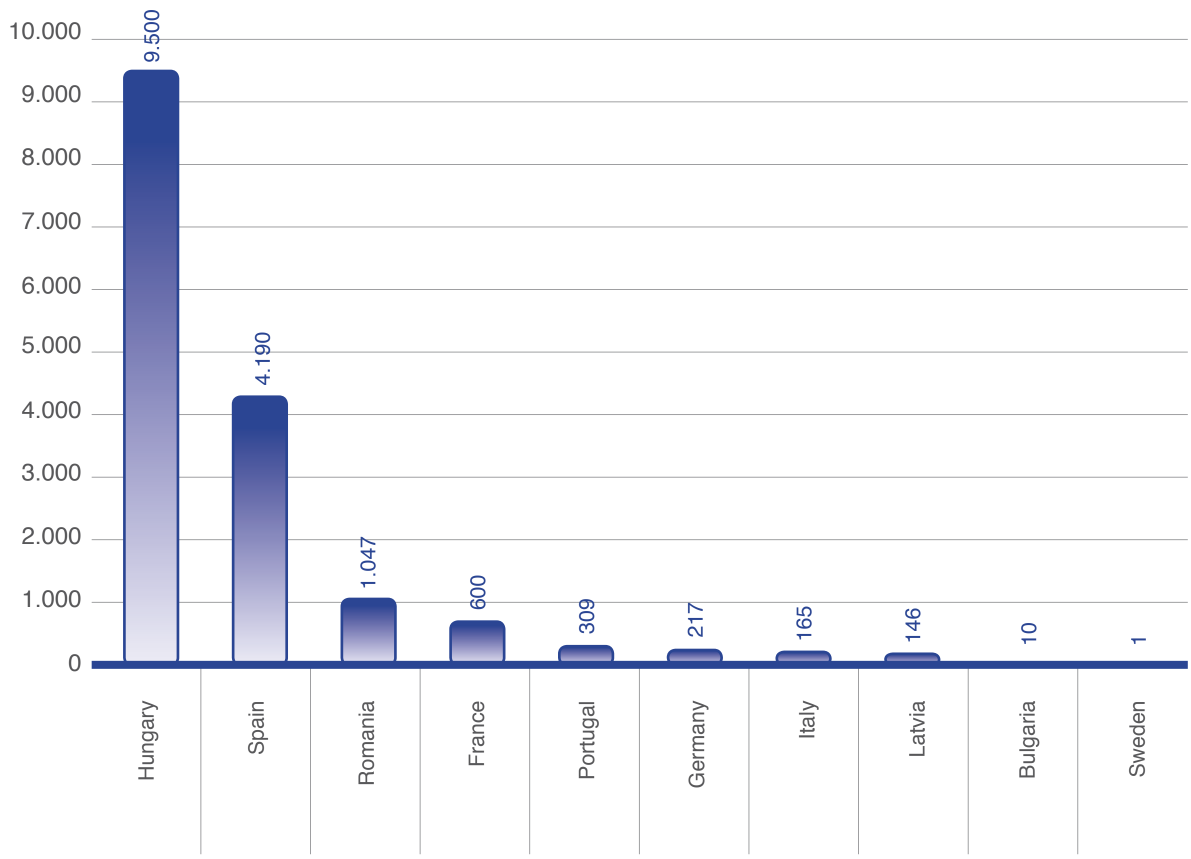
The survey has captured the majority of microlending activity in the EU. However, there are some gaps in the data. It was not possible, for example, despite enormous efforts, to gather lending information from two big organisations - one in Poland (Fundusz Micro) that operates on a national scale, and the other based in Bulgaria (ProCredit Bank Bulgaria). In addition, of those countries contacted, there was no ongoing microcredit activity in 2006/07 in: Austria, Czech Republic, Denmark, Greece, Luxembourg, Malta, Slovakia and Slovenia. Detailed data was not available for Cyprus (e.g. Women's Cooperative Bank) and Macedonia (e.g. Procredit).

Graph 4: Percentage of organisations by numbers of loans disbursed in 2009



This edition of the survey has put particular emphasis on including the commercial bank enterprise lending of 25,000 euros or less. As a result, 20 banking institutions have reported data for 2008 and 2009. This represents a big step forward, taking into account the important contributions of some commercial banks to the microfinance sector in Europe. These commercial banks are located throughout Europe in various locations, in Bulgaria, France, Germany, Hungary, Italy and others. In Spain, commercial banks are concentrated in six savings banks (*cajas de ahorro*). These 20 banking institutions represent 12% of responding institutions and also represent 40% of the total European loan value and 7% of clients, which implies a higher average loan. Bankable clients also represent 60% of their total portfolio, lending credence to the higher average loan value.

Graph 5: Numbers of loans disbursed by commercial banks in 2009



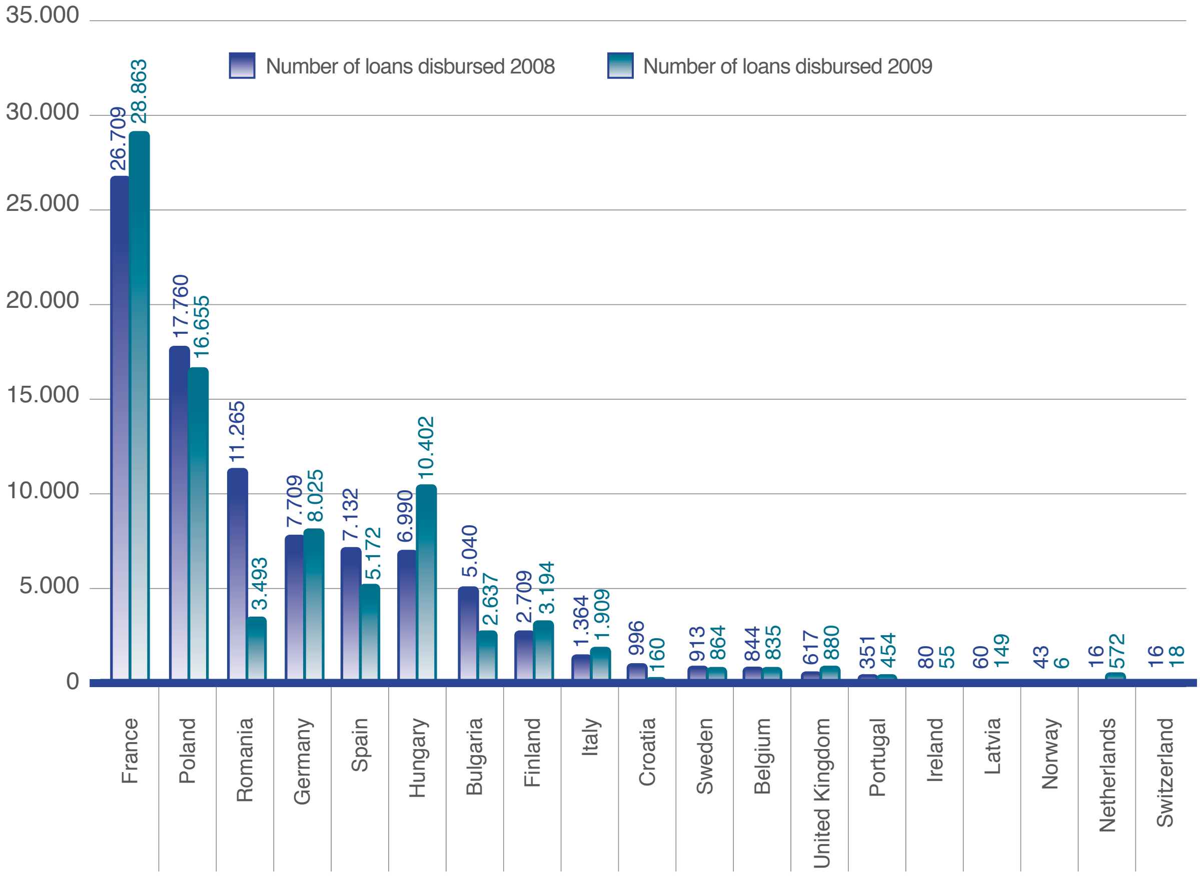
3.3 Growth

In spite of the slow growth experienced over the last two years in Europe, the converse has occurred in the microfinance sector. While the growth in the number of loans disbursed between 2007 and 2008 was 112%[15], the change of overall growth rate in the sector over the same time period was -7%, as seen previously in section 3.2, Scale.

From 2008 to 2009 highest growth in terms of numbers of loans occured in Hungary (+3412 loans) and France (+2154 loans), followed by Finland (+485 loans), Italy (+545 loans), the Netherlands (+511 loans) and Germany (+505 loans). However, in terms of rates, the lending growth rate is the highest in the Netherlands (3475%, disbursing 16 loans in 2008 and 572 loans in 2009). This exceptional growth is due to the incorporation of two new institutions that began activities in 2009, while in 2008 only one of the two institutions was operating. The same occurred in a second country with a high growth rate, Latvia, with a rate of 148%, and in this case the two institutions that reported data began their activity in 2009. It is important, therefore, to take into consideration not only the percentage, but the total number of loans as the growth rate may be exaggerated as a result. The most significant growth rates that were not due to the entrance of new institutions can be found in Hungary (49%) and Italy (40%), where the sector in both countries has a greater number of participants. It is important to take into consideration that after reaching a certain level of maturity in the sector, more moderate growth rates will be noted due to diminishing rates of return. For example, France, as the country with the greatest number of loans disbursed, has a growth rate of 8%.

France and Germany remain markets with strong institutional growth rates, where players on a national scale (an association in France and a development bank in Germany) play a major role. On the other hand, loans disbursed in more mature microcredit markets in the Eastern EU countries (Bulgaria, Hungary, Poland and Romania) did not react similarly, whereas Hungary grew by 49%, Bulgaria, Poland and Romania experienced decreasing growth rates between 2008 and 2009.

Graph 6: Growth in the number of loans disbursed 2008-2009

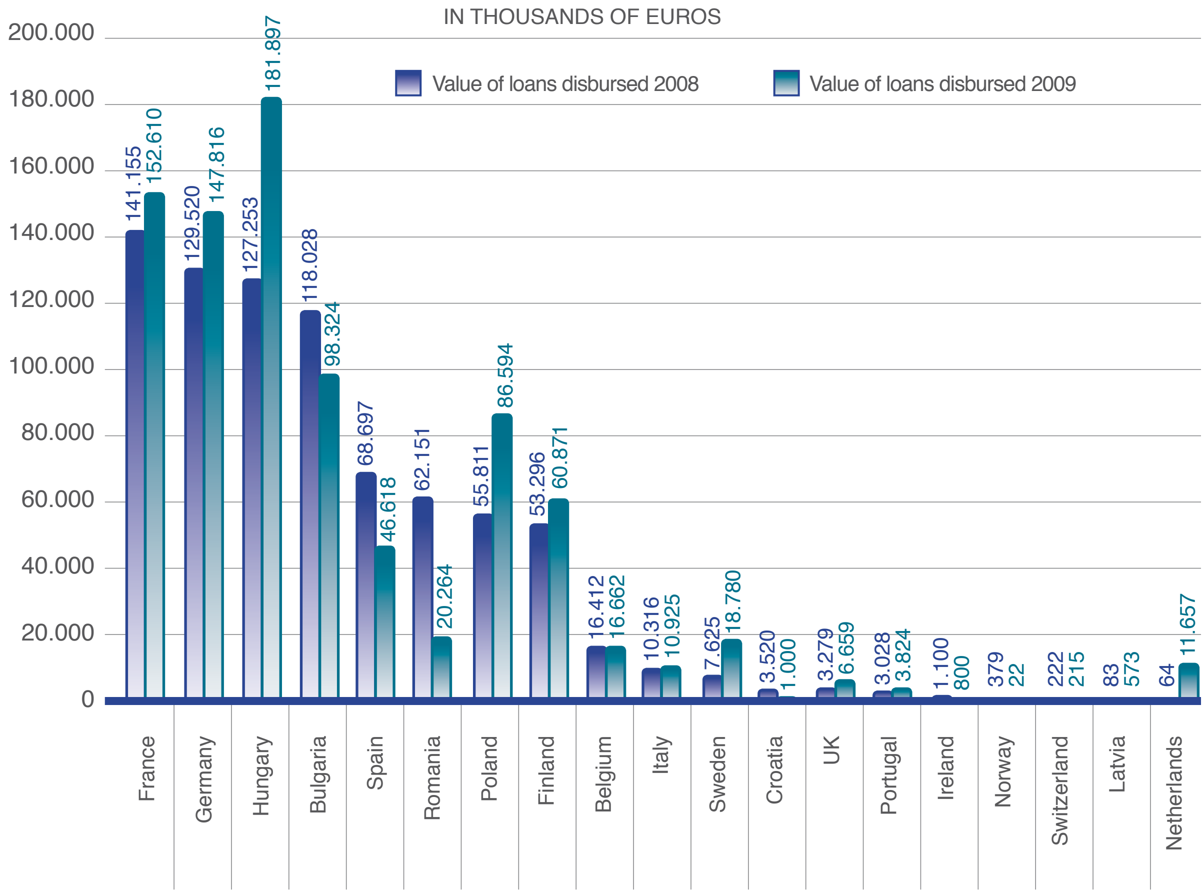


Note: Please refer to the Methodology chapter in regard to the comparison of UK data between 2008 and 2009.

[15] Loans disbursed are counted by participating institution in the previous survey, without taking into consideration the difference in the number of participating institutions between 2007 and the current edition. When this information is taken into consideration, the growth rate between 2007 and 2008 is 23%.

The growth in the total value of loans disbursed in the EU as a whole between 2008 and 2009 was approximately -7%.

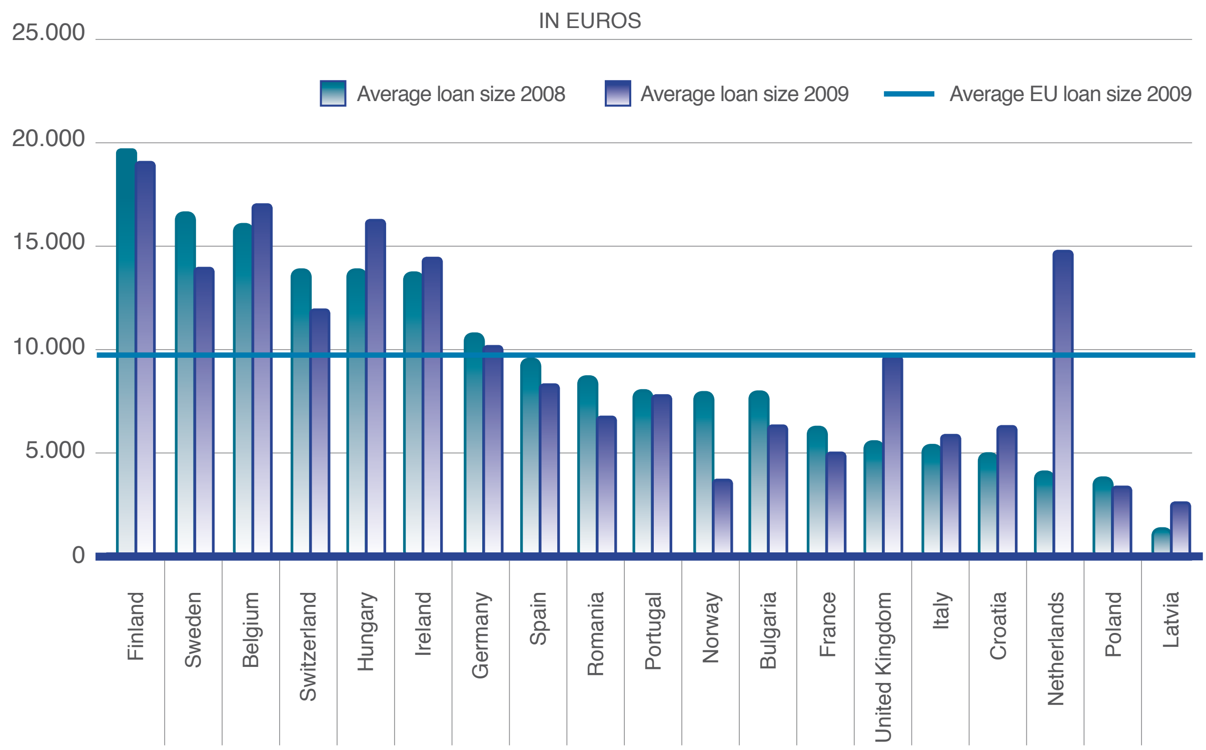
Graph 7: Growth in the value of loans disbursed 2008 – 2009



Note: Please refer to the Methodology chapter in regard to the comparison of UK data between 2008 and 2009.

Comparing the growth in the total value of loans disbursed to the growth in the number of loans disbursed, we find that in some EU countries, loan disbursements are moving toward larger loans and the higher end of the market. We can see this in the

Graph 8: Average value of microcredit by country 2008-2009



average loan sizes, where the Netherlands, along with the United Kingdom and Hungary have all increased their average loan sizes. This implies that there has been a change in the type of clients targeted. This trend could also be found in the previous survey. This time we encounter countries disbursing large loans, e.g. Finland with an average loan size of 17,029 euros in 2009, or countries at the "low loan" end of the market increasing their average loan size, such as the United Kingdom, Italy, the Netherlands and Latvia.

As a whole, the weighted average loan size across the sample has decreased in recent years from 11,002 euros in 2007 to 9,641 in 2009. The average loan size in the Eastern EU countries (Bulgaria, Hungary, Poland, Romania and Slovakia) was 10,588 euros, about 200 Euros less than in the previous survey (10,728). In the Western EU countries, the average loan size amounts to 8,810 euros, compared to the 11,061 euros reported in the last survey, which is a significant decline. In general, a large majority of the Western European countries have reduced their average loan size.

Table 5: Average Loan Size

	2007	2008	2009
Average loan size	11,002	9,373	9,641

Further discussion of average loan values and adjustment for country income (GNI per capita) is provided in Section 5: Products and Services.

3.4 Actors

The European microcredit sector continues to be diverse with respect to institutional types, organisational size and focus.

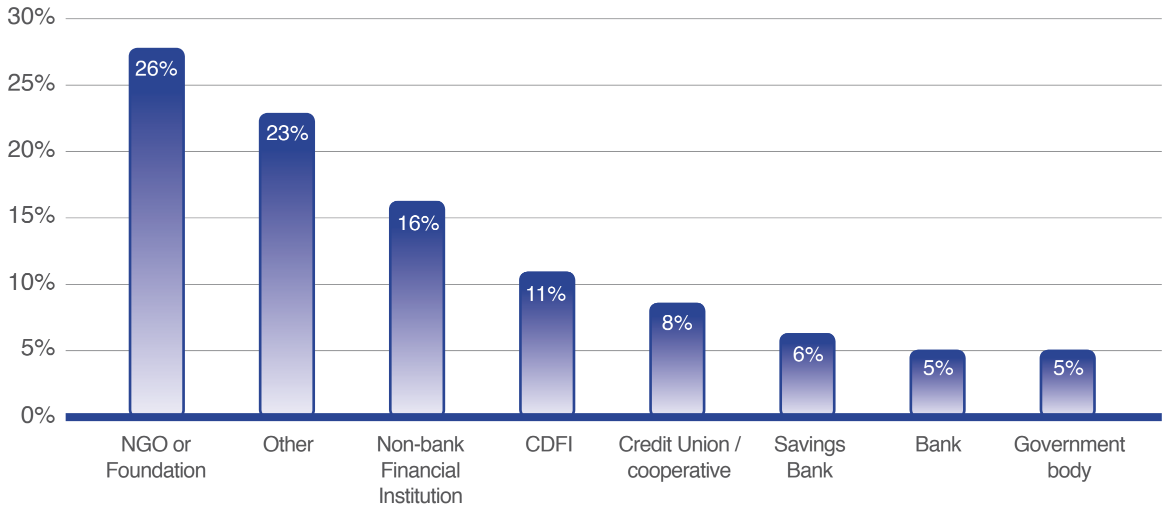
Institutional Types

A variety of types of institution disburses microloans in the EU. There are non-governmental organisations, foundations, government bodies, savings banks, banks, credit unions, cooperatives, Community Development Finance Institutions and non-bank financial institutions. This diversity is related to the regulatory environment in each country. In this edition of the survey, all participating institutions responded to this question. In Spain, Germany and Finland, lending activity is restricted to banking or government agencies. In the UK, non-governmental organisations that lend have a specific legal status as "community development finance institutions".

Sixty percent of respondents have a not-for-profit status. This percentage has decreased compared to the seventy-seven percent reported in 2007. There are also a larger number of banks that are entering the sector and having an increased presence in the field, such as MicroBank of La Caixa in Spain.

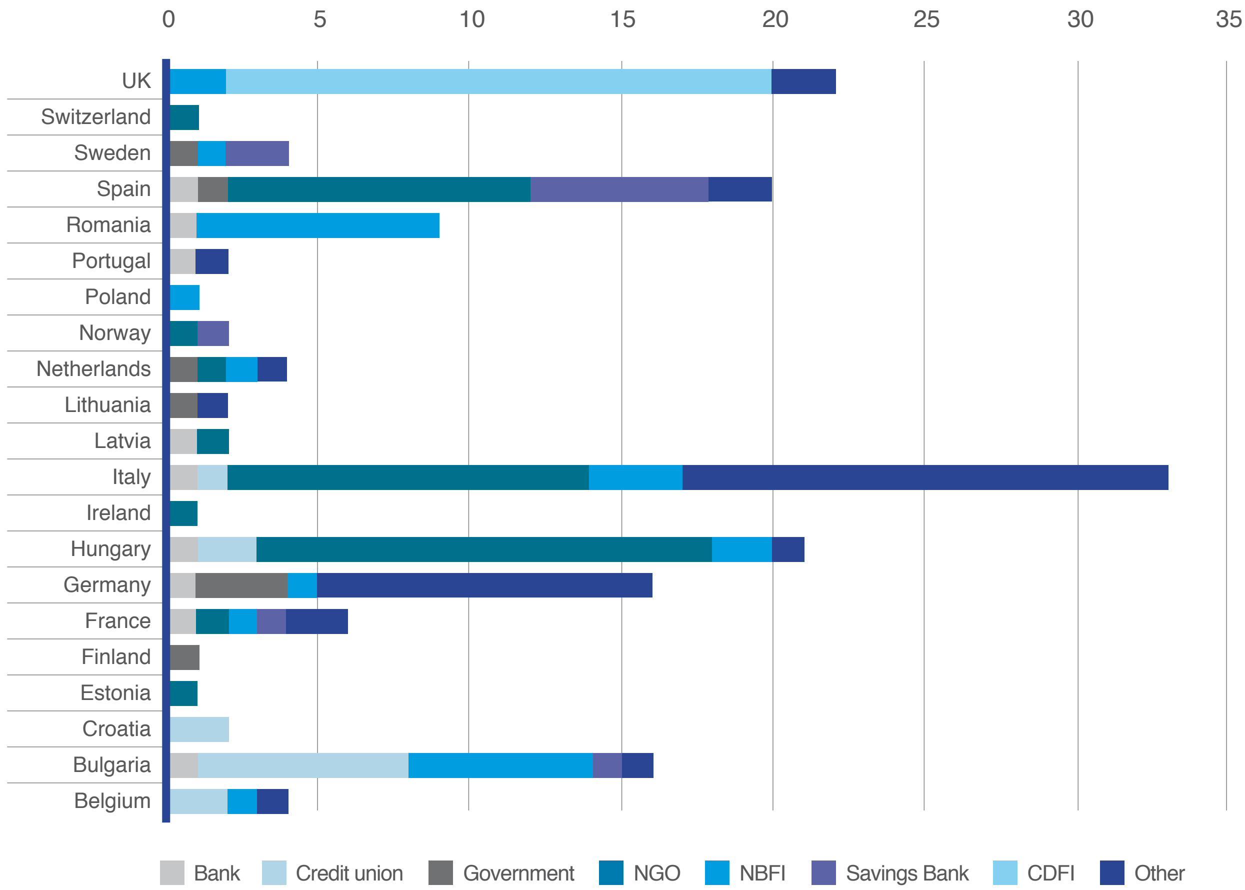
NGOs and foundations are the most common types of microlender, which is the same as in the previous survey. The second most common type of microlenders is other institutional types. These institutions are mainly microfinance associations and other religious institutions, which are mostly found in Italy.

Graph 9: Percentage of microlenders by institutional type



The graph below shows the various types of institutions per country. In Estonia, Hungary, Ireland, Latvia, Norway, Spain and Switzerland, fifty percent or more of the responding institutions are NGOs. In France, the sector is divided equally between banks, NGOs, non-bank financial institutions and saving banks. In Spain, the second highest number of microcredit providers is represented by savings banks, which cover risk with their "social work" funds. These funds are managed mainly through foundations created by the savings banks where the microcredit programmes are located.

Graph 10: Number of microlenders by institutional type per country



Microlending as a proportion of activity portfolio

In addition to classifying lenders by mission statement, data shows that lenders can be broken down into two further groups: those which have microlending as their primary occupation and those for which microlending constitutes a relatively small proportion of their activity portfolio.

All 170 institutions responded to this question. Twenty-four percent of respondents are involved only in microlending, compared to 28% in 2006/07 and 16% in 2004/05 (EMN, 2008). It can be noted, however, that during the last six years, the proportion of microfinance institutions that are dedicated exclusively to microfinance in Europe has fluctuated very little and remains a relatively small percentage. The remaining 76% of respondents are dedicated to other complementary activities. For example, 17% of institutional respondents are traditional banks, whereas the rest of the institutions are focused on other activities such as: business development services (BDS) (35%), entrepreneurship training (25%), business incubator (15%) and financial education programmes (13%). In the United Kingdom, many institutions lend over 25,000 euros, and this lending activity makes up a large percentage of their overall portfolio.

Looking at the relative weight of microlending in this diverse activity portfolio, we can see that for almost half (49%) of survey respondents in the EU, microlending represents 25% or less of their activity portfolio. This group is made up of foundations and NGOs (32%), banking institutions (banks and savings banks) (28%) and government bodies (10%). All these figures are very similar to those in the previous report where the proportion of institutions whose microfinance activities represented less than 25% was slightly lower, at 46% (EMN, 2008).

At the other end of the spectrum, microlending represents a significant proportion (75% to 100%) of the activity portfolio for 35% of respondents, the exact same percentage as the last survey (EMN, 2008) and very similar to the 34% of the one previous (EMN, 2006). Non-bank financial institutions represent 43% of this group and foundations and NGOs 18%.

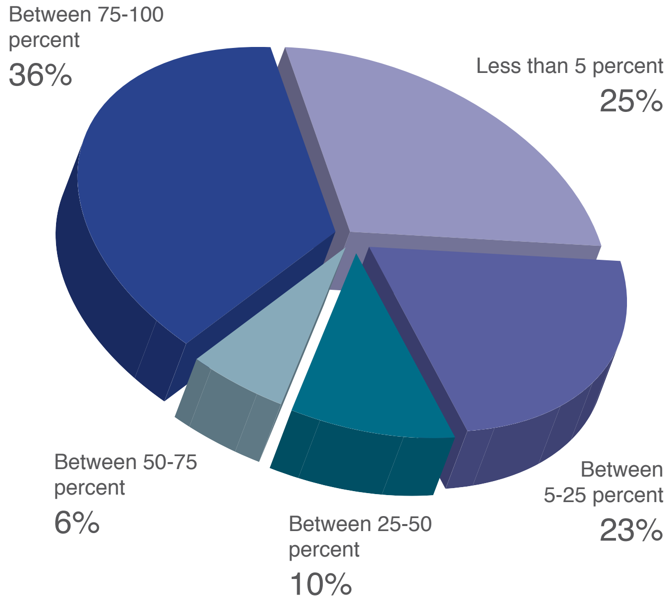
The distinction between lenders in the 0-25% range and those in the 75-100% range is important. It underscores that, for half of the microfinance sector, microlending is not the main focus but is one of many strategies or tools that support wider employment, business development and financial inclusion objectives. Organisations in this half of the sector therefore likely think of themselves as social and employment development organisations rather than purely financial institutions.

When we compare this data with the country of the programmes, we find that nearly all the institutions that fall into the 75%-100% category are Bulgarian and Romanian institutions. In these countries, institutions have been founded as financial institutions to provide access to credit to foster SME growth.

On the other hand, information can be obtained about the proportion of the portfolio of different institutions that disbursed microcredit loans for different purposes. 161 institutions responded to the proportion of the portfolio dedicated to entrepreneurial activity. One hundred and eleven (70%) of these institutions dedicate more than 75% of their loan portfolio to entrepreneurial microloans.

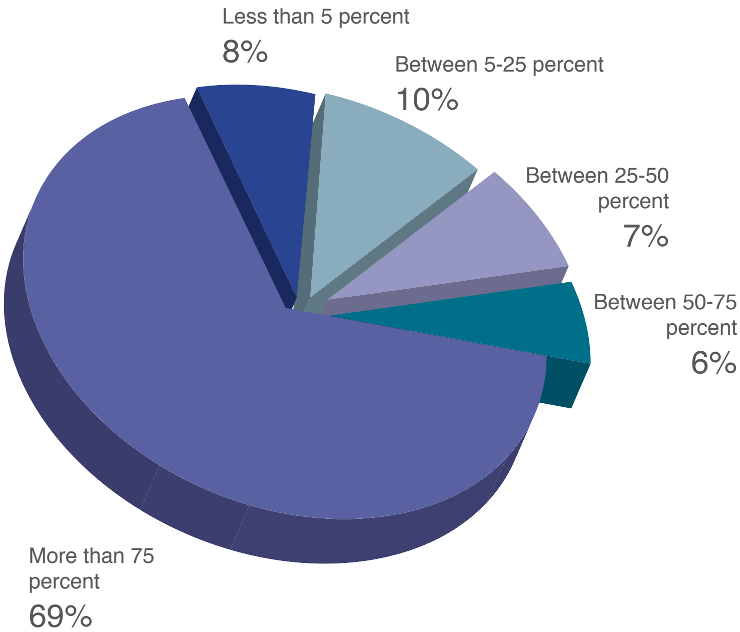
155 institutions responded to the question about the proportion of the portfolio dedicated to personal or consumption loan. As seen in the graph above, 63% of responding institutions reported that they dedicate less than 5% of their portfolio to personal or consumption lending. We can interpret this as meaning that European lenders are following the traditional definition of microcredit, for entrepreneurial purposes.

Graph 11: Microlending as a proportion of activity portfolio



PERCENTAGE IN ACTIVITY PORTFOLIO

Graph 12: Purpose of loan



PROPORTION OF MICROCREDIT LOANS
TO ENTREPRENEURIAL ACTIVITY
Nº OF RESPONDENTS

Case study 1:
Personal microcredit

Access to microcredit, not only for the creation or the development of a microenterprise but also for personal purposes, can be a powerful instrument for helping excluded persons to improve their situation. Without access to bank credit, people are restrained to easily available consumer loans from private financial companies and moneylenders that are often disbursed without any check of the borrower's credit history and at very elevated cost. This risks pushing them into the spiral of over-indebtedness. Personal microcredit differs from consumer credit because it primarily aims at improving the situation of excluded persons, reintegrating them into the normal banking system and preventing over-indebtedness. It serves for supporting specific needs and paying for unexpected expenses (such as health expenditure, a driving license fees, special insurance…) and purchasing durable goods. It is adapted, in terms of amount, loan term and cost to the budget situation of persons with low income, social welfare beneficiaries, persons registered negatively at the credit bureau, the elderly or people with health problems. And it is systematically coupled with information and support such as budget advice, financial capability training and debt settlement. Recently and often on an experimental basis, various stakeholders in Europe have started to develop personal microcredit.

In **France** 30% of the population does not have access to normal bank credit and more than 2.5 million persons are negatively registered at the credit bureau[16]. To improve this situation, the government launched a Personal Microcredit Programme on an experimental basis in 2005 through the establishment of the Social Cohesion Fund (Fonds de Cohesion Sociale) with € 73 million over five year - a guarantee fund for both business and personal microcredit. The specificity of the programme is the close collaboration between three types of entities: the promotional bank *Caisse des Dépôts et Consignations (CDC)* which manages the Social Cohesion Fund for the government and so guarantees the loans up to 50%, the banks that disburse the loans (15 banks and three financial companies are part of the programme[17]) and the social associations that accompany the borrowers (ten national and 86 regional social support networks[18]). Credit amounts are fixed from €300 to €3,000 over 36

[16] Banque de France, 31 Dec. 2009.

[17] As of end of 2009.

[18] As of end of 2009.

months with maximum 8% APR, while actually applied APR is between 1% and 6%. While uptake of the programme has been limited in the first two years of operation (2,436 loans in 2006/07), several improvements were carried out in 2008. Consequently the number of loans increased significantly: until December 2009, all in all 11,519 personal microloans have been disbursed with a total amount of €26,03Mn, mostly for purchasing a motor vehicle or a drivers' license to access or consolidate employment. Evaluations show a constant positive influence of the personal microloan on the life of the beneficiaries and the programme will continue to operate. **www.france-microcredit.org**

In **Belgium**, despite relatively low levels of exclusion (1% of the population has no access to banking services)[19] many people, especially from disadvantaged groups of the population, remain outside of the banking system. In 2003 the alternative credit cooperative **Crédal**, in cooperation with public authorities and *Banque de la Poste*, launched the "social consumer credit" product ("credit social accompagné"), a low interest personal microloan (5% interest rate) for unemployed persons or those receiving social allowances in Wallonia region. Finding the most adequate solution for the borrower is the main priority of the programme, it has no commercial aims. Each microloan of between €500 and €10,000 is linked to personalised advice. In addition, Crédal launched another personal microloan product in 2006 in the Brussels region: the "prêt vert social" (social green loan), a zero interest loan between €500 and €20,000 for low income persons who would like to carry out reparations to save energy in their house. Until December 31, 2009, Crédal established 6,654 telephone contacts, met 2,257 persons for an interview and provided 1,032 loans amounting to €3,600,000. **http://www.credal.be/**

In **Romania**, 24% of the population finds it very difficult to make ends meet and be able to pay their bills while only 9% find this easy[20]. Unexpected expenses thus put a significant financial pressure on households, especially on those with low-income. The credit unions or "associations of reciprocal aid" (CARs), federated since 1990 under the umbrella of the organization **UNCAR**, aim at social and financial inclusion and poverty reduction through long term loans for investment (housing, mortgages etc.), financial aid for illness, accidents, infirmity, demises etc., and they are an important provider of personal microloans. Evolved out of the traditional savings and credit associations and formerly affiliated to the trade unions, there are today 2,300 politically independent CARs that have remained mainly territorial and employee-based. They provide savings products (with a special provision in the legal framework) as well as microloans, whereby 85% of their credit activity concerns personal loans. 85% of their money available for lending comes from client deposits while the rest is taken from own funds. In 2008 and 2009 the CARs provided about 500,000 microloans each year with an average amount of €980 over 12 months at 15% APR. **www.uncar.ro**

In the **UK**, the credit market of doorstep lenders and unlicensed moneylenders with avg. APR as high as 400%-2000% is estimated at nearly 5Mn regular borrowers. To tackle this problem many **CDFIs (Community Development Finance Institutions)** provide personal microloans (8,794 loans in 2009[21]). For example, since 2005, Fair Finance, an ethical and socially responsible lending company, tackles unfair and usurious lending in London, and potentially the UK. Its personal loans range from £200 to £2000 at 28-35% APR and help cover emergencies and essentials. The possibility of repaying the personal loans in small weekly or monthly installments enables the borrowers not to overstretch their day-to-day budgets. From 2005-2010 **Fair Finance** interviewed more than 3500 personal microcredit clients and has given them basic financial support. It

[19] European Commission, Financial service provision and Prevention of Financial Exclusion, March 2008; in Belgium, the government has taken several measures to reduce financial exclusion: the 2003 Law that guarantees basic banking services to all; the existence of negative as well as positive credit register; reformed consumer credit law; measures against over-indebtedness…

[20] In comparison: at EU27 average 30% of people find it easy to make ends meet, 12% find it difficult; Eurobarometer Survey on Poverty and Social Exclusion 2009.

[21] cdfa, Inside Out 2009, The State of Community Development Finance, Dec.2009.

has approved 2000 loans and made over £1.5m in loans. Eighty-five percent of the borrowers are on state benefits, 70% are women, 65% minorities, 75% live in socially rented properties, and over 50% are single mothers. Up to 60% are regularly using high cost credit providers for basic purchases and live in the cash economy. With its activity Fair Finance has saved clients an estimated £800,000 in saved interest payments through the substitution of products from the moneylenders. **www.fairfinance.org.uk**

Last but not least, in **Spain**, **Microbank**, the social branch of the La Caixa savings bank, has developed a personal microloan product with three target groups: low-income families (unplanned financial needs), new immigrant residents (family reunion or housing expenses in the country of origin) and persons with a temporary or permanent handicap (purchasing or adapting material, eliminating architectural hurdles or contracting services). The "microcrédito familiar" has a maximum amount of €25,000 over six years (including 12 months grace). In 2009 out of a total of more than 4000 microloans representing €43,439,000, 56% were for personal use. **www.microbanklacaixa.es**

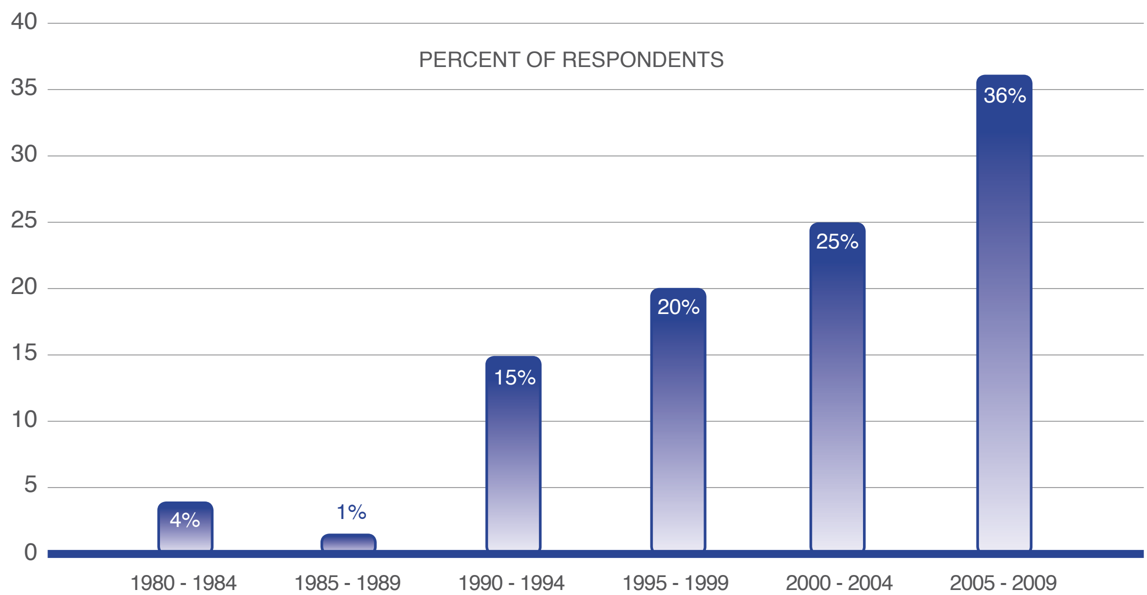
Despite slight differences, these approaches have one thing in common: they are geared to the real needs of vulnerable borrowers and perfectly in line with their repayment capacities. And they are not only delivered in a transparent way, but also closely linked to information and budget advice for the borrower. All of them have shown their extreme usefulness. The elevated levels of over-indebtedness of European citizens highlight the need for more personal microcredit. This could help much more people to maintain or improve their everyday well-being and prevent over-indebtedness.

Author: Stefanie Lämmermann, EMN.

Age

The microlending sector in Western Europe is still young, and new entrants are still being incorporated into the sector. Forty percent of organisations surveyed were active before 2000. Nine institutions began lending in 2008 and another nine in 2009. In 2008, these new entrants were mainly located in Italy and Sweden. In 2009, new entrants were located in Hungary, Italy and the Netherlands. The next largest group of lenders (36%) began in the period 2005-2009. They can be found in Italy, Germany and Spain.

Graph 13: Year lending began

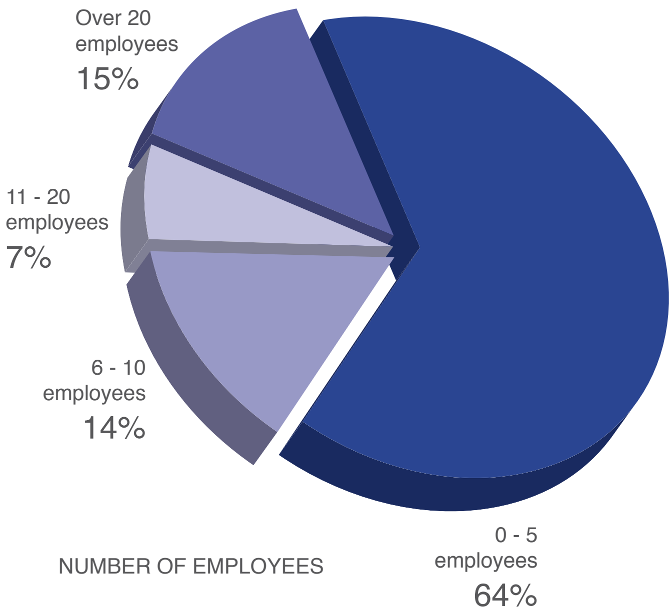


Staff

In addition to being young, EU lending institutions have relatively few staff members. The sector as a whole employs 9,096 people, based on the responses of 156 institutions. The two institutions with the largest number of employees are found in France, they employ 611 and 500 people, followed by institutions in Hungary and Romania, which employ 150 and 161 employees respectively. With respect to diversity and equal opportunities, 55% of the staff is female and ethnic minorities/ immigrants represent 12% of the workforce. A majority, 64%, of responding institutions reports employing fewer than five people.

One hundred and forty two organisations, which represent 84% of institutions surveyed, have volunteers who collaborate in their programmes and count on the work of 17,000 total volunteers. Volunteers tend to assist with pre-loan screening, information provision and post-loan advice and support. This phenomenon is not observed in Eastern EU countries (Bulgaria, Hungary and Romania) where the sector is more mature and business-oriented. German organisations also tend not to rely on volunteers. In this case, the reason is related to the institutional type of the organisations providing microcredit in this country. In Germany, we find government bodies that only hire government employees. In Spain there are also a low number of volunteers, as savings banks prefer to employ permanent staff with financial expertise, while relying on the support of external organisations for the provision of advice to the entrepreneurs. These external organisations do use volunteers to help with their activities.

Graph 14: Staff



Clients 4

4.1 Bankable and unbankable clients

129 institutions responded to the question on what proportion of their clients was bankable. For these respondents, 40.3% of total loans were disbursed to bankable clients. Of the 146 institutions that responded to the question on what proportion of their clients was unbankable, 68.3% of loans were disbursed to unbankable clients. The majority of unbankable clients can be found in Belgium, United Kingdom and Italy (with 94%, 83% and 81% of clients, respectively). If we compare the type of client with the institutional type we can see that institutions with the highest focus on reaching unbankable clients are CDFIs (87%) and NGOs with 71%. The institutions that had the greatest percentage of bankable clients were banks (60%) and savings banks, with 56% of total clients in the bankable category.

4.2 Businesses Targeted

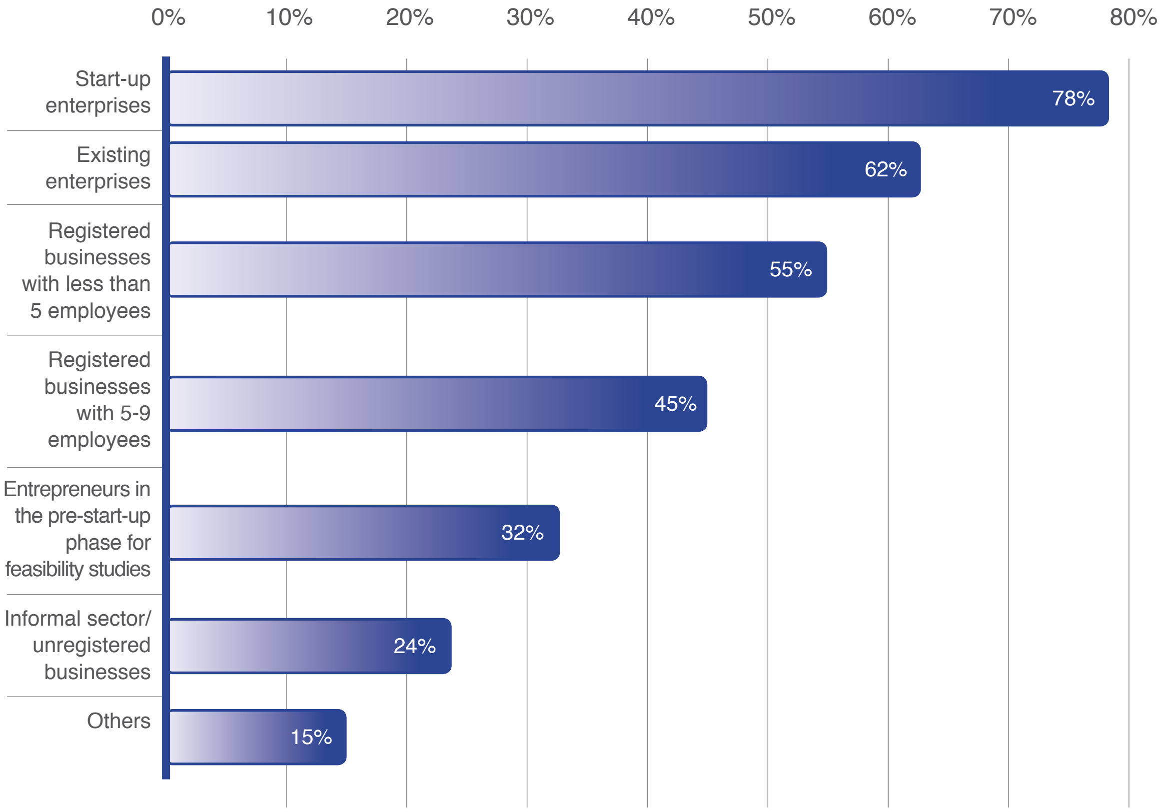
In this section, survey respondents were asked to identify the type of businesses they supported. Organisations could choose more than one response. Graph 15 below shows the responses in regards to the age of the business supported. It can be observed that over three-fourths focused on start-up businesses (78%) and more than half on existing enterprises (62%). A smaller proportion assists businesses in the pre-start-up phase, e.g. by financing feasibility studies (32%). With reference to the size of the business, 55% of the organisations supported businesses with five or fewer employees while 32% supported businesses with between five and nine staff. Twenty-four percent of respondents worked with unregistered informal sector businesses, which is slightly lower than the 32% reported in the previous survey (EMN, 2008). All figures have witnessed a decrease across the board over the previous survey. The only increase was noted in registered businesses with five to nine employees, which grew from 30% to 45% (EMN, 2008), suggesting a shift of focus from informal activity to formal businesses that employ a greater number of individuals.

4.3 Client Targeting

This section begins with the information collected from a recent survey released by the European Commission for the European Year for Combating Poverty and Social Exclusion (2010).

To understand the context of poverty in Europe, the European Commission carried out a survey in 2009 to conceptualize citizens' perspectives on poverty. Seventeen percent of the EU population lives below the poverty line, set at 60% of the country's median income level. The survey also demonstrates the importance of poverty to European citizens: nearly three-

Graph 15: Types of businesses supported



quarters (74%) of survey respondents felt that the European Union has an important role to play in combating poverty (European Commission, 2009).

Eurostat, as well as EMN and the European Commission through various studies they have carried out, indicate that the groups at risk of social exclusion and poverty in the EU are:

- Women
- Single parent households (mostly headed by women)
- Elderly people
- Disabled people

These results can be contrasted with the groups EU citizens perceive to be more susceptible of poverty, where the unemployed are perceived to be the most susceptible (56%) and the lowest group perceived to be susceptible to poverty are women (6%) (European Commission, 2009).

- Unemployed people (56%)
- Elderly people (41%)
- People with a low level of education, training or skills (31%)
- Disabled people (29%)
- Single parents (23%)
- Immigrants (15%)
- Women (6%)

In addition, three groups are particularly vulnerable to long-term unemployment, the primary cause of social exclusion (Facet, EVERS&JUNG, nef, 2005; European Commission, 2004; European Commission, 2004a). These are:

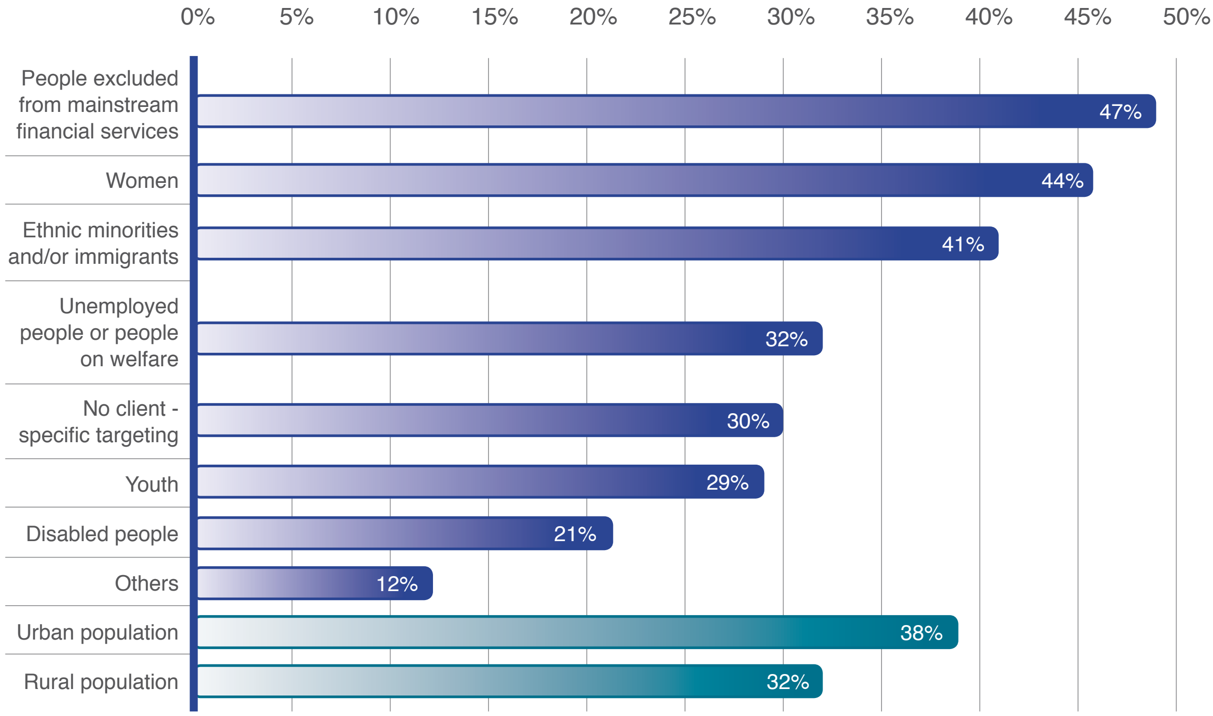
- Older male and female workers
- Men and women under the age of 25
- Immigrants and ethnic minorities

Financial exclusion is a cause that can lead to social exclusion and increases vulnerability to poverty. In the EU, the main cause of financial exclusion is the lack of access to mainstream financial services motivated by low purchasing power (lack of collateral or a regular source of income). When we refer to people excluded from mainstream financial services we mean those without access to cash transmission banking, savings, insurance, short-term consumer credit and long-term savings. People excluded from mainstream financial services may not have access to one or several of the above services considered essential for participation in economic life in Europe (Cartwright, 2004).

For those with a particular interest in financial exclusion, a website has been developed: the European "Mutual Learning on Financial Inclusion" project (December 2007 - December 2009) led by Réseau Financement Alternatif and financed by the European Commission, DG Employment, Social Affairs and Equal Opportunities PROGRESS Programme, called the European Financial Inclusion network[22].

In regards to client targeting, thirty percent of microlenders surveyed stated that they do not target a specific clientele. The rest of the lenders target one or several of the socially and financially excluded categories mentioned below. People excluded from mainstream financial services as well as women are the most frequently identified target groups by microcredit programmes in the EU (47% and 44% respectively). Ethnic minorities and immigrants and unemployed people or people on welfare are the next most frequently cited target groups. The least common groups for targeting are youth and disabled people. The financially excluded can also be people who are unemployed and those with either no or a poor credit history. There is thus a degree of overlap between this group and the other risk groups referred to in the survey.

Graph 16: Client-specific targeting



Thirty-eight percent of respondents target urban populations compared to 36% in the previous survey. 32% target the rural population, representing an 8% increase over the previous survey figure of 24%. This year, the difference between urban and rural population targeted with respect to the previous survey (EMN, 2008) has decreased by 6 points. In general, the countries with the highest number of institutions that focus exclusively on rural areas are Estonia, Croatia and Latvia. Moreover, we also find that of the 16 Bulgarian institutions, 12 have the rural sector as its target population, with three of them exclusively dedicated to the rural sector. This is due to the relative poverty in the rural areas in Bulgaria. The incidence of rural poverty in Bulgaria is about twice as high as in urban areas and the GDP per capita in rural areas is 2.2 times lower than that of urban regions (Abadjieva, 2008). In Germany, Finland and Belgium, the opposite occurs, institutions are lending exclusively in urban areas. In France, Spain and Italy, institutions work in both areas.

Gender Balance

In 2009, 27% of EU microloan clients were women, a decline of 17% from the figure of 44% in 2007 (EMN, 2008). There appears to be a decrease in the proportion of women benefiting from microloan programmes between the present survey and the previous EMN studies on microlending to women. The first study collected data for the years 2002 to

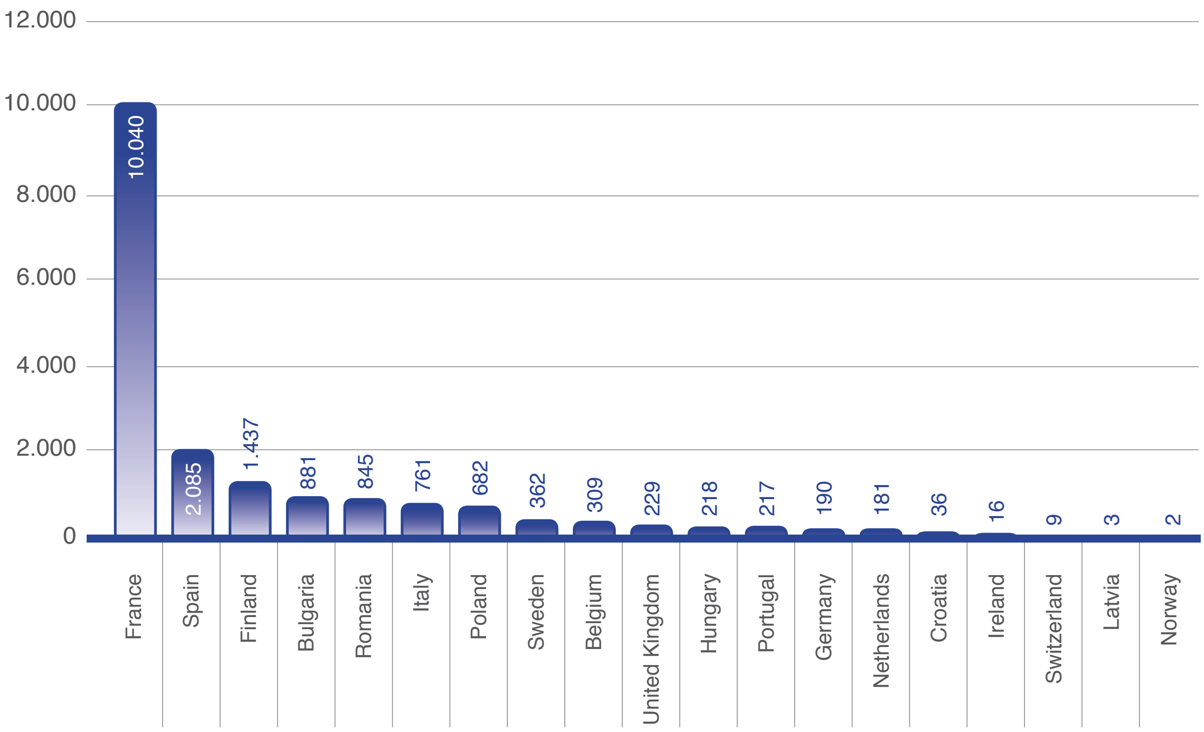
[22] The European Financial Inclusion Network can be found at: **http://www.fininc.eu.**

2004 and found that 39% of microloan clients were women (EMN, 2006a). The following study collected data for the years 2004 to 2005 and found that 41% of microloan clients were women (EMN, 2006). The last study, as mentioned earlier, showed that 44% of microloans clients were women and, the newly collected data for the years 2008 and 2009 shows that 27% of microloans clients are women. There seems to have been an increasing momentum of lending to women that culminated in a peak, experienced in the previous survey (2006-2007), that is now undergoing a declivity in total numbers. This is surprising given that 44% of respondents specifically target women. It may be noted that as the recent economic and financial crisis has impacted both men and women equally, the market may have responded accordingly to adjust for this external shock.

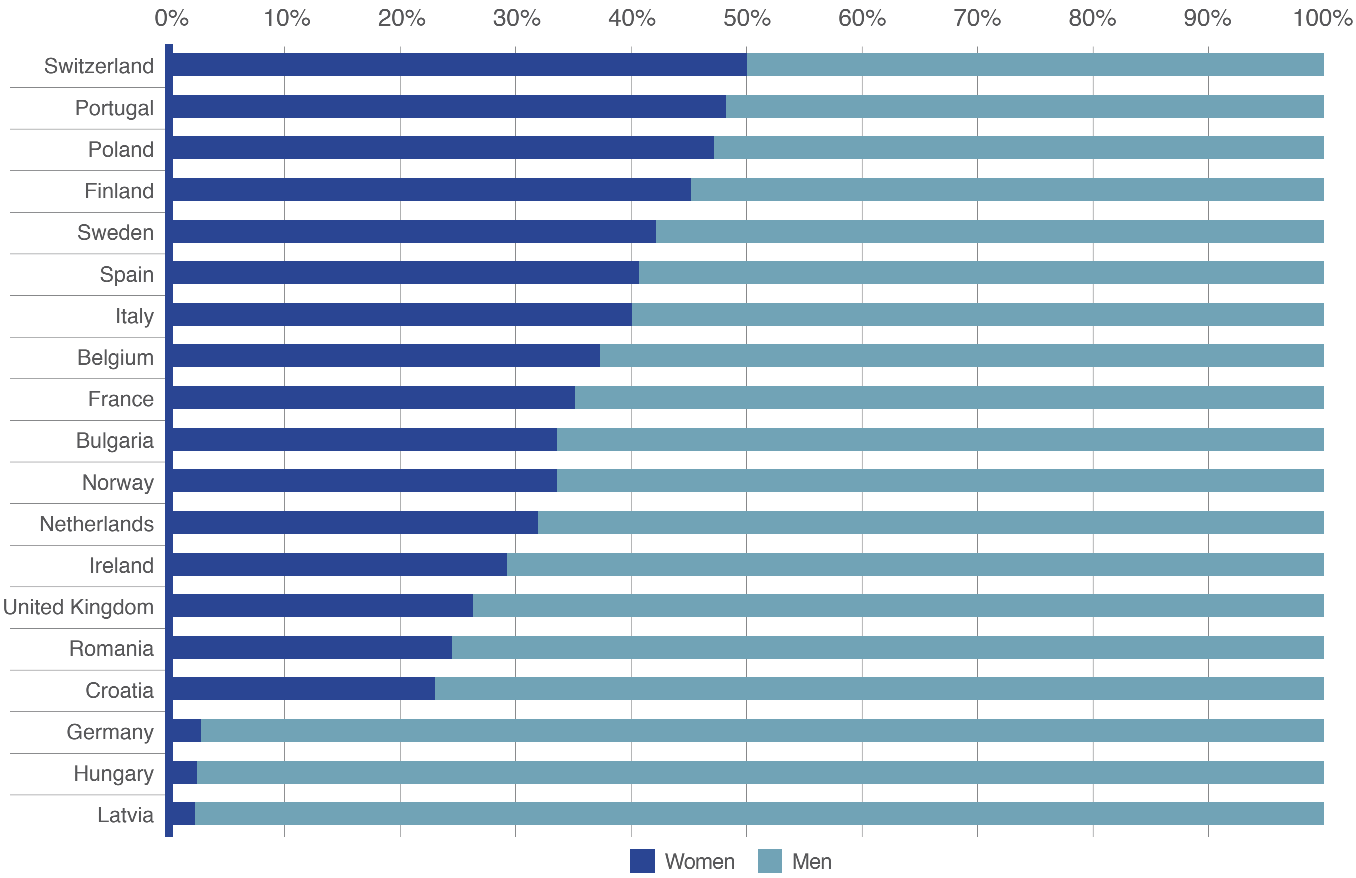
As witnessed in previous studies, there are significant differences in lending rates to women across countries. The greatest percentage of female loan clients is found in Switzerland, followed by the Netherlands, Portugal and Poland. However, it is important to note that the total number of loans disbursed verses the number of loans disbursed to women, taking note of the impact that smaller loan numbers have on the overall percentage of loans disbursed to women (Graph 18). For example the total number of loans disbursed in Switzerland was 18, of which half were nine women who received a microloan. The Netherlands disbursed a total of 572 loans, of which 280 women were recipients for those responding to total number of loans disbursed. Spain, which was in first place in last survey, is situated in the 7th position. This is mainly due to one of the big players, which disbursed 80% of the total loans in Spain, has a ratio of women clients of 36%. The lowest lending rates based on gender are found in Germany, Hungary and Latvia. Once again, the small number of total loans disbursed in Latvia (149), of which two loans were to women, has an effect on the percentages. In both Hungary and Germany, women recipients make up 2% of total loans disbursed. In Hungary, 10,402 loans were disbursed with 218 loans disbursed to women and in Germany 8,207 total loans were disbursed with 190 loans for women.

At the same time, the number of responses regarding loans to women with respect to the number of responses about the total number of loans disbursed, needs to be taken into consideration. Of the 170 institutions that responded to the survey, 139 responded to the question of loans disbursed, while 109 responded to the question of loans disbursed to women. Viewing the aggregated data by country, this incident cannot be observed without noting the repercussion on the data.

Graph 17: Number of loans disbursed to women by country



Graph 18: Percentage of women and men clients



Note: Estonia and Lithuania did not disclose data on gender balance.

We do see, however, that the percentage of loans disbursed to women has dropped significantly in some countries, such as Germany, UK, Spain and Romania. In Spain, the percentage of women as recipients of loans was almost 70% in the previous survey. This has dropped to 40%. On the other hand, the percentage of women clients has risen slightly in some countries, such as Switzerland, Poland and Finland when compared to the previous EMN study (EMN, 2008). In Finland, women represent 45% of total loans, up from about 30% of loans in the previous survey.

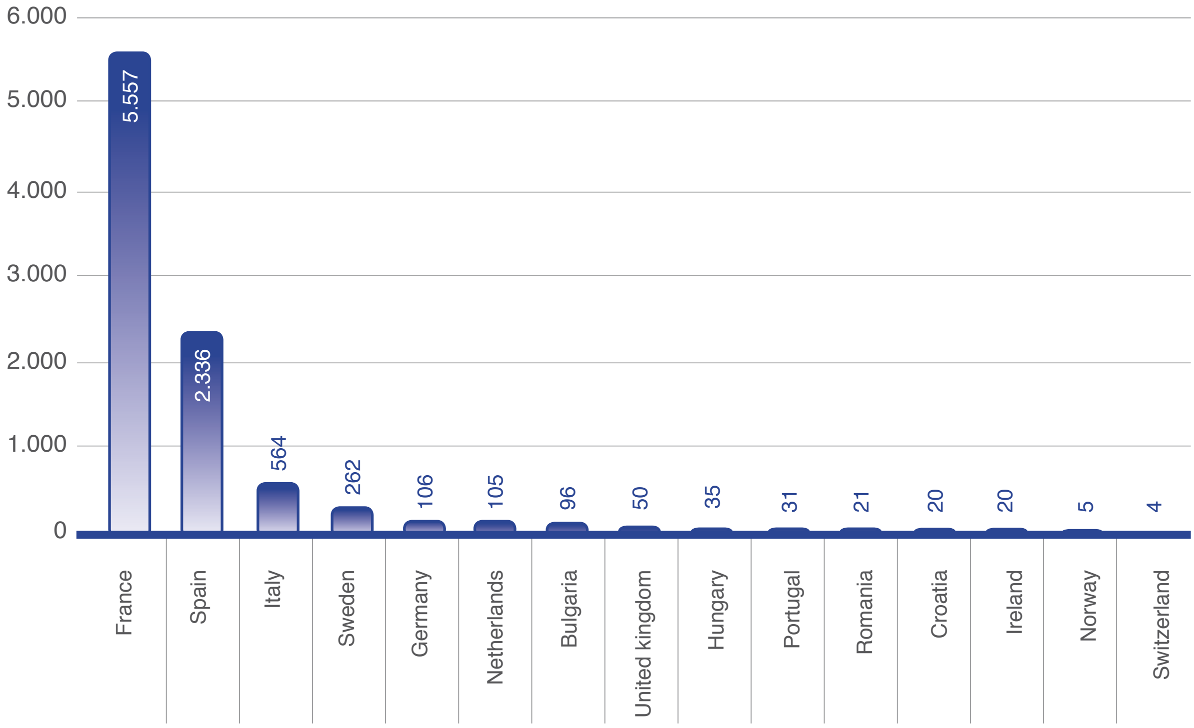
Immigrants and Ethnic minorities

A study published by EMN in 2006 on immigrants' access to microlending shows that the terms "immigrant" and "ethnic minority" are defined differently from one country to another (EMN, 2006b). This makes analysis and comparison of data on immigrants and ethnic minorities difficult. In the present survey the following definition was adopted and highlighted on the questionnaire in order to make sure that respondents had in mind a common definition when providing their data: Immigrants are those individuals, not born in the country of residence. Ethnic minorities are referred to as groups within a community which differs ethnically from the main population. It was decided to combine the two options in one for this survey. Fifty-four percent of the institutions responded to this question.

According to Eurostat, the percentage of citizens of countries outside the EU27 was 3.2% and the number of immigrants as defined in this survey, i.e.: those individuals not born in the country of residence, was 6.2% in 2008 (Eurostat, 2009), whereas in the survey 13% of microloan clients were immigrants. Immigrants and ethnic minorities are thus overrepresented in microlending when compared to their part in the total population.

Once again, it is important to note the total number of loans disbursed and the impact small numbers have on the percentage of immigrant clients. The highest number of total loans to immigrants or ethnic minoritites can be found in France and Spain (Graph 19). In Ireland, the numbers may be skewed due to the low total number of loans disbursed, of the 55 total loans disbursed in 2009, 20 of these recipients were immigrants or ethnic minorities. The countries with the lowest number of total loans disbursed to immigrants and ethnic minorities can be found in Switzerland, followed by Norway.

Graph 19: Number of loans disbursed to immigrants by country



In Graph 19, the country with the greatest percentage of immigrant clients is found in Norway (83%), which disbursed relatively few microloans (six total) with five of them to immigrants. The second country with the greatest percentage of microloans disbursed to immigrants was Spain. This country has experienced strong immigrant inflows in the past years. Currently, immigrants represent 11.6% of the total Spanish population, of which 7% are citizens from outside the EU (Eurostat, 2009). In terms of the percentage of immigrant microloan clients, Spain is followed by countries such as Ireland (36%), Sweden (30%) and Italy (30%).

In many countries with a high proportion of foreign population, immigrants are completely unrepresented in microcredit client portfolios. This is the case of Germany, with an immigrant population of 8.8%, where of the 8207 total loans disbursed in 2009, only 106 were disbursed to immigrants or ethnic minorities. Eastern EU countries such as Poland, Romania and Bulgaria, with no immigrant populations, consequently do not have immigrant microcredit clients[23].

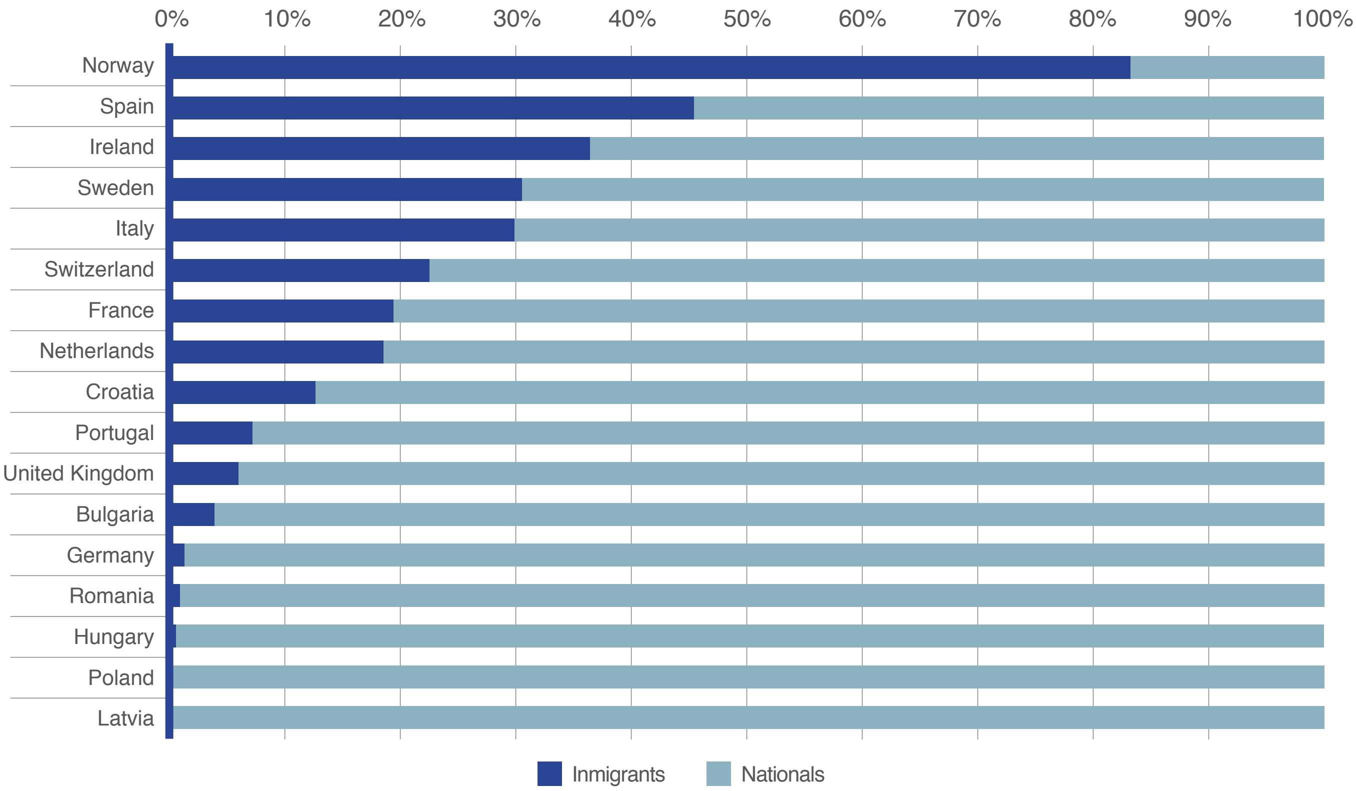
Youth

Youth (18 to 25 years) is becoming a relevant client microcredit segment in the EU. In 2007, 12% of microcredit clients were young people, and nowadays, the youth population represents 10% of microcredit clients. This percentage is in line with the 12.5% percentage of young people (15 to 24 years) living in the analysed countries in 2007 (Eurostat, 2007). Moreover, young people are represented well over their proportion in the population of young entrepreneurs[24]. The greatest percentage of young microloan clients is found in Switzerland (100%) by one institution whose principal focus is youth and all loans over the period 2008-2009 have been disbursed to youth. Ireland follows closely at 91% of loans being disbursed to youth, with 70 of the 80 loans disbursed in 2008 and 50 of the 55 loans disbursed in 2009 to youth. The United Kingdom is the next highest lender to youth at 57%.

[23] However, it is unclear in the survey responses, whether the institutions have not provided data on immigrants because they do not target this at risk group or because they have left out this category.

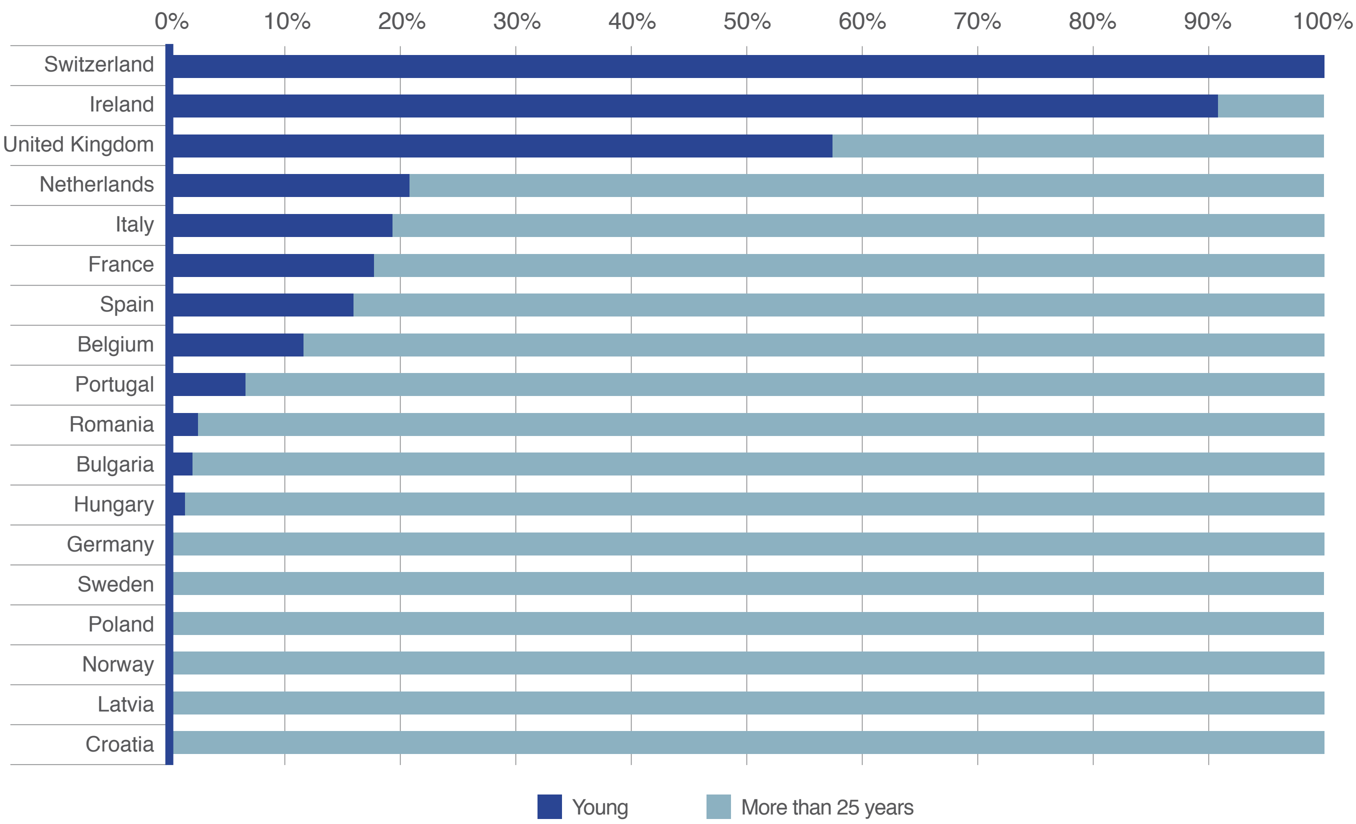
[24] Youth entrepreneurship represents less than 1% of total entrepreneurship across the EU 15, although more than 50% of young people express an interest in starting a business. Young people are three times as likely to be unemployed as older people in the EU (Greene, 2005).

Graph 20: Percentage of immigrants versus nationals



Note: Belgium, Estonia, Finland and Lithuania did not disclose data on immigrant clients.

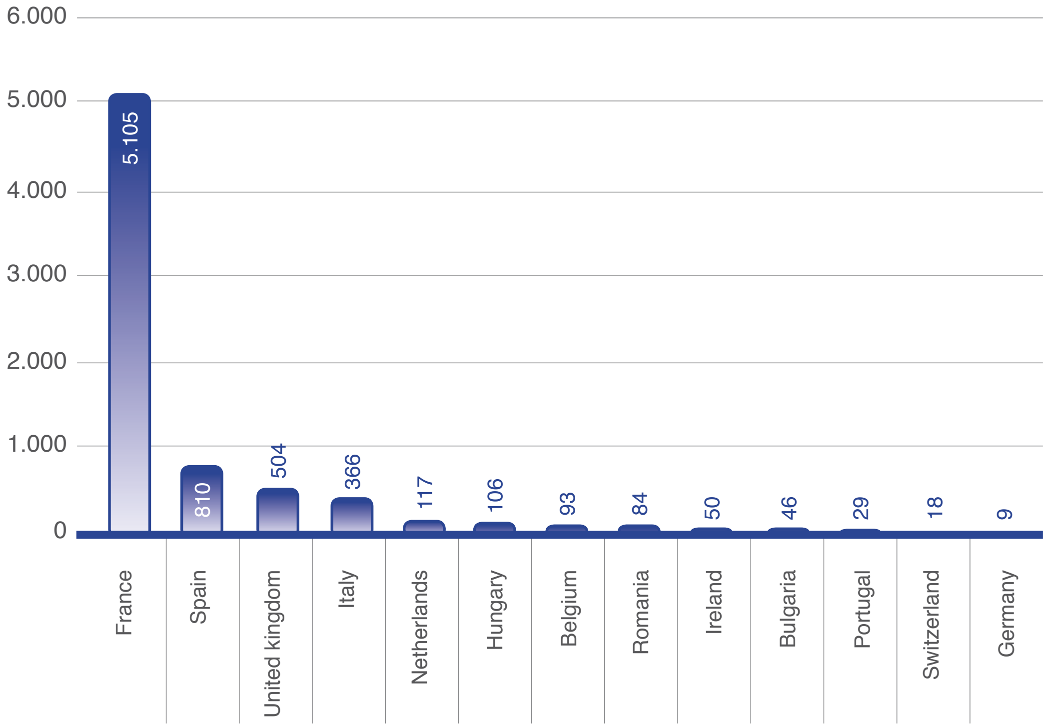
Graph 21: Percentage of youth versus those over 25 years old



Note: Estonia, Finland and Lithuania did not disclose data on youth.

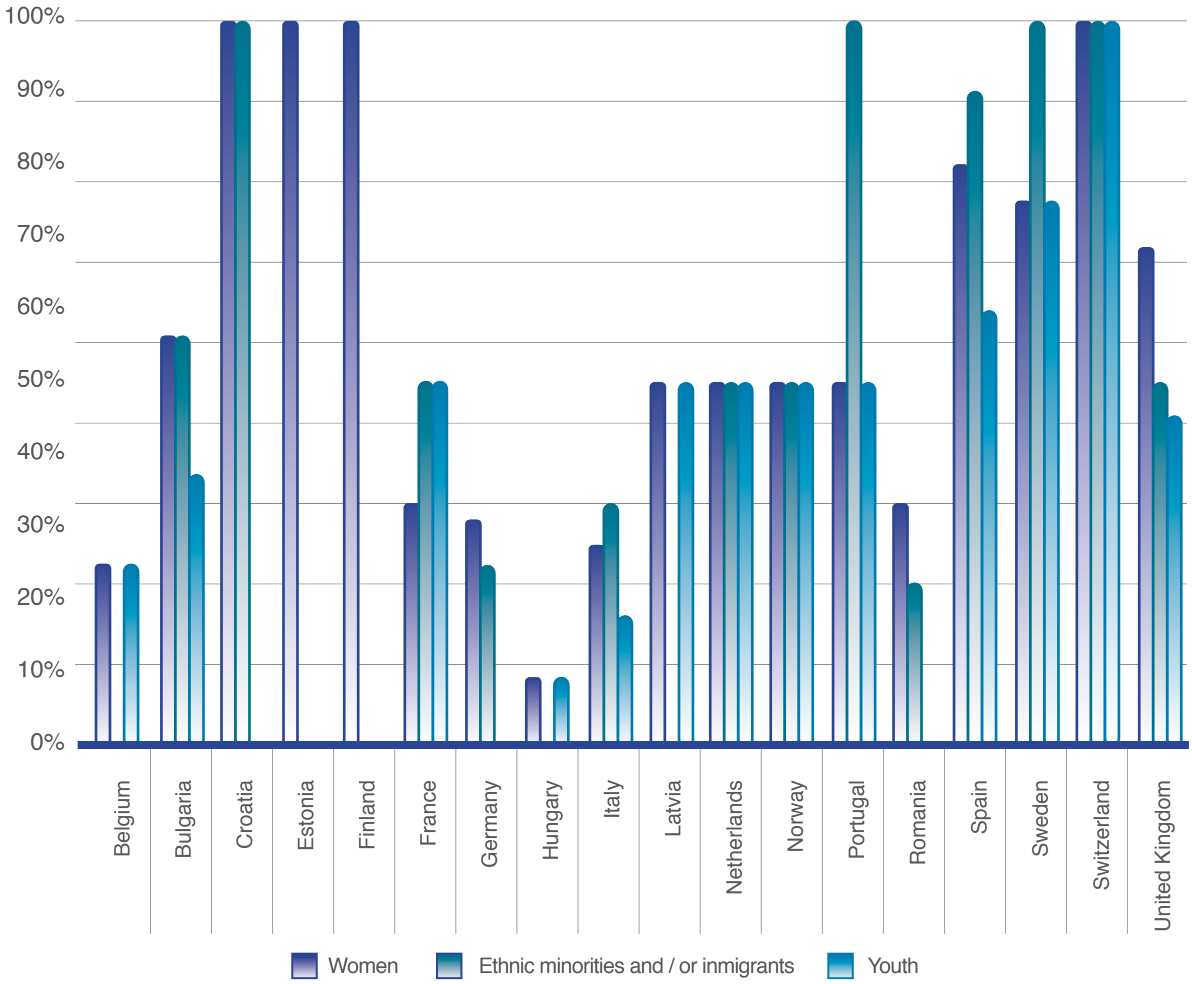
In Graph 22 below, the number of total loans disbursed to youth by country can be found. The country with the greatest total numbers was France, with 5,105 of the total 28,863 loans disbursed were disbursed to youth, followed by Spain with 810 loans and the United Kingdom with just over 500 loans disbursed to youth. Germany, once again, had the lowest number of total loans disbursed to youth at 9 out of the total 8,207 loans disbursed.

Graph 22: Number of loans disbursed to youth by country



In the graph below, we summarise the percentage of clients from at-risk groups in each country in 2009.

Graph 23: Client targeting of the institutions by country



Note: Ireland, Lithuania and Poland did not disclose data on at-risk groups.

It is unclear in these instances whether a lack of data means the lender does not finance a particular client group or whether the lender simply does not track this sort of information.

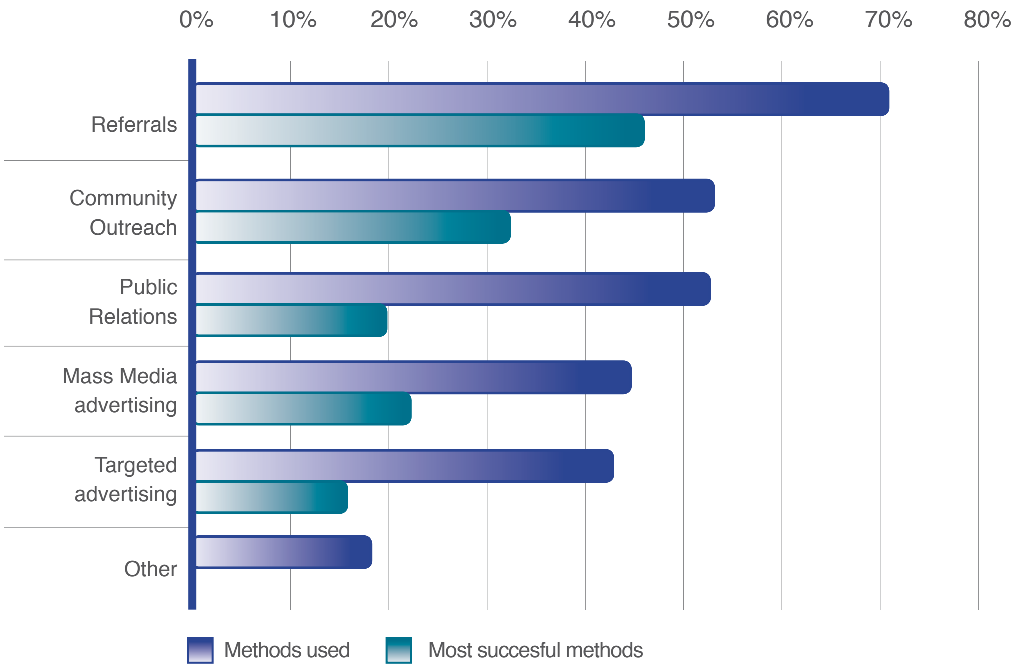
The above graph shows the percentage of institutions that responded that they targeted one or more of these groups as potential clients. As can been seen in Spain, 90% of institutions targeted immigrants as clients, 80% women and 60% youth. However, it is important to treat this data with caution as it refers to the institutional objective and not the total number of at-risk clients in the overall portfolio – this information can be found in Graphs 17 to 22. Moreover, the institutions could respond that they had more than one at-risk group as a target. Finally, it is important to note that in Switzerland, Latvia, Finland, Croatia and Estonia, only one institution reported data.

4.4 Marketing

In the EU, 17% of the population is at risk of poverty and it is revealed that two in 10 adults in EU-15 and almost half in EU-10 (47%) do not have a bank account while many more have no savings and lack access to credit (Eurostat, 2009). These numbers demonstrate that the proportion of the population that may benefit from microcredit in the EU is smaller than in developing countries. In addition, these prospective clients may be harder to reach as potential microloan clients are geographically dispersed and excluded from mainstream communication due to years of unemployment or activity in the informal economy. As a result, significant outreach and marketing is needed to reach these prospective clients in the EU.

In this section of the survey, institutions were asked which marketing methods were utilized, comparing those commonly used by lenders to those that they consider to have a greater success rate. Lenders surveyed often employ several marketing strategies simultaneously. Over 70% of respondents stated that referrals were used most commonly to attract loan clients and that they were also the most successful medium used. This result implies that lenders should emphasise communication with referring agencies such as business support services, employment services and community aid groups, as these groups would be beneficial for the microfinance institution. Community outreach is the next most commonly utilized medium, followed by public relations, mass media advertising, and finally, targeted advertising. Contrary to the previous survey, mass media is now being used more than targeted advertising, in spite of mass media being a more expensive medium. This change could be due to the incorporation of traditional banks and savings banks that can dedicate part of their publicity portfolio to the microcredit product, reaching a broader audience. Graph 24 summarizes this information.

Graph 24: Marketing methods



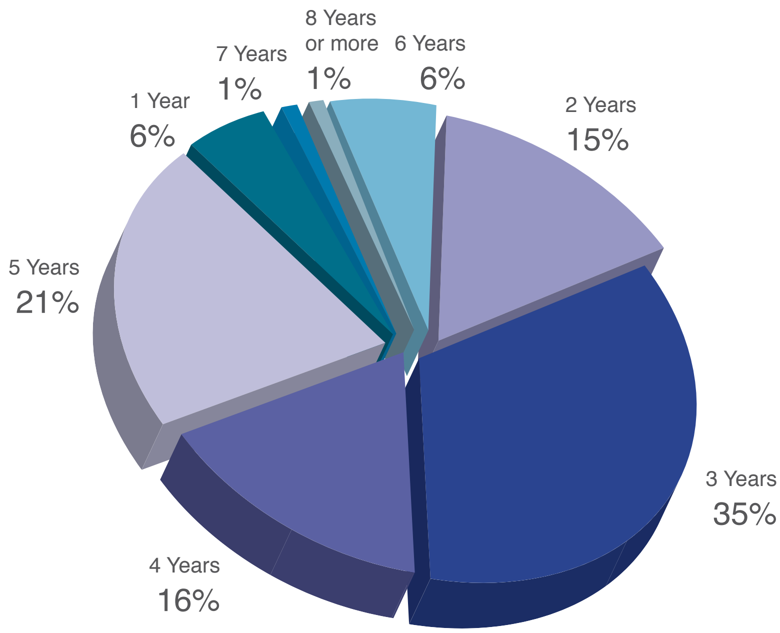
5 Products and services

As can be observed in the previous surveys, lenders offer a wide range of varying conditions for their microloans across the different European countries. The loan packages across lenders have varying loan terms, interest rates, loan fees, guarantees and loan sizes. Loans are adapted to the missions of the lenders and their risk coverage abilities.

5.1 Loan Terms

One hundred and sixty two institutions responded to the question regarding their loan terms. The minimum loan repayment term offered by organisations responding to this survey is less than six months and extends to a maximum of eight years. Graph 25 shows that the most common current average loan term is 3 years followed by between 5 and 4 years. This shows that on average loan terms have not varied much in respect to the previous survey.

Graph 25: Percentage of Respondents by Average Loan Term

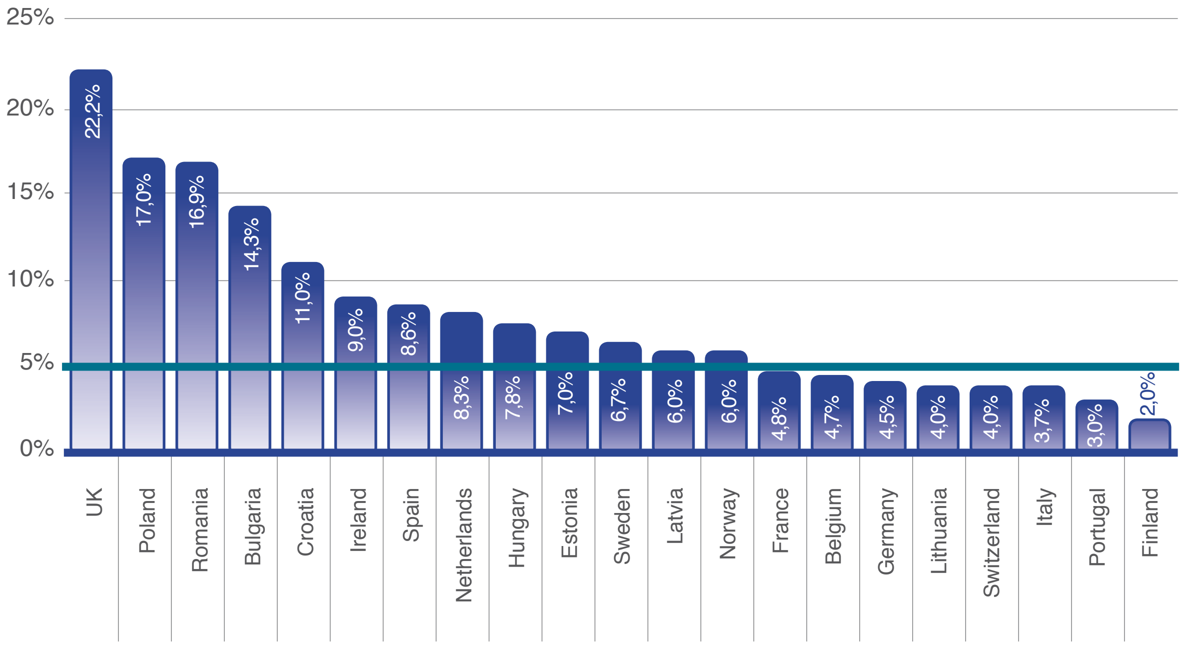


Eighty percent of respondents indicated that they offer grace periods of varying lengths. The mean grace period is 6 months, the maximum is 24 months and the minimum is 1 month, exactly the same as seen in the previous survey.

5.2 Interest Rates

One hundred and thirty two institutions responded to this question. The average interest rate charged across survey respondents is 9%, one percentage point above the average of the previous survey. Graph 26 shows the average interest rate by country. The highest interest rate charged is 22.2% in the United Kingdom and the lowest interest rate charged is 2% in Finland. As a reference, at the time of the survey, the average Euribor rate in 2009 was 5%. We continue to find that there is a relationship between high interest rates and the mission statements and legal status of the lenders. In Eastern EU countries (Romania, Bulgaria and Poland) where a greater number of for-profit organisations are found and SME financing is a means of reaching sustainability, interest rates tend to be higher in order to price for risk and for operating and financial costs.

Graph 26: Average interest rate by country



Interest rates are related to the existence of usury laws. At the present time, nearly all EU countries have usury rates or rate ceilings in order to protect consumers against over-indebtedness and predatory lending practices. Only two countries have a specific law regarding the regulation of the microfinance sector, France and Romania (European Commission, 2007a). Where usury laws are in place, lenders must not charge above these stated maximums. Interest caps, when not too low, enable lenders to establish an adequate interest rate that covers their operational and financial costs. In the UK and Romania, however, which do not have these types of restrictions, we find higher average interest rates. In fact, amongst UK lenders participating in survey, the maximum interest rate charged was 36% and the minimum 5%, demonstrating a wide range of practices when rates are unrestricted. France is the only other country without interest rate caps on loans to individual entrepreneurs[25]. This has enabled the largest French microcredit organisation to increase its interest rate by around 4% since 2005, and it now sits at 9.71% which is in the lower range when compared to the other countries (see Graph 26[26]). This example shows that the lifting of the interest rate cap for organisations that operate in the field of social inclusion does not necessarily lead to usury.

The issue of interest rates and their possible impact on the financial sustainability of microfinance institutions needs to be

[25] In France, the usury rate for loans to individual entrepreneurs was abolished through article 7 of the n°2005-882 law of 02/08/2005 in favour of SMEs.

[26] The average 4.8% interest rate for France can be explained by the fact that the so-called “prêts d’honneur”, zero- interest quasi-equity loans that are connected to a bank loan have been taken into account.

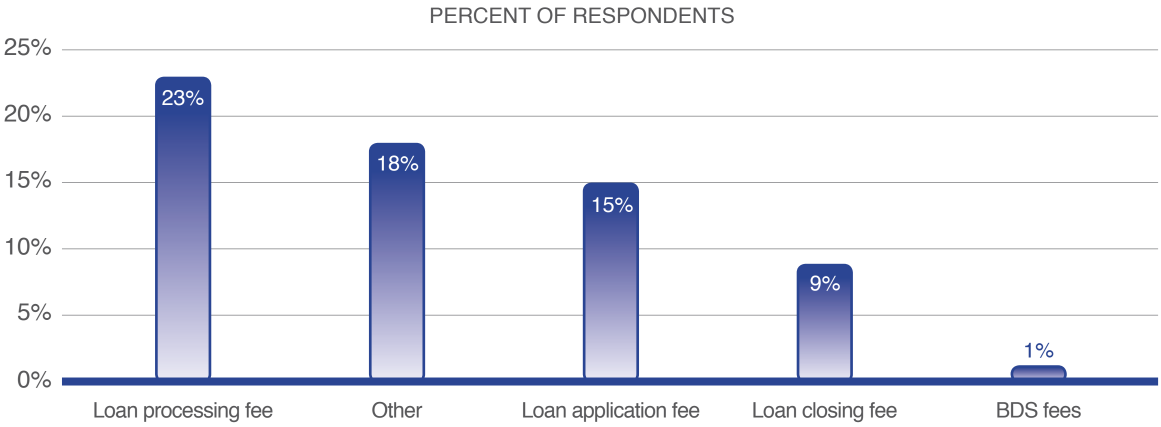
balanced against the interest of clients and the mission of microfinance, namely to provide loans to the financially and socially excluded. Funding microfinance solely through income derived from loans may well impact negatively on the clients as their often low and variable incomes may not be enough to cover interest repayments. The abolishment or absence of a cap can, for example, lead to excessive interest rates. In the UK, APRs on loans from commercial consumer lenders usually exceed 150% APR, and cases of 2000% APR are no rarity. It is also not clear if the abolition of interest rate caps can lead to financial sustainability - at the moment, no microlender in the UK can fund its operations solely from revenue derived from loans - which is testimony to the social mission of the sector not to charge usurious levels of interest. This social mission needs to be bolstered and supported - the example of France is a case where this has been achieved but it can by no means be taken for granted that MFIs across Europe will keep interest rates low. Mission drift is a real danger if the goal of social inclusion and poverty alleviation is lost from sight. If social inclusion is to stay at the heart of microfinance, it will by its very nature reach out to the poorest and most excluded groups - a costly undertaking that needs public or private support (see also Credit with a Social Mission - **http://www.neweconomics.org/publications/credit-social-mission)**.

In addition, as stated in the EMN report (2006), interest rate charges and interest rate ceilings remain an important strategic issue for the sector as this allows lenders to achieve operational self-sustainability[27]. For more information about operational self-sustainability, please refer to Chapter 8.1, Operational Self-Sufficiency Rate. In the EU only 40% of microcredit institutions are operationally self-sufficient. Although sustainability is the number one goal for institutions, there are a number of factors working against its success, one of these being interest rate ceilings.

5.3 Loan Fees

Seven percent of responding institutions participated in the section regarding loan fees, which is dramatically lower than the previous survey where 49% of institutions responded that they charged loan fees. Of the various types of loan fees, loan processing fees are the most common followed by loan application fees and loan closing fees. Some of the fees that institutions mentioned as "other" are: cancellation fees, security and insurance, administration and management fees, amongst others. These fees, in addition to interest rate charges, are another means of covering operational costs and risk in order to reach sustainability. The percentage of fees charged has changed with respect to the previous survey. Loan application fees, which were the principal fees charged in 2007 dropped to the third most important, and loan processing fees jumped to the main fee charged on borrowers for this survey.

Graph 27: Types of fees charged by microlenders



[27] Operational self-sustainability refers to the lender's ability to cover operational expenses through operating revenue (interest and fees). Financial self-sustainability refers to the lender's ability to cover not only operational expenses, but also the cost of borrowing and loan loss provision through operating revenue. However, operational sustainability is often used to refer both to operational and financial sustainability.

5.4 Guarantees

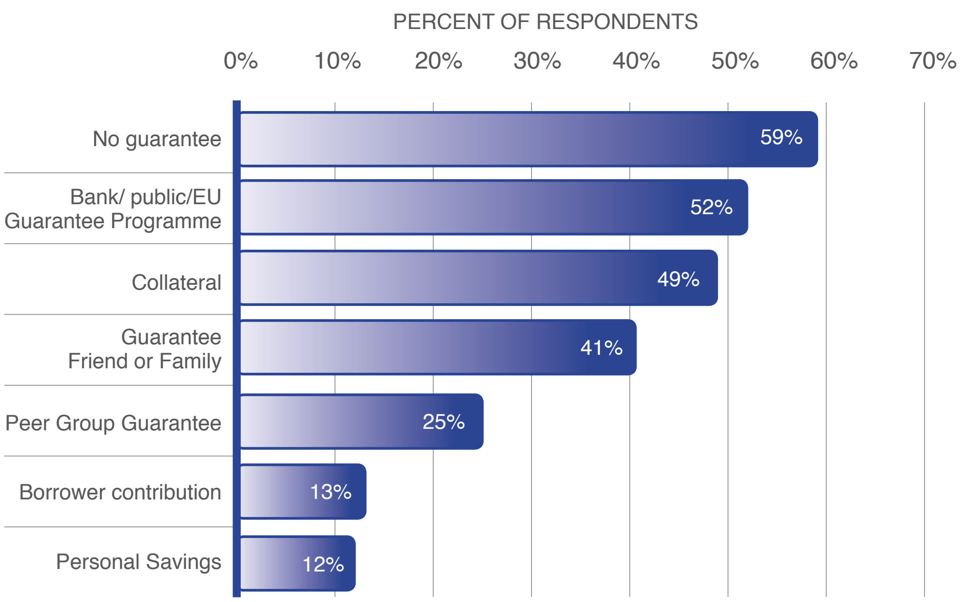
Risk can be mitigated by securing loans through collatera[28], guarantors[29], guarantee funds, personal savings and peer group pressure. In Eastern EU countries such as Hungary, Bulgaria, Latvia and Romania, where achieving operational sustainability is a major goal, most organisations make secured loans through collateral.

For clients, however, the need to provide financial or in-kind guarantees may be difficult if not impossible and potential borrowers may be excluded. According to EMN (2006b), this appears to be an issue of particular importance to women and immigrant borrowers. Taking into account the significance of these two risk groups in the microcredit sector in Europe, it may not be surprising that 59% of respondents (16% more than the last survey), make unsecured loans with the aim of providing financial funds to those with no access to credit due to their lack of income or assets. These types of lender offer microloans observing the main principles of microcredit without guarantees.

Many countries require guarantees that take the form of the State, the European Union or other banks that guarantee funds, which could be a result of new strategies that are being undertaken by governments or the European Union to strengthen the microcredit sector through specific programs. Due to these requirements, 52% of respondents stated that banks, national or supranational programmes are used to guarantee loans. Another way to secure a loan is with collateral or by obtaining a guarantee from a friend or a family member (guarantor) who accepts legal responsibility for all or a portion of the value of the loan or loan balance and fees at the time of default. Collateral and guarantees were required by 49% and 41% of the respondents, respectively.

Microcredit using peer guarantees is used less than with other types of guarantee in Europe, probably due to the individualistic nature that makes it different from the type of community based lending seen in other parts of the world. Personal contribution in the form of savings or other personal contributions is the least common form of guarantee. This is not surprising given that microcredit works with that part of the population that is most vulnerable to external shocks that could inhibit their capacity to save regularly and put aside a portion of their savings specifically for the microcredit product and not for other, more pressing needs, like lifecycle events.

Graph 28: Loan security



5.5 Loan size

The standard definition for microloans in Europe is loans of 25,000 euros or less. However, the average loan size provided by the microlenders surveyed ranges from 220 euros to 37,000 euros. Loans above the 25,000 euro limit are offered by one institution in Belgium, two in Hungary and another in United Kingdom that all support job creation and microenterprise promotion.

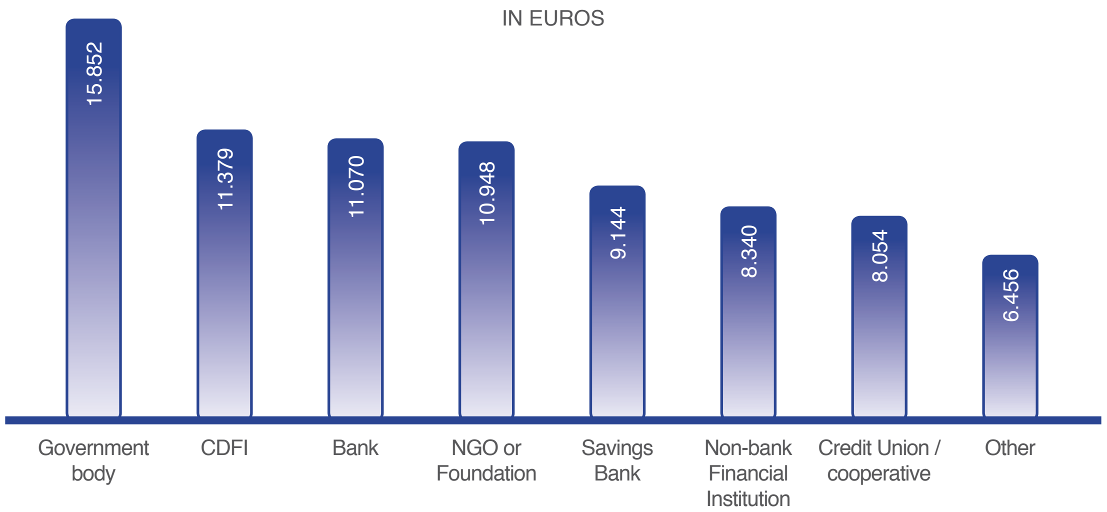
The average loan size across the entire sample is 9,641 euros (please see previous Graph 68 of average loan size per country), almost 1,300 euros less than the previous

[28] Collateral refers to physical assets such as a home, a car, business equipment that is offered to secure the loan.

[29] Guarantors refers to a guarantee provided by someone known to the borrower (friend or family member) who is willing to assume full or partial responsibility for repayment of the loan (sometimes this person is called a “co-signer” or “guarantor”).

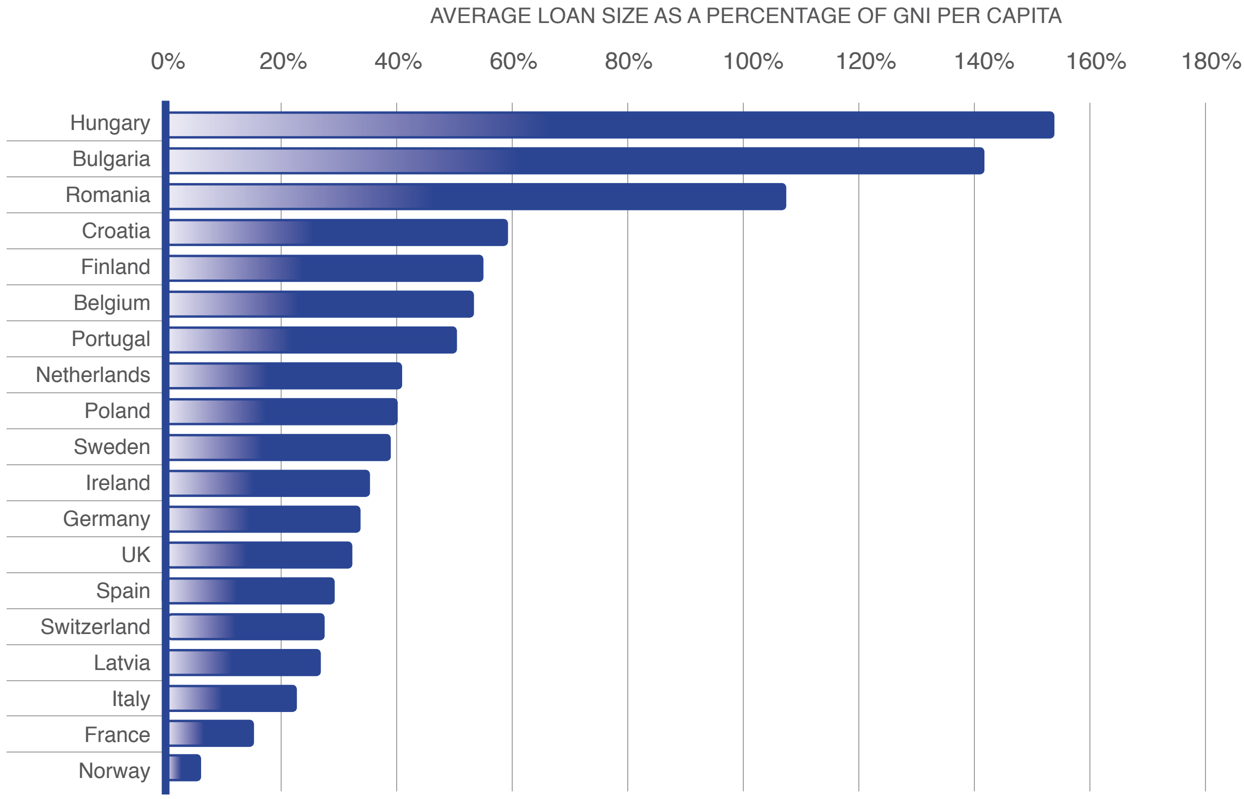
survey. Adjusting average loan size by institutional type, we find that Government bodies, Community Development Finance Institutions (CDFIs) in the UK, banks and Foundations and NGOs offer greater loan sizes. The fact that the institutions offering larger loan sizes are government agencies is due to the fact that these institutions are primarily in countries where average loan size has risen over time, as is the case of one state-owned lending institution in Sweden that has recently raised the ceiling for microcredit loans from 10,000 to 25,000 euros. It is important to note that the NGOs are in fourth place with regard to average loan size, because 34% of responding Foundations are from Hungary, where the average loan size is among the highest, after Finland and Belgium.

Graph 29: Average loan size by institutional type



The comparison between average loan size and Gross National Income per capita (GNI) will be discussed later in the report. This calculation is used in the microfinance sector to calculate "depth of outreach", that is, the degree of relative poverty of the clients being reached. This concept assumes that the smaller the loan size in relation to country national income, the smaller the client's business and the poorer the client (Copestake et al., 2005). Although the data in the above graph is not adjusted for country level income, it does suggest that lenders focused on SME and economic growth may be lending to better off clients and larger businesses.

Graph 30: Depth of outreach



The depth of outreach calculation was carried out using World Bank July 2008 data for 2008 GNI per capita per country. Figures were converted from US dollars into euros. The adjusted figures indicate that the microloan programmes implemented in Hungary and Bulgaria are disbursing loans at over 154% and 141% of annual GNI per capita respectively. With a few exceptions, this graph reflects the country tendencies seen in the previous survey. Compared to the rest of the sample, it appears that the Hungarian and Bulgarian programmes are lending to businesses and individuals with very different profiles from those in the rest of the sample. A possible explanation for this difference is that in Hungary and Romania, all the organisations surveyed focus on Microenterprise Promotion.

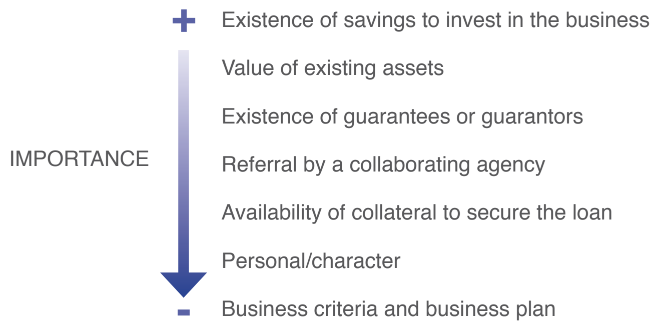
In the remainder of the sample, loan sizes are below annual GNI per capita, except for Romania, which is situated a little above. In this group, average loan values are greatest in Finland, and Belgium and Croatia, suggesting that larger businesses and better off entrepreneurs benefit from microlending in these countries. It could also be noted that it is possible that with the graduation of lower income clients into higher income strata, higher loans may be needed. In Italy, France and Norway, by contrast, much smaller businesses appear to be targeted.

These differences are also aligned with the discussions above on mission statements, institutional types and legal status.

5.6 Loan Decision Making Criteria

When deciding whether or not to approve and disburse a microloan, lenders take a number of factors into consideration. The most important cited characteristics are the value of existing savings to invest in the business and the value of existing assets. The existence of guarantors, guarantees or collateral to secure the loans are also important. The least important is the personal attitude or character[30] and business criteria and business plan. The results from this edition of the survey have not significantly changed from the results of the previous survey but the results are surprising, as the nature of microcredit is designed to be character-based lending. A pattern of requiring collateral or guarantees may be beginning as European lending is primarily individual based loans where the institutions may feel the need to protect against risk, which may be further augmented by the recent financial and economic crisis.

Respondents ranked the importance of different criteria in the loan decision-making process with 1 being the most important criterion and 3 being the least important. The figure below shows the different criteria mentioned, ordered from the most important to the least important. The answers received varied very little from the previous survey.



5.7 Lending Methodology

The vast majority of organisations surveyed disburse individual loans (88%). Twenty-four percent reported offering individual loans followed by loans of increasing size once previous borrowings are repaid in full (stepped loans). A very small proportion offers group loans (16%). Organisations offering groups loans can be found in Bulgaria, Croatia, Estonia, France, Italy, Norway, Portugal, Spain and the UK. This is in line with the section above on collateral and group lending.

[30] "Character" is one of the 5 C's of lending (character, capacity, collateral, conditions, capital). Character refers to making lending decisions using evidence of an individual's character in order to assess the likelihood of the business being well managed and of business debt being repaid. Loan officers look at a number of factors including how loan applicants pay their bills (credit history), what their customers, suppliers, employees, community leaders and friends say about the client when called on as references, the expertise of the applicant, the stability of the applicant's residency and relationships.

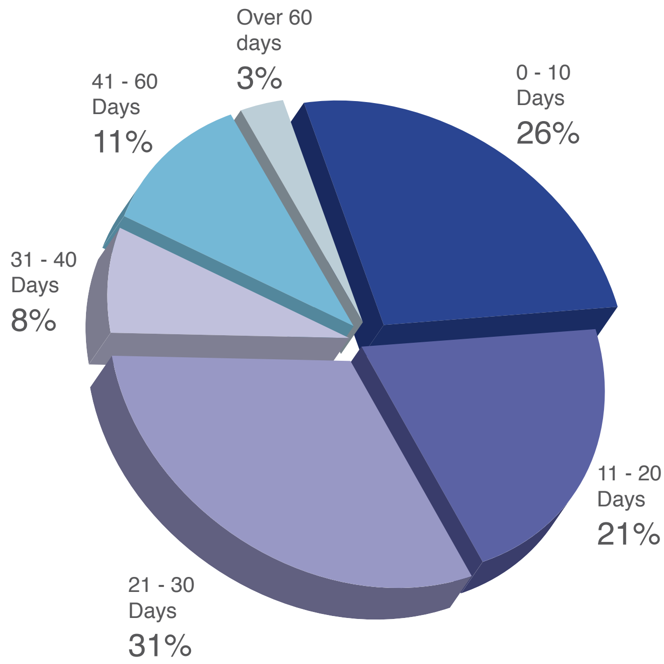
The preference for individual over group lending in Europe continues to be observed. Stepped loans and group lending are methodologies used most commonly in developing countries.

The average time to disburse a loan, i.e. the period between date of receipt of the application from the client for a first loan and the date of the disbursement of the loan is 26 days, representing a decrease of 14 days, or two weeks, compared to the previous survey. In the sample, the most frequent time period for disbursing a loan ranges from one to 30 days. However, 26% of lenders are able to disburse loans in less than 10 days. These lenders are mainly located in Bulgaria, Spain and Italy.

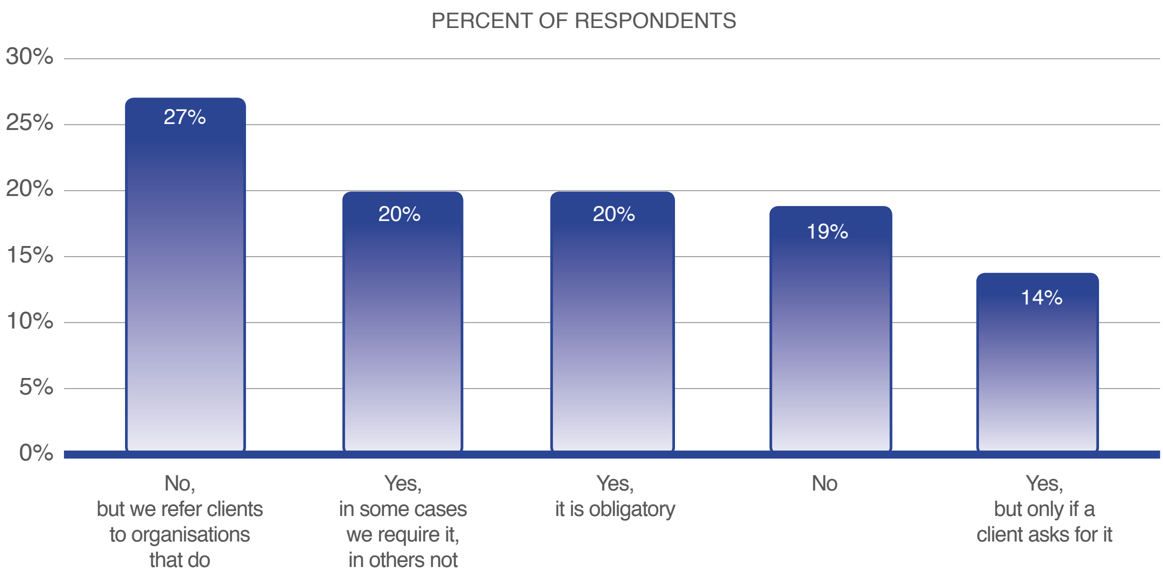
5.8 Business Development Services (BDS)

In the EU context, where competition is fierce and the bureaucracy to set up a new business is extreme, training and technical support are elements critical to the success of businesses. The majority of institutions offer business development services (57%) on an obligatory basis, on a needs basis or when clients ask for the service. In addition, another 27% offer referrals to external providers of this service, therefore 84% of clients have external or internal access to BDS services. Only 19% of responding institutions do not provide any kind of BDS services.

Graph 31: Average time to disburse a loan



Graph 32: Business development advice



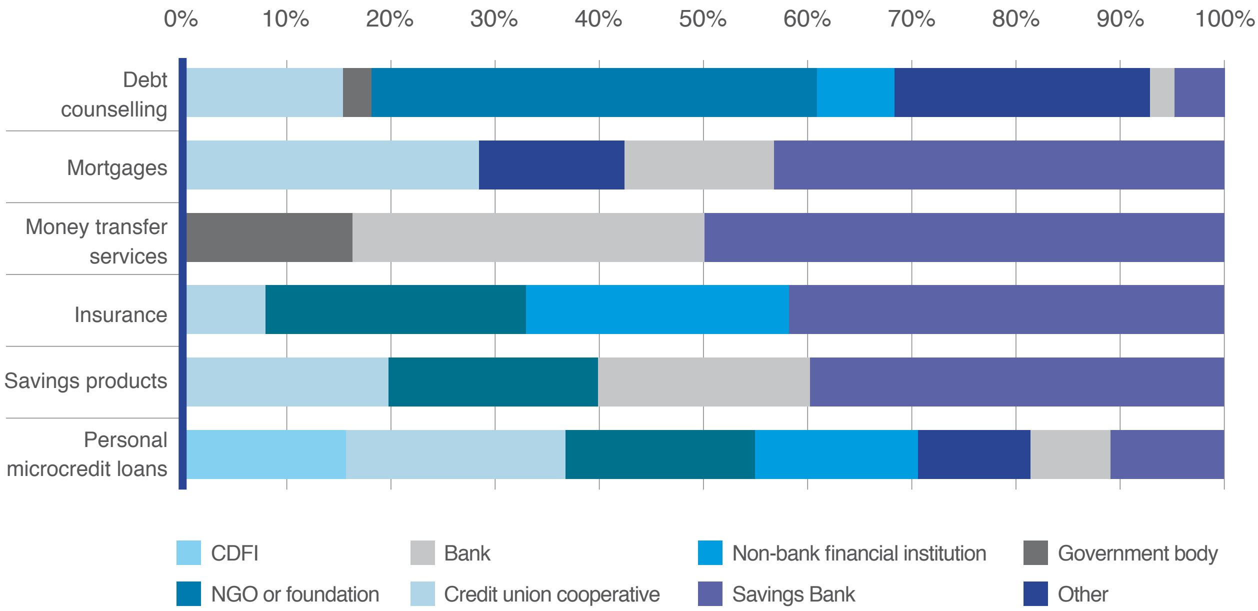
5.9 Other Financial Services

Microfinance refers to the provision of a range of financial services that includes small loans for enterprise development but also personal loans, savings products, insurance, money transfer services, pensions, home mortgages and debt counselling services geared towards vulnerable people without access to formal banking mechanisms.

This edition of the EMN survey looked once again at the question of "other financial services" and found that a good portion of microlenders are providing or are testing the market for such services. However, as stated in the 2006 report, "the sector remains dominated by microenterprise loans. On one hand the financial services sector is well developed. On the other hand, in many countries regulatory environments restrict the financial activities of non-governmental organisations" (EMN, 2006, p.33).

Of the total number of institutions that participated in the survey, 32 reported the percentage of loans that were allocated to personal microcredit loans out of their overall portfolio. This represents a smaller number of responding institutions than the information received in Section 3.4.2 regarding microlending as a portion of overall portfolio and the percentage of portfolio designated to enterprise or personal lending. Questions in both sections were very similar and the institutions that responded to this part of the survey may have understood personal lending to be a service instead of a proportion of the overall portfolio. Of the 32 responding institutions, 53% reported that personal microcredit represented 50% or more of their portfolio.

Graph 33: Share of organisations providing "other" financial services



Forty-two percent of the institutions offer "other financial services", an 8% increase over the previous survey. In Spain, savings banks and their foundations cross-sell financial products with their microcredit programme clients. They provide consumer and personal loans, savings products, insurance, debt counselling and to a lesser degree money transfer and mortgage services to microenterprise clients. A large majority of institutions in Bulgaria, Hungary and Italy offer debt counselling as a service separate from microcredit lending. NGOs are generally not involved in the more sophisticated financial products such as insurance, money transfers or home mortgages, but they do offer debt counselling and personal microcredit loans.

6 Information Technology (IT)

This is a new section with respect to previous surveys introduced as a combined effort with the EMN Working Group on IT and Innovation. Considering the importance of new technologies in the sector, in both developing and developed countries, it is important to keep in mind the level of computerisation of microfinance institutions in the sector.

6.1 Type of IT System Used

Institutions were asked about the type of software their institution used, and to assess the following questions:

If they have:

- Management Information System[31]
- Customer Relationship Management[32]
- On-line Client Collaboration[33]
- On-line Client Application

[31] MIS – An electronic system supporting the procedures of credit monitoring based on credit accounts and client records, which is suitable for monitoring individual credit accounts as well as the aggregate data of the entire credit portfolio and the analysis of its data (e.g., trend analysis). The system has to meet the requirements of three management levels:

Information level 1: operative programme operation;

Information level 2: control and programme co-ordination;

Information level 3: strategic planning.

As defined by the EMN IT and Innovation Working Group.

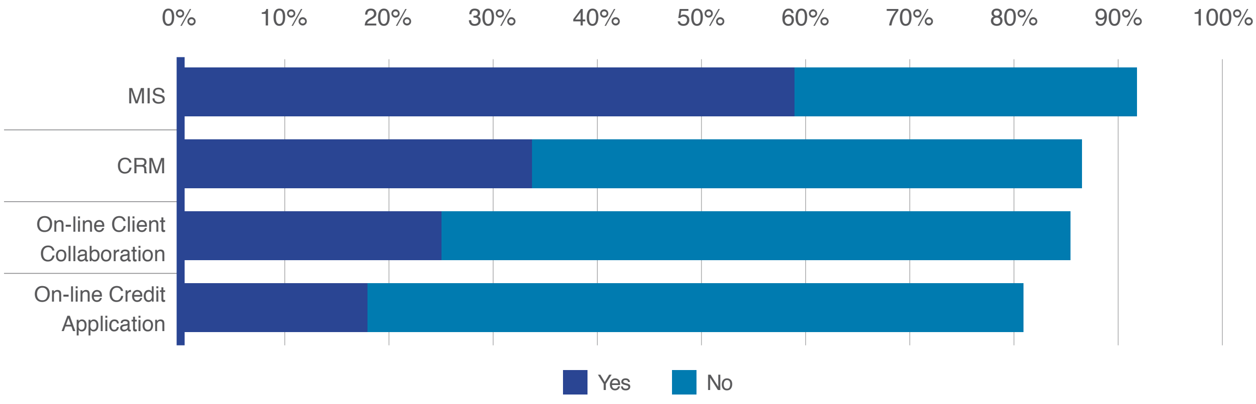
[32] CRM - Customer relationship management (CRM) are methods that companies use to interact with customers. The methods include employee training and special purpose CRM software. There is an emphasis on handling incoming customer phone calls and email, although the information collected by CRM software may also be used for promotion and surveys such as those polling customer satisfaction.

As defined by the EMN IT and Innovation Working Group

[33] Online client collaboration - An electronic system which makes it easier to keep in touch with the clients (or for the clients to keep in touch with each other), which may include messaging, file exchange and project management functions as well.

As defined by the EMN IT and Innovation Working Group.

Graph 34: Type of IT system used



As seen in the above graph, the most commonly used IT system is Management Information Systems (MIS), followed by Customer Relationship Management (CRM). The number of responding institutions that are currently using online software is quite low. Only one quarter of responding institutions use on-line client collaboration and 18% are using on-line credit applications (18%). A majority of responding institutions (59%) are using some type of MIS system and 34% are using CRM systems.

Almost all institutions that that use MIS consider more than 75% of their needs to be covered by their software and rated their MIS as excellent or very good. The most commonly used MIS program is Credinfo, used by 10% of responding organisations, and used exclusively in Hungary. The majority of institutions (58%) that use CRM also responded that more than 75% of their needs were covered, and it was rated as excellent or very good by nearly every responding institution.

6.2 Rating

Institutions were asked what percentage of their needs were covered by the respective software systems and to rate the software from 1 to 5 with 1 being "Excellent" and 5 being "Very bad".

6.3 Cost

In spite of MIS being the most utilized software, it is also the most expensive, with an average monetary value of 9,300 euros, followed by CRM with an average value of 4,000 euros.

7 Social Performance

7.1 Mission

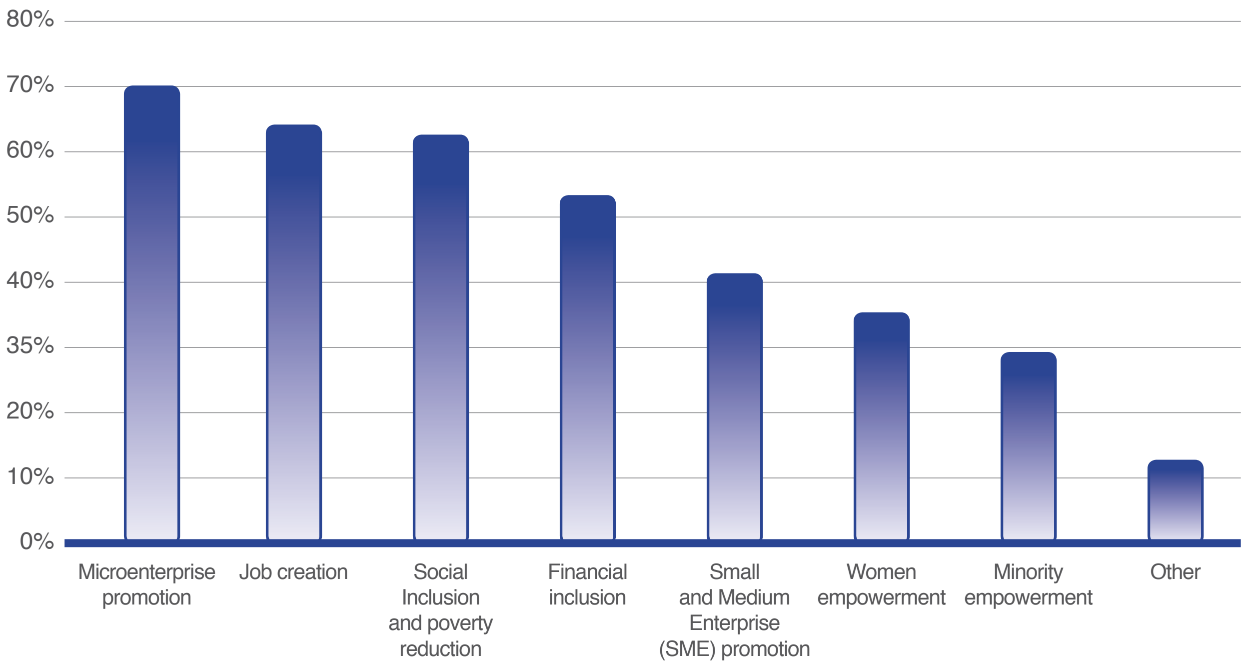
This year's survey gathered mission statements from the majority of the organisations participating and expanded the mission statement to include two new choices from the previous edition, women and minority empowerment. The following statements represent the seven main categories:

- Social inclusion and poverty reduction
- Job creation
- Microenterprise promotion
- Small and Medium-sized Enterprise (SME) promotion
- Financial inclusion
- Women empowerment
- Minority empowerment

Organisations could select as many options as they deemed fit (one or more than one). As shown on the graph below, microenterprise promotion was the most popular option with 70% of the organisations identifying this as part of their mission. The next highest responses were job creation (63% of responses), social inclusion and poverty reduction (62%) and financial inclusion (53%). Less than half of responding institutions that answered this question had SME promotion, or women or minority empowerment as part of their mission.

By combining the statements above, the purpose of microcredit in Europe continues to be *to support micro-business development, to promote self-employment and the creation of new jobs, and to contribute to social and financial inclusion by providing access to financial services*.

Graph 35: Microlender mission statements



When mission statements and institutional type are compared, variances in focus can be observed. The primary focus of NGOs and foundations is on social inclusion and poverty reduction. CDFIs, credit unions and cooperatives combine social inclusion and poverty reduction with microenterprise promotion, whereas the non-bank financial institutions are mainly concerned with microenterprise promotion. Ninety percent of Saving Banks state that their mission is job creation, and banks of all institutional types primarily concentrate on microenterprise promotion. Lastly, governmental bodies mainly focus on SME promotion.

Comparing mission statements to the average value of loans disbursed by microlenders that supplied data on total loans and value of loans disbursed in 2009, organizations that focused on financial inclusion and SME promotion disbursed loans above the average loan size (11,415 euros). Institutions that listed their primary focus as SME promotion disburse loans 38% higher than those that listed their focus as social inclusion and poverty reduction (8,031 euros).

Table 6: EU mission statements compared to 2009 average loan value

Mission Statement	Average 2009 loan value in euros
Social inclusion and poverty reduction	8,031
Microenterprise promotion	9,620
Job creation	10,334
Financial inclusion	11,732
SME promotion	13,021

7.2 Impact

Thanks to the combined efforts of the EMN Social Performance Working Group of the EMN, questions regarding the measurement of MFI social impact in Europe were expanded with the objective of deepening the understanding of the context as well as the method of social performance in institutions.

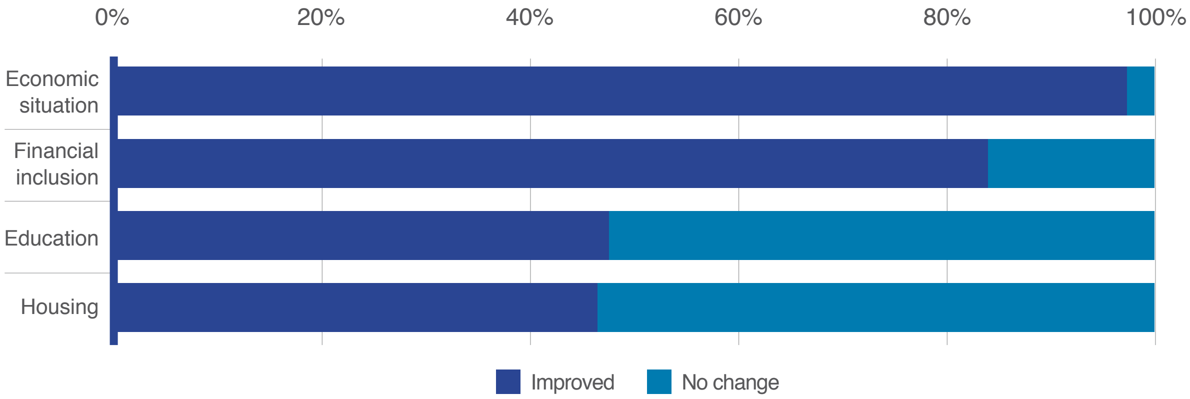
60% of organisations stated that measuring social impact on their clients' lives was one of the activities they carried out. The different methods used for the measurement of social impact vary, but the most utilized methods are individual interviews with clients (30%) and staff/loan officer observations (28%). These two methods were also the most commonly used in the last edition of the survey for years 2006-2007, where the percentages were 55% for both the staff and officer observations and the individual interviews with clients. A relatively small percentage of institutions (11%) outsource impact evaluations to third party specialists. In both the present and previous surveys, the least used method is the focus group.

Fifty-six percent of respondents indicated the frequency with which they monitor programme outcomes. Of this group, 42% monitor outcomes continuously, 28% annually, 6% monitor outcomes every three years and 3% every two years. Twenty percent of the respondents measure in a timeframe that was not previously mentioned.

In conjunction with the Social Performance Working Group, it was decided that a study for the current period would be undertaken in the current edition of the survey to increase the relative information on what impact microfinance programs in Europe have on clients. Therefore, questions that can provide a better idea of the social and financial impact that microcredit programs could have on their clients were introduced into the survey for the first time this year. The possible impact of the microcredit program was classified in five categories: economic situation, financial inclusion, education, housing and other. For each one of these categories, the MFI could evaluate impact as "improved", "no change" or "worsened". In none of the above-mentioned cases did an MFI state that they had measured a worsening in any of the aforementioned categories.

Of the total institutions that responded in each of the categories, 97% stated that their microcredit program had resulted in an improvement in the economic situation of their clients, whereas only 3% stated that the microcredit had not caused any change. On the other hand, 84% of institutions consider that the microcredit program has improved the financial inclusion of their clients. When discussing the favourable impact of the microcredit program on the education and housing of their clients, the proportion declines to 48% and 47% respectively.

Graph 36: Impact of microfinance programmes on clients' lives

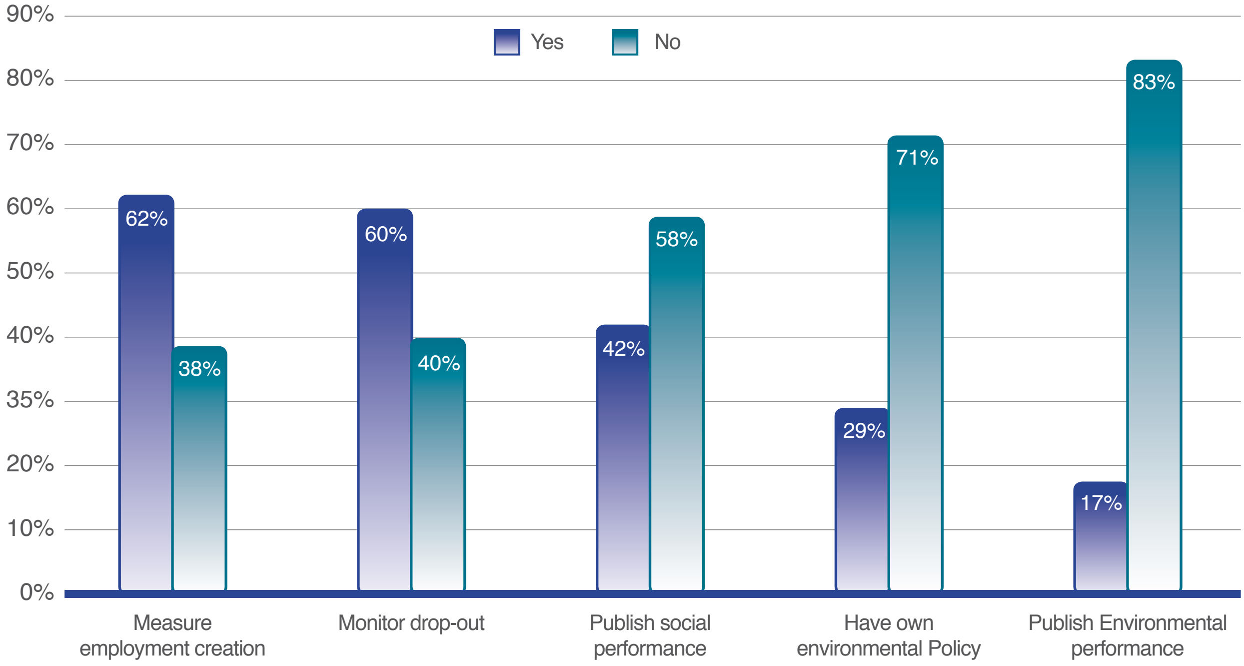


It is still believed that EU organisations are not carrying out thorough impact evaluations of their programmes with appropriate methodologies so that rigorous analysis can be done. There still is a lot of work to be done in this field. Impact measurement is still not carried out with the scientific rigour needed nor is it in the strategic plans and budgets of institutions, and it does not have the allocation of time or human resources that is needed to obtain contrastable and comparable results across countries. A supranational effort is also needed in order to establish a common methodology that allows for the comparison and verification of data. In short, further efforts on impact evaluation need to be made across the board.

More than 80% of institutions gave information related to social performance. Of these, 62% measure the creation of employment as a direct result of their financial services. 60% monitor why clients leave their programmes, even though further information as to the reasons why they leave was not collected.

Only 29% of MFIs have an official policy on environmental impact and only 17% publish results on environmental performance. Finally, only 42% publish results on social performance, but further information as to where the results were published was also not collected. More information on social performance in Europe can be found on the webpage of the Social Performance Management Research Centre (**http://www.spmresourcecentre.net/**) and on the webpage of the ImpAct Consortium (**http://www2.ids.ac.uk/impact/**), based in the United Kingdom.

Graph 37: Internal metrics and external transparency



8 Operational Performance

With the aim of standardising benchmarking indicators on operational performance and contributing to a better monitoring of the sector, the survey included relevant performance measures proposed in the report "From exclusion to inclusion through microfinance" developed by the MFC/cdfa/EMN project (MFC, cdfa and EMN, 2007). This project addresses the sector challenge of adopting a standard set of performance monitoring ratios and standard methods for calculating each ratio. Implementation of common standards will greatly assist lenders to speak a common language and to assess their financial performance. As a result, the benchmarking indicators on the following pages have been included as part of this standardisation.

Even though more institutions responded in the current edition of the survey than in previous surveys, the number of responses continues to be low and the percentage responding to this section out of the total number of responding institutions is lower than in previous editions of the survey. As seen in the following pages, less than a third of organisations that directly disburse microloans provided information on their operational self-sufficiency rates (30% of respondents, 50 total institutions), recovery rates (22% of respondents, 38 institutions), portfolio at risk (38% of respondents, 65 institutions), write offs (35% of respondents, 59 institutions) and refinancing ratio or debt/equity ratio (28% of respondents, 45 institutions). Therefore, this data should be analysed with caution.

This low response rate might again be explained by the under-developed management information systems (MIS), which are a likely outcome of the legal status of 60% of lenders as not-for-profit organisations with budget restrictions, as well as the lenders' lack of practice or confidence in disclosing financial performance information, particularly when the ratios are deemed not to have a positive enough outcome.

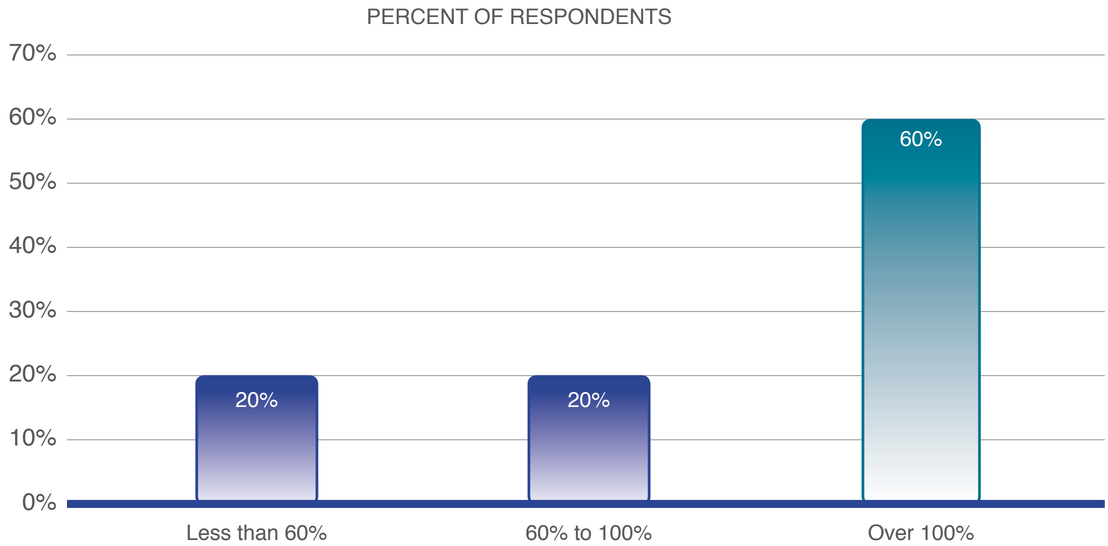
8.1 Operational Self-Sufficiency Rate

The first operation performance metric covered in the survey was the operational self-sufficiency rate. Operational self-sufficiency rate was defined as:

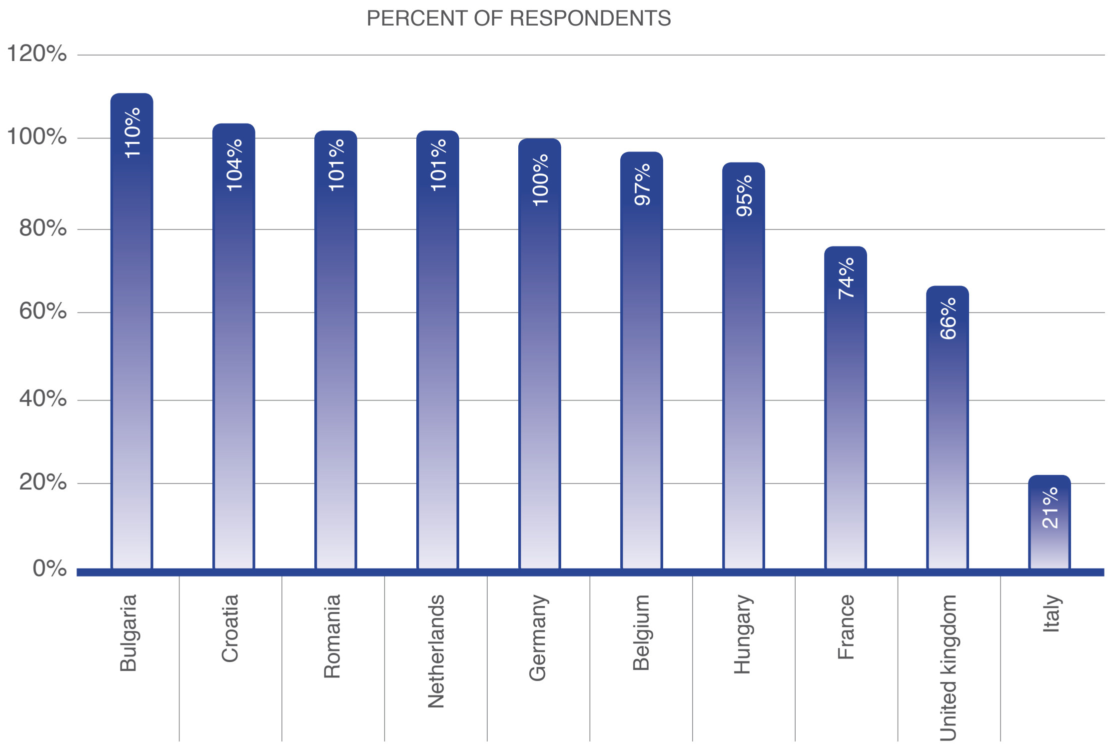
$$\frac{\text{Financial revenue} + \text{Other operating revenue}}{\text{Financial expense} + \text{loan loss provision expense} + \text{operating expense}} \times 100$$

Thirty per cent of respondents that disburse loans gave information on their operational self-sufficiency rates. The average operational self-sufficiency rate amongst these lenders was 93%. The highest operational self-sufficiency rate was 172% (Hungary) and the lowest was 6% (also in Hungary), followed by 12% in Bulgaria and 21% in Italy. The median across all responding institutions was 93%, but is important to keep in mind the low ratio of the respondents to this question. Sixty percent of the respondents were operationally self-sustainable (Graph 38), whereas in the previous survey, the percentage was nearly half (47%). Bulgarian, Romanian and Hungarian institutions had the highest number of respondents to this question, with Bulgaria and Romania having the highest figures of operational self-sustainability. This could be due to the fact that the majority of institutions operating in these countries are regulated institutions (non-financial banking institutions and credit unions). After these two, Germany and the Netherlands follow in total numbers of operationally self-sustainable institutions, and contrary to the previous edition of the survey, there were no institutions that reported OSS data in Spain, and Italy only reported one case. However, sustainability remains a sector challenge, as will be discussed in Chapter 12.

Graph 38: Operational self-sufficiency rate



Graph 39: Operational self-sufficiency rate by country



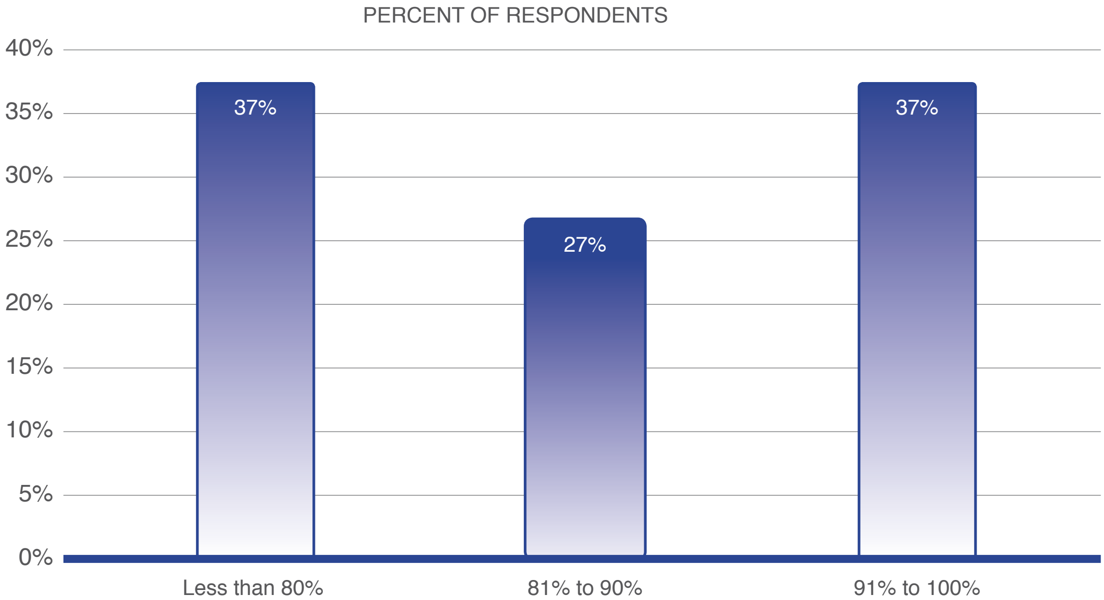
8.2 Current Recovery Rate

Repayment rate was defined as:

$$\frac{\text{Value of amounts collected}}{\text{Value of amounts fallen due for the first time under the original contract terms}} \times 100$$

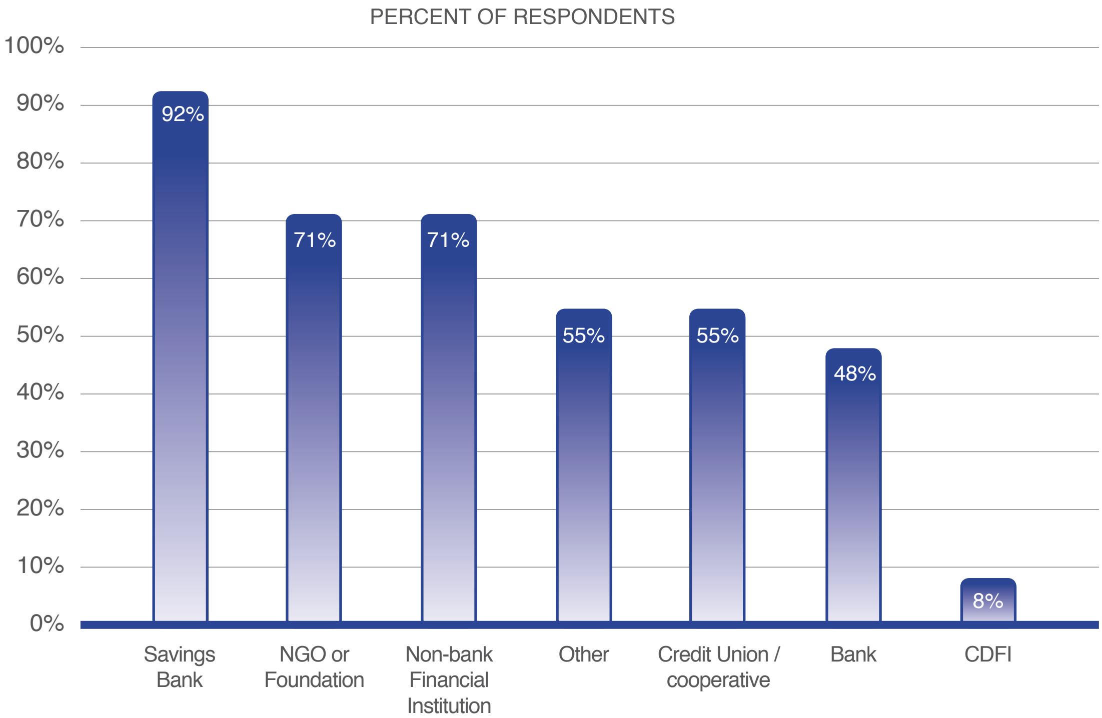
Twenty-two percent of respondents that disburse loans gave information on their repayment rates, ten percent less respondents than in the previous edition of the survey. The average repayment rate amongst these lenders was 63%, more than twenty points less than the previous survey. The range of repayment rates went from 5% for one lender to 100% for another lender. The median value was 78% and the standard deviation was 36.

Graph 40: Current recovery rate



Even though the survey sample for this edition is not very big, we see a proportion of lenders with repayment rates in the 91-100% range, as well as less than 80% range (Graph 40). The largest numbers of high performing institutions with repayment rates above 90% are located in France. Institutions with a repayment rate of almost 90% are found in Romania and Spain. In the special case of Spain, this is due to the fact that one of the big players in the field is the main microfinance institution in the country which is a banking institution. The current crisis situation has particularly affected the most vulnerable sections of the population, such as immigrants, women and youth, increasing the unemployment rate, which could be part of the cause of the difference in the results in previous editions of the survey. In spite of the fact that Spain is one of the countries most affected by the crisis, it can be found in second place with regard to repayment rates, after France.

Graph 41: Current recovery rate per institutional type



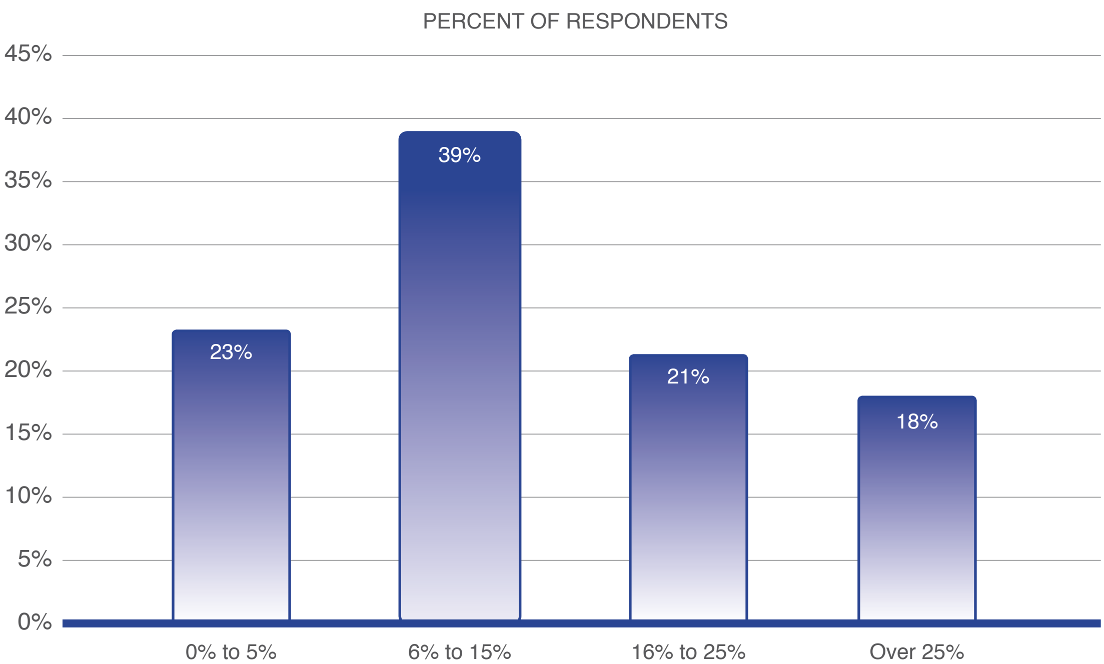
As can be observed in the above graph, the types of institution that have the highest recovery rates are Savings Banks (92%), followed by NGOs and Foundations (71%).

8.3 Portfolio at risk

Thirty-eight percent of lending organisations surveyed provided portfolio at risk figures (Graph 42). This ratio was defined as:

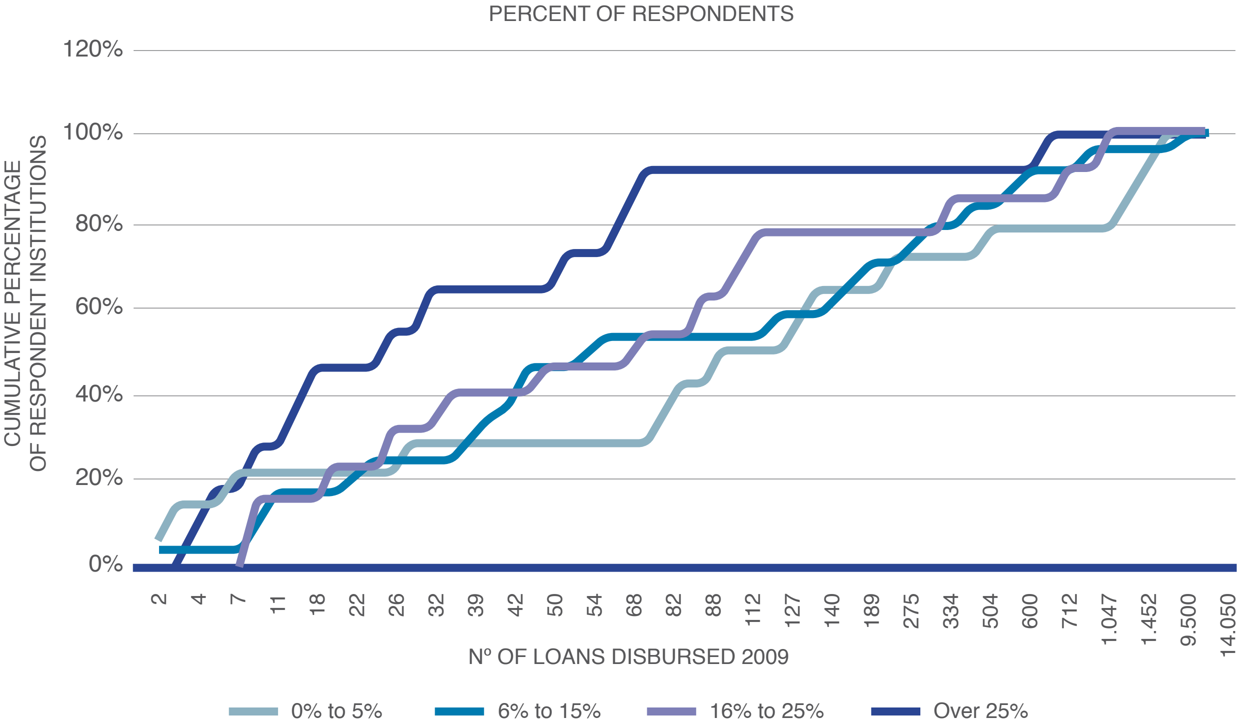
$$\frac{\text{Outstanding principal balance of all microloans past due more than thirty days}}{\text{Average gross outstanding portfolio at 31 December 2009}} \times 100$$

Graph 42: Portfolio at risk rate



The highest portfolio at risk figure was 73.7% and the lowest 3.47%. The average figure for the respondents was 16%, which is situated a little higher than the previous survey (14%). The percentage of lenders falling into the lower risk ranges has decreased substantially from the previous survey and the percentage in the higher risk ranges has increased. The largest average number of high performing institutions with an at risk portfolio below 10% are located in Bulgaria and Germany. However, when taken separately, the best performing individual institutions are found in Bulgaria and the Netherlands. The worst performing institutions with a portfolio at risk above 35% are located in the UK. Furthermore, it must be noted that these conclusions are directly obtained from the information given on behalf of the institutions and is not compared with the number of loans that each of these institutions disbursed individually.

Graph 43: Portfolio at risk rate by nº of loans disbursed



In the above graph, three variables are analysed in parallel: the number of loans disbursed, number of institutions that disbursed those loans and the level of associated risk. For this analysis, the level of risk has been divided into 4 groups, (0%-5%, 6%-15%, 16%-25% and more than 25%). The x-axis represents the number of disbursed loans and the y-axis represents the cumulative percentage of responding institutions. It can be observed that institutions with lower risk levels are those that disburse a higher number of loans (a greater cumulative percentage of institutions, greater slope at the end of the x-axis) while those that have greater risk levels are those that disburse a lower number of loans.

8.4 Write-offs

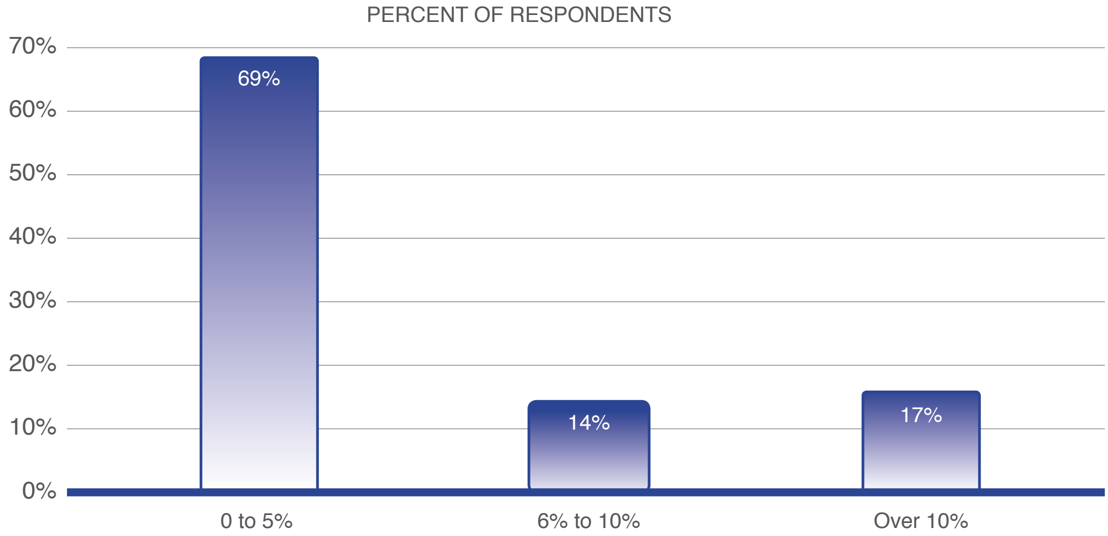
Write-offs refer to:

$$\frac{\text{Value of loans that recognised as uncollectible during period}}{\text{Average gross outstanding portfolio during period}} \times 100$$

Thirty-five percent of lenders surveyed supplied information regarding write-offs (Graph 44).

The average write-off rate was 9.5%, 3.5 points higher than the previous survey. The highest write-off rate was 35%, 7 percentage points higher than in 2007, with several lenders reporting write off rates of 0%. The relatively high number of organisations (41 institutions) in the 0-5% range may be a reflection of the newness of the sector as recent entrants cannot yet declare any of their arrears as uncollectible and therefore write them off. The impact of the economic and financial crisis does not seem to have yet affected the quality of the lending portfolio and the recuperation of loans as it has in other parts of the world, such as Morocco or Bosnia and Herzegovina.

Graph 44: Write-off rate



The largest number of high performing institutions with a write-off rate below 5% is located once again in Romania and Bulgaria, and in France. The largest number of poor performing institutions with a write-off rate above 10% is located in Spain.

The questionnaire asked respondents about the elapsed time period before they recognise loans as uncollectible. The range was 1 month to 7 years. As an average, institutions consider loans uncollectible after 15 months.

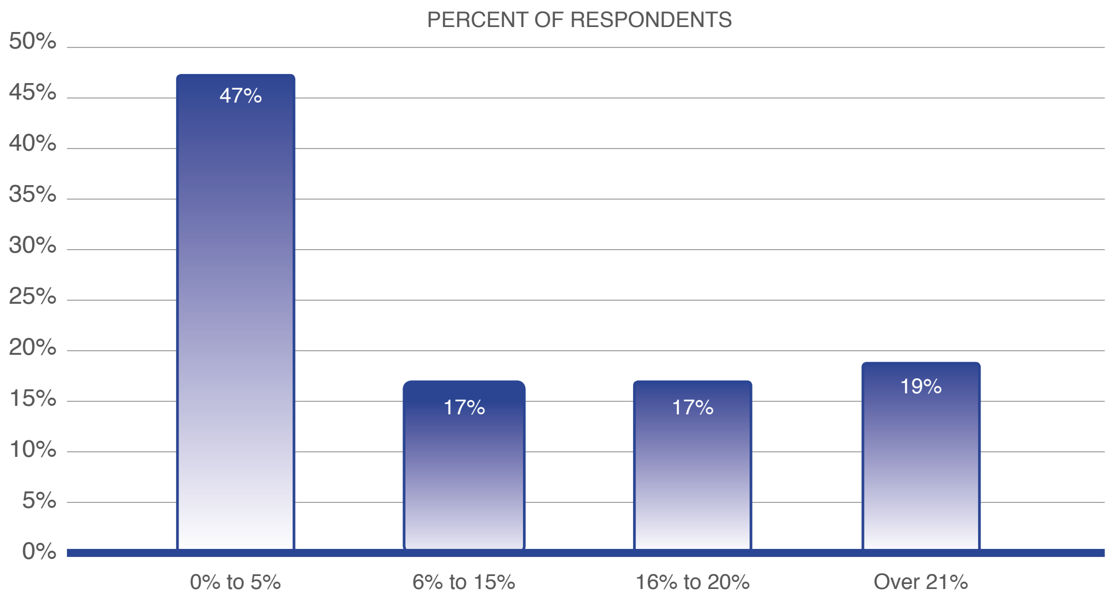
The country with the highest average time to consider a loan uncollectible is France, followed by the Netherlands. The countries with the lowest average time to consider a loan uncollectible are Croatia and Italy.

8.5 Refinancing Ratio

Twenty-eight percent of lending organisations supplied information regarding their refinancing ratio or rescheduled loans (Graph 45). This ratio was defined as:

$$\frac{\text{Outstanding amount of the loans refinanced or restructured at the end of period}}{\text{Total outstanding portfolio}} \times 100$$

Graph 45: Refinancing ratio



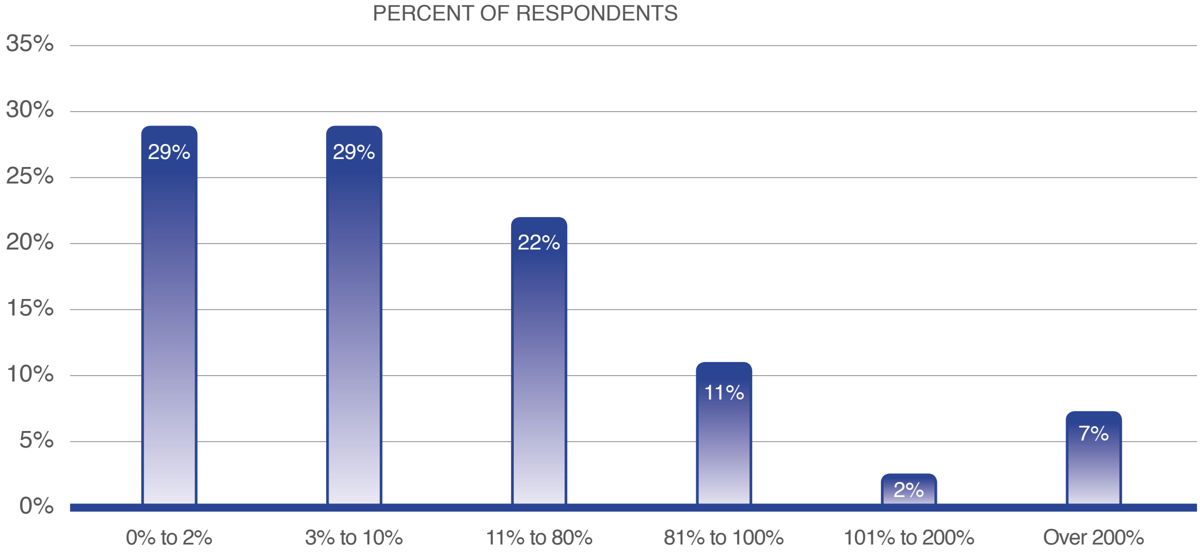
The value of the outstanding principal balance of rescheduled loans in relation to total portfolio outstanding was 14% on average amongst respondents, compared to 5% in the previous survey. This figure could also be linked to the economic and financial crisis and its impact on microcredit clients. Polish and Bulgarian organisations have the lowest ratios while organisations in United Kingdom and France show the highest.

8.6 Debt / Equity Ratio

Twenty-six percent of lending organisations surveyed provided their debt/equity ratio (Graph 46), which was higher than the last survey, situated at 19%. Debt/equity ratio was defined as:

$$\frac{\text{Total liabilities}}{\text{Total equity}} \times 100$$

Graph 46: Debt / equity ratio



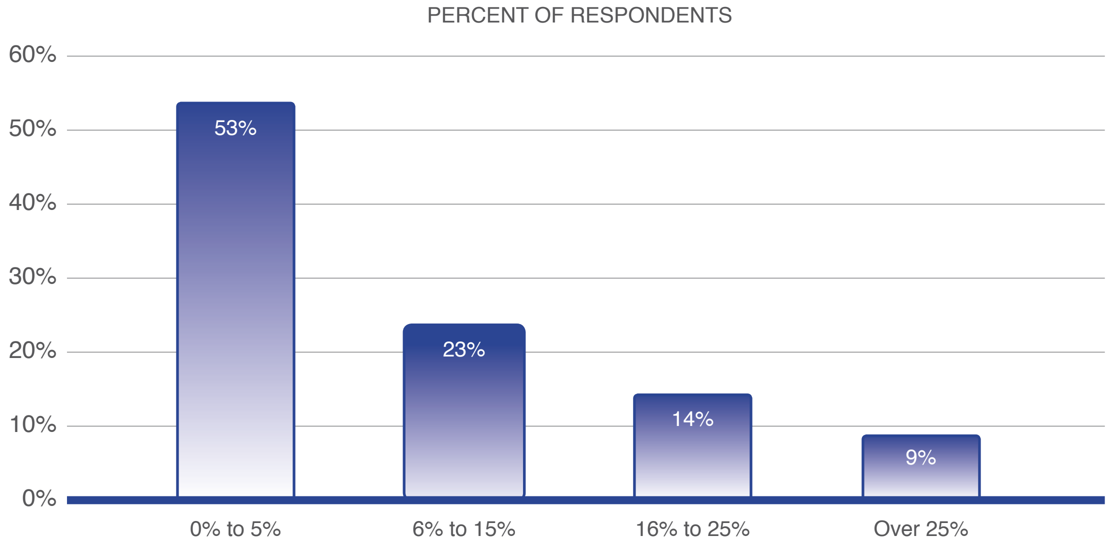
Over half of the respondents have liabilities equivalent to less than 10% of their equity. On the other hand, we find four heavily indebted lenders (mainly from Romania) with a debt/equity ratio above 100%. There is one Romanian lender with a ratio of 213%. The average is 40.7%. Compared to the world average provided by the MIX of 3.0%, European microfinance institutions are more heavily indebted than their peers. This could be due to large inflows of commercial debt in transition economies over the past 10 years.

8.7 Portfolio Yield

Twenty-seven percent of lending organisations supplied information regarding their portfolio yield (Graph 47), 10% more than in the previous survey. Portfolio yield was defined as:

$$\frac{\text{Earned revenue (from interest earnings and fees)}}{\text{Average gross outstanding portfolio during period}} \times 100$$

Graph 47: Portfolio yield



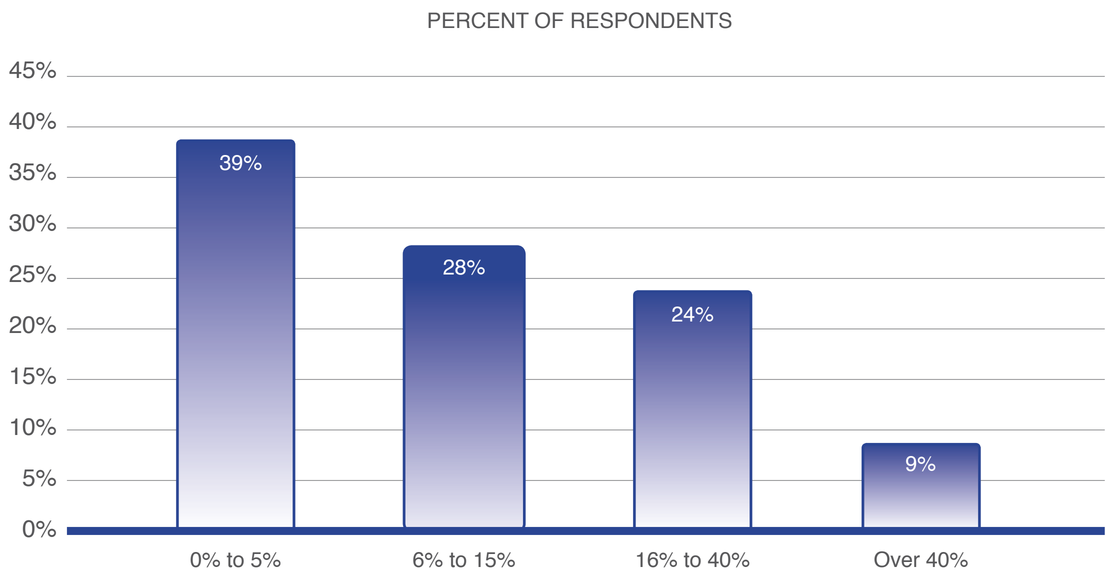
More than a half of the respondents earned income equivalent to between 0 a 5% of their gross loan portfolio. On the other hand, 23% of the respondents had a portfolio yield over 16% and 23% of respondents had a portfolio yield between 6% and 15%. Once again, the largest number of high performing organisations with a portfolio yield above 15% is located in Romania and Bulgaria. There is more geographical dispersion in the other ranges.

8.8 Operating expenses ratio

$$\frac{\text{Operating expenses during period}}{\text{Average gross outstanding portfolio during period}} \times 100$$

The survey asked for the total amount of operating expenses, including salaries, rent, transport, etc., in order to obtain a proxy indicator of how much it costs to maintain a microcredit programme in the EU. 27% of lenders supplied information regarding their operating expenses, almost double the percentage of respondents in the previous survey. Dividing the amount of operating expenses by the average gross outstanding portfolio, the average operating cost over the gross portfolio per loan is 14%. This information is not comparable with the previous surveys as the indicator has been calculated differently. The most efficient organisations are found in Poland, Bulgaria and Germany, where the sector is more mature and profit oriented.

Graph 48: Operating expenses ratio



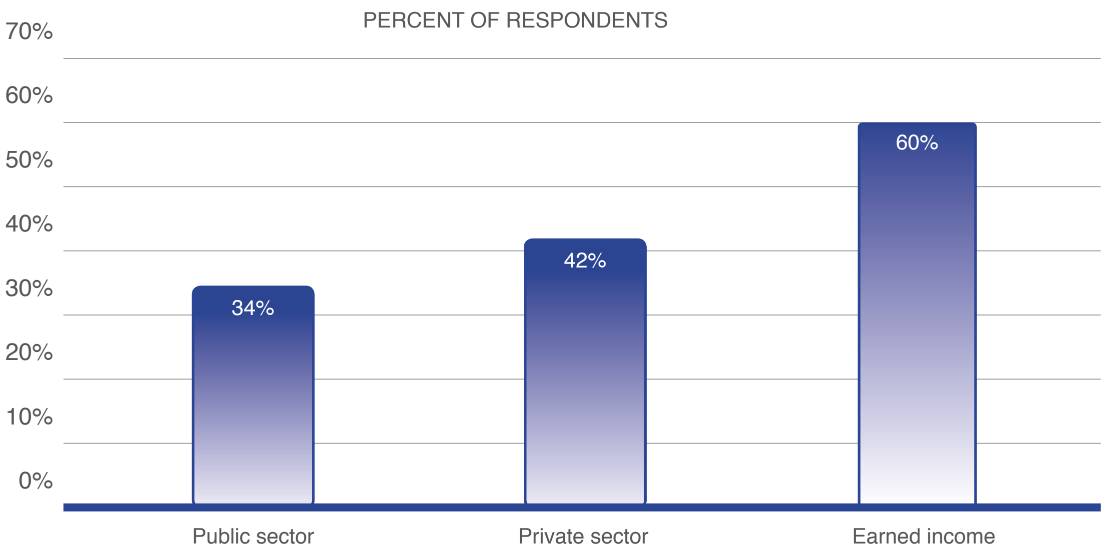
9 Funding

In contrast to the previous survey, it can be observed that lenders in the European Union finance their operating costs from earned income and contributions from the private sector. This is probably due to the incorporation of savings banks and the promotion of the microfinance sector on behalf of the European Union. However, EU lenders still rely on public and private funds to cover operational costs and to provide loan capital. Around 35% of lenders supplied information on their sources of funding.

9.1 Operational and Financial Costs

The private sector in the EU plays an important role in covering operational expenses, financial costs and loan losses (Graph 49).

Graph 49: Funding of operational and financial costs

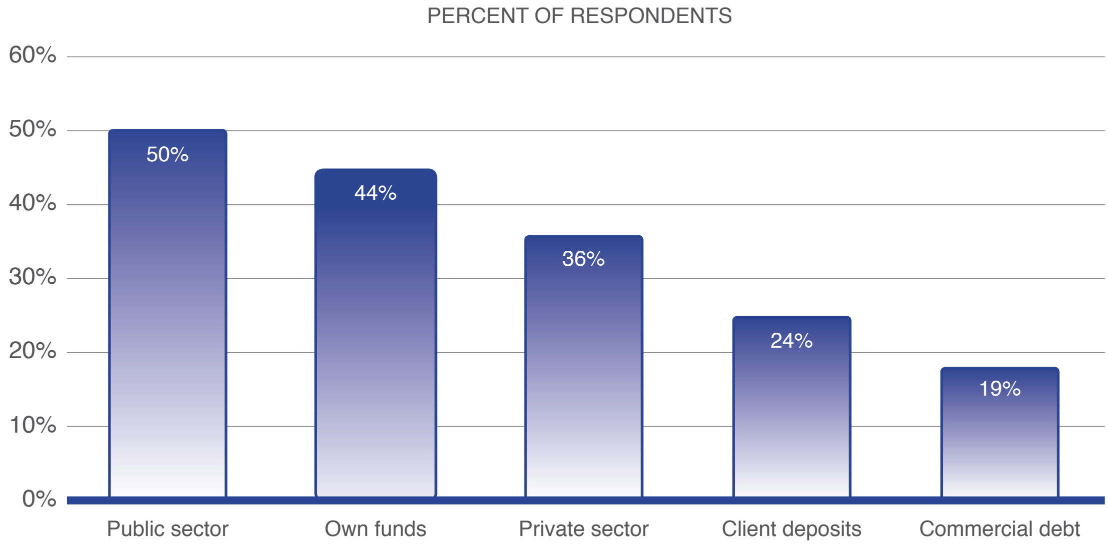


Sixty percent of respondents in the European Union finance their operational and financial costs from earned income (fees, interest and income earned on assets). Funds from the private sector finance 42% of these costs and 34% are financed by the public sector. Not all responding institutions gave exact data for each of the categories and replied to each independently. Not all of the same institutions responded to each of the categories and for this reason it is not possible to have a global vision of where 100% of the financing of the European sector comes from.

9.2 Loan Capital

Loan capital is funded from the public sector, own funds, the private sector, clients' deposits and commercial debt, in that order.

Graph 50: Sources of loan capital



The credit unions and cooperatives receive as much as 100% of their loan capital from the public sector, followed by NGOs and Foundations. The NGOs and Foundations also receive a majority of their funds from the private sector. On the other hand, banks and non-bank financial institutions are mainly financed through their own funds.

In Spain, most of the lenders (savings banks) finance 100% of their loan capital with "social work" or Obra Social funds. Similarly, in the UK, lenders capitalise loan funds fully through the private and charity sectors.

In Germany and Belgium, the majority of institutions receive loan capital from the public sector while organisations in Spain and in the UK mainly rely on their own funds Currently, public sources are less important in Eastern countries even though public funds remain a strong source of financing.

10 Regulation and networking

New questions were added to the current survey so as to be able to obtain a better understanding of the current lobbying and networking activities being carried out in the microfinance sector in Europe. External pressure and lobbying are needed so that the market can continue to develop without obstacles. Greater cooperation is also needed in order to have an overall view of the sector characteristics that are similar throughout Europe, to combine efforts and to reach for greater efficiency in the sector. As mentioned earlier, only two countries have specific laws relating to the regulation of the microfinance sector, France and Romania (European Commission, 2007a).

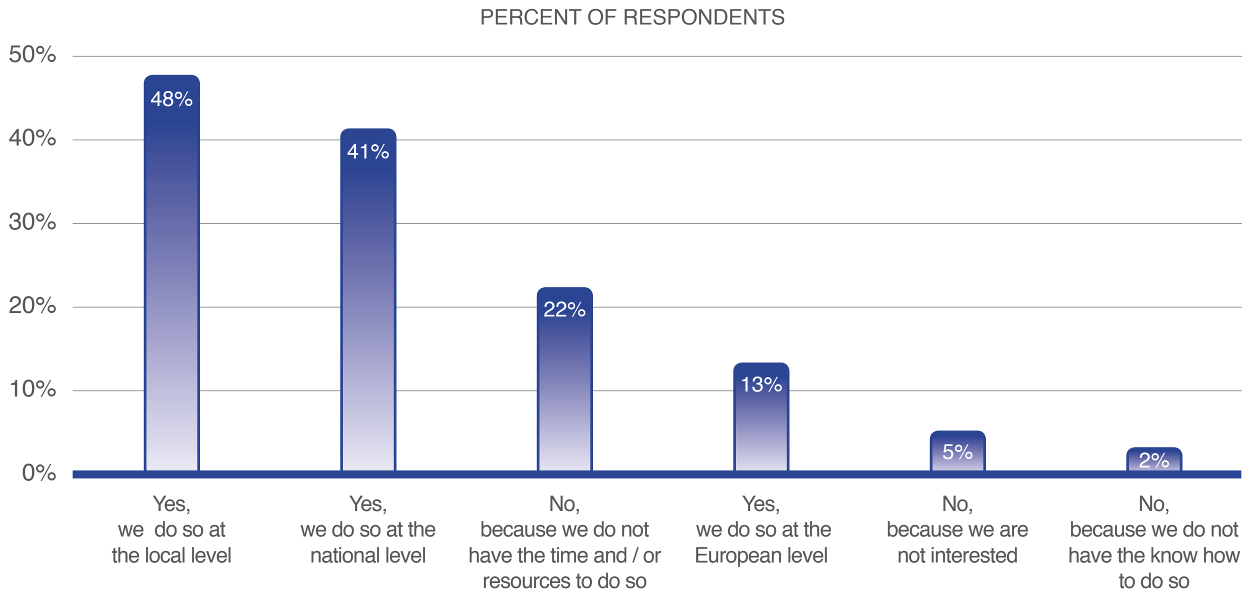
10.1 Legal Environment

As the number of microfinance institutions in Europe continues to grow, so too does the importance of the sector. For this reason, there is a growing need for greater market regulation in the microfinance sector. Traditional financial regulation can neither be adapted nor deal with the complexity of the characteristics unique to this sector and, as a result, a new framework must be considered. As a result, genuine efforts are needed to attempt to influence national and supranational governmental authorities to lead microfinance institutions to greater growth levels and further their development.

The following graph shows that almost half of responding institutions carry out lobbing activities at the local level. Here, France and Hungary have the greatest number of respondents. 41% lobby at the national level, the strongest country respondents being the Netherlands and Sweden. 13% carry out lobbying at the European level where a greater size and resources are needed to have an effect on decision-making. Of these, the countries with the highest number of respondents are France and the Netherlands.

The majority of institutions that do not carry out lobbying activities stated that the reason for this was a lack of time and/or resources, whereas a small percentage (7%) either are not interested or do not have the knowledge to carry out lobbying activities. Surprisingly, Belgium with the European capital of Brussels within its borders, was the country with the highest number of respondents that do not carry out lobbying due to lack of time and resources.

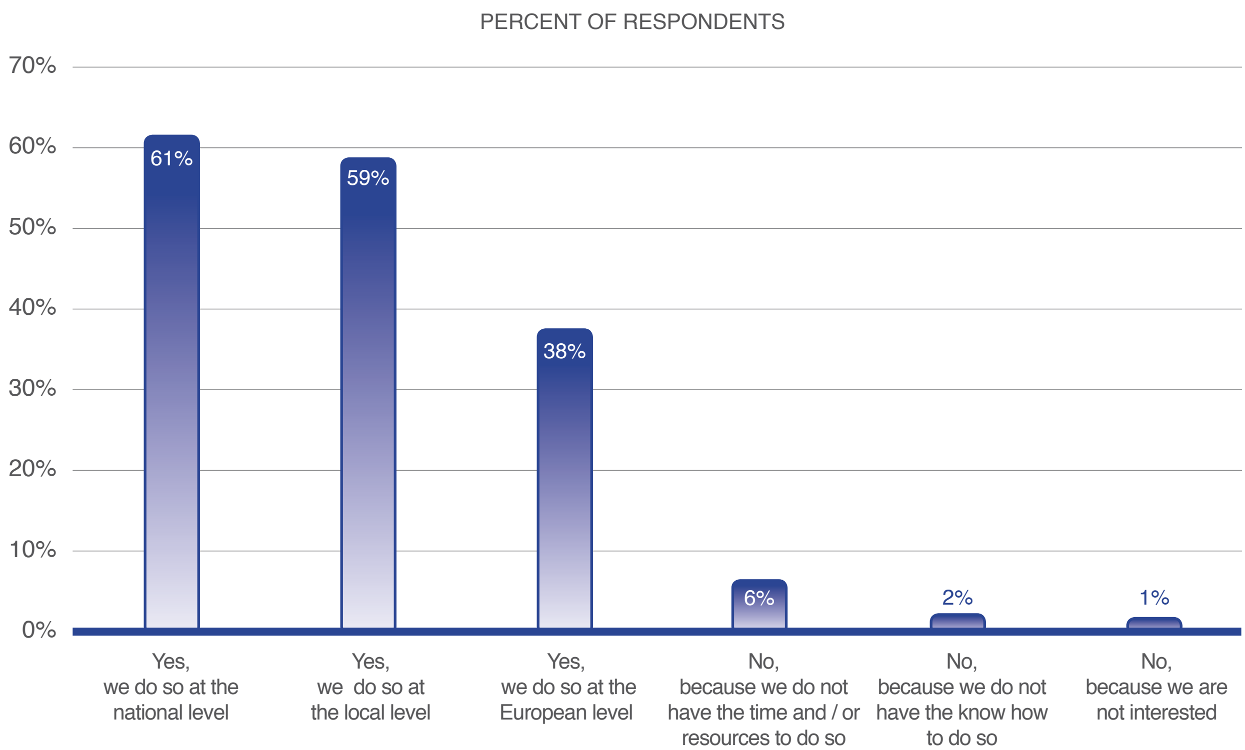
Graph 51: Lobbying activities



10.2 Networking

The great majority of European microfinance institutions participate in networking activities on some scale. The majority of institutions network within their own country, 61% participate in networking on a national level and 59% participate on a local level, where institutions can meet the greatest number of involved actors without investing a lot of time or money. Hungary and Sweden have the highest number of respondents that participate in networking on a national level. In Hungary, this number is not surprising due to the membership of the Local Enterprise Associations in the national Hungarian Microfinance Network. On a local level, Germany and France had the highest number of respondents. Networking on a European level, where more time and resources are needed, decreases to 38%, with the highest number of respondents being from the Netherlands and France, which also lobbied on a European level more vigorously than the other respondents. The number of institutions that are not involved in any networking activity is minute (9% total).

Graph 52: Networking activities



Case study 2:

Institutional capacity building in European Non-bank MFIs

Institutional capacity building of Non-bank MFIs has to be regarded as a key challenge of the upcoming years in developing microfinance activities in Europe. It is not only as an essential precondition for more sustainability and efficiency in the sector but also for enlarging the outreach of European MFIs to socially excluded clients. This is one of the results of a series of **market studies on the supply and demand of microcredits** in eight EU member states[34], complemented by a specific report on **Capacity Building Needs** based on self-assessment of 115 microfinance organisations as well as focus groups (EVERS&JUNG, 2009). They were part of a project commissioned by the European Investment Fund (EIF) to the European Microfinance Network (EMN) as one of the preparatory steps to implement the **JASMINE[35] facility of the European Union**.

Microcredit in Europe has evolved over the past twenty years in very challenging environments: in **Western Europe** post-industrialized economies with highly evolved banking sectors oriented towards minimal risk exposure and maximum profit rates, resulting in financial exclusion of certain kind of clients and entrepreneurial projects; in **Eastern Europe** transition economies with high rates of self-employment as a result of post-communist lay-offs and lacking financial infrastructure, but ongoing funding activity of (mostly US) foreign aid agencies with experience in microfinance in developing countries. A diversity of approaches developed that can be summarized in two main segments: **microenterprise lending**, i.e. lending to financially excluded microentrepreneurs and start-ups that are "nearly bankable" and **inclusion lending**, i.e. lending to financially and often socially excluded clients that are "non-bankables" and will stay excluded from mainstream financial services in the mid to long term. The institutional models of micro-credit provision that have evolved in these two segments are equally diverse as the approaches used: they encompass non profit organisations, State agencies, commercial banks, promotional banks, specialised micro-credit banks and credit unions. Those of the institutions that give out loans without a banking license[36] can be grouped into the category Non-bank MFIs; they are mainly active in the segment of inclusion lending. For micro-credit providers,

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[34] Bulgaria, Czech Republic, Germany, Italy, Spain, UK, Romania and Slovakia.

[35] Joint Action to support microfinance institutions in Europe.

[36] In countries, in which onlending is prohibited without a banking licence, non-bank MFI engage in microlending through cooperation models with banks, e.g. in Germany.

dealing with these target groups means a high risk of default and requires high levels of institutional capability in areas like screening, human resources, performance analysis and additional support services.

The study on behalf of the EIF showed that for assessing the institutional capacity levels in the European Non-bank MFI sector it is crucial to acknowledge that these organisations are right now in very different stages of their institutional development. In summary, the studies highlight the following institutional capacity building needs of non-bank MFIs:

- Lack of institutional capacity in **building and maintaining adequate funding models for a growth in microfinance operations**. Additionally there is a clear need for sustained funding to cover start-up and operative costs and funding for on-lending to high risk target groups.
- **Underdeveloped systems for performance measurement** and analysis and a missing culture of transparency and reporting, especially in Western Europe.
- **Only average capacity levels regarding human resource management**, especially in finding trained middle management staff and experienced loan officers.
- **Lack of capacity for networking and co-operation** between the actors in the national microcredit sectors to allow peer exchange, joint marketing activities and lobbying for more favourable legal and policy frameworks.

Specific actions should therefore be taken to reinforce the institutional capacity of non-bank MFIs: **Transparency** should be improved by clearer definitions of microcredit and the introduction of a new status of "solo-entrepreneur" in the EU SME definition. **Clear development objectives and targets** need to be agreed and adjusted social and financial performance indicators need to be developed to measure them.

The **benchmarks in terms of the degree of (self-)sustainability** set for MFIs in the EU should be individually adjusted according to the target groups they are serving and to the complexity of services they provide. **A right balance** between the expected social, economic and financial outcomes need to be found. **Public funds** should be injected in those areas, where they are the **most needed and most effective** and MFIs should be supported in **different stages of their life cycle in a needs-oriented way**.

Last but not least **financial and non-financial** services should be seen as **separate cost centres**, because even if the financial operation may become sustainable in the long run, business development services for disadvantaged target groups will require subsidies. The technical assistance branch of the Jasmine Initiative for the European Microfinance Sector will be an excellent opportunity to implement these measures, as long as capacity building is understood in holistic approach and not just linked to training. Other funding opportunities in the European context need to include such component to ensure that European MFIs make progress in their institutional capacity on a broad scale to increase their outreach and sustainability.

Sources: Michael Unterberg, "Reaching out to the hard-to reach: A task of institutional capacity building in the European non-bank MFIs", EMN Magazine n°6, December 2009; Jung, M., Lahn, S., Unterberg, M. (EVERS&JUNG), EIF Market Study Microlending, Capacity building needs and policy recommendations, March 2009

11 Crisis

Given the precarious financial and economic climate that Europe is currently faced with, particularly in specific countries such as Greece, Spain and Portugal, questions arose over the impact this crisis could have on the microcredit sector and microcredit clients.

The greatest impact of the crisis has been on the client, where the most significant outcome of the crisis to date has been a severe contraction of the job market – loss of employment, hiring freezes, pay cuts, and the like. This could have an even greater impact on microcredit clients, who are already in a vulnerable and precarious financial situation. The European Union has also realized that microcredit is an effective tool for combating the negative effects of the crisis by promoting entrepreneurship and preventing high levels of unemployment. In March 2010, the European Union established the European Microfinance Facility for Employment and Social Inclusion (Progress Microfinance Facility)[37] to enable those who are unemployed and want to start their own business to confront these new challenges in the wake of the recent crisis.

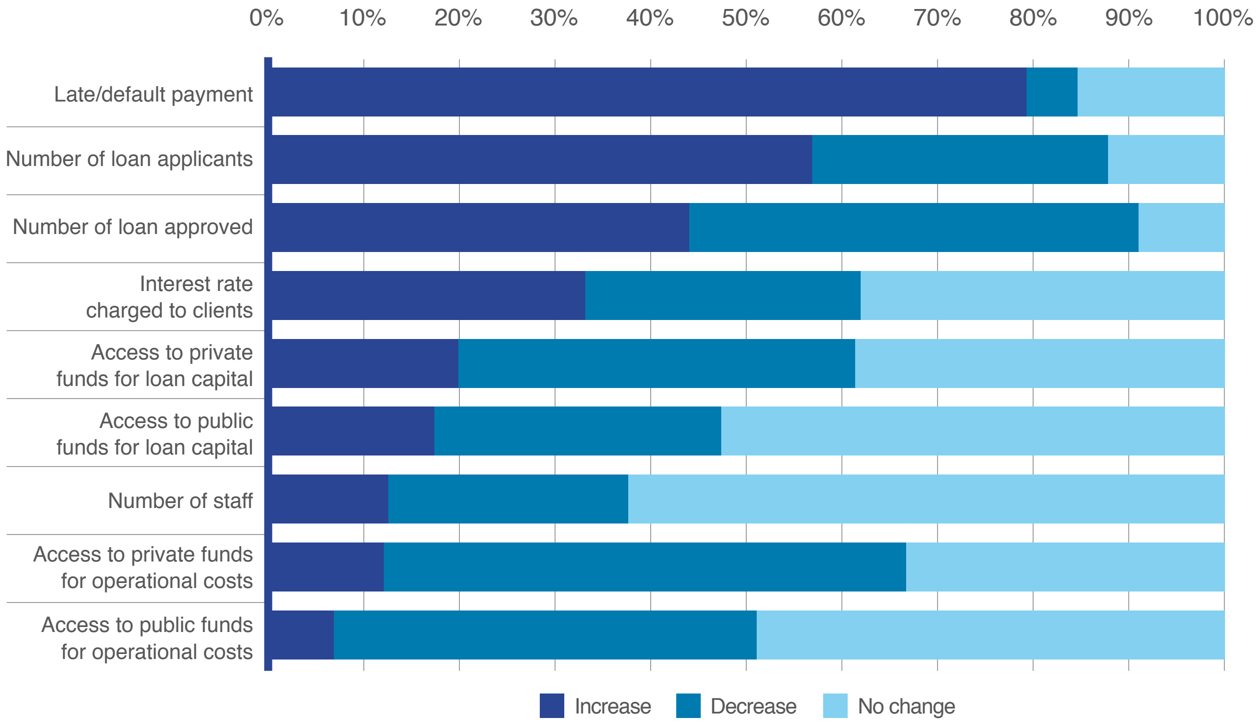
The survey incorporated new questions as a result of this environment to create a new section on the impact of the crisis. The drafting of these questions was based on the results of two polls EMN had carried out specifically on the crisis amongst its members in November 2008 and April 2009. For this, respondents were asked to respond to the following questions:

- Has the organisation been affected by the crisis? How?
- How have clients been affected by the crisis?

Almost three-fourths, or 74%, of responding institutions affirmed that they were affected by the crisis in some way. The most affected areas for institutions are reflected in the following graph:

[37] The establishment of the Progress Microfinance Facility was put into effect by Decision No 283/2010/EU of the European Parliament and of the Council.

Graph 53: Areas most affected by the crisis



11.1 Institutional Impact

As can be clearly seen in the graph above, almost 80% of responding institutions have been affected by late and default payments as a result of the crisis. This is in line with the results of the crisis polls carried out by EMN in 2008 and 2009 amongst its members. Clients either do not have the money to make the payments on time, or do not make the payments at all. This could have serious repercussions in future surveys regarding its effect on overall portfolio returns, write offs and restructured loans. However, at the present time, the impact of these late and default payments has yet to be seen.

More than half of reporting institutions have seen an increase in the number of loan applicants, which demonstrates that microcredit has been used as a tool to reduce the impact of the crisis on the job market.

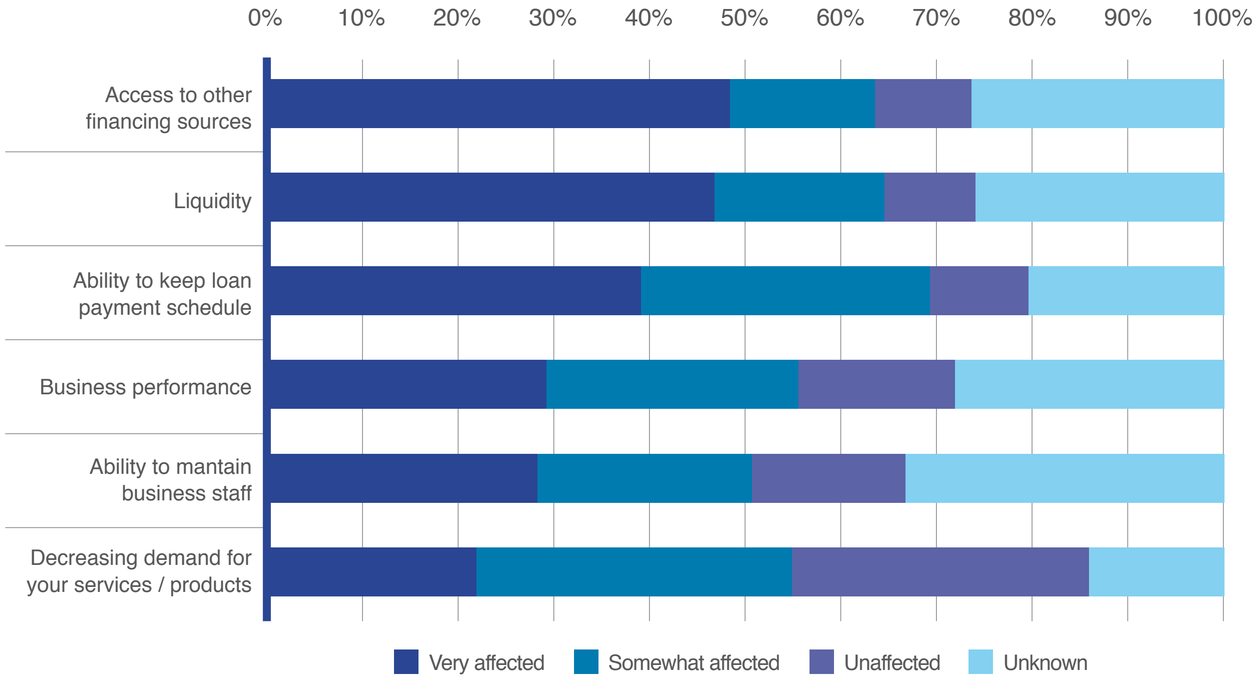
There has also been a reduction in access to funds across the board. 50% of responding institutions have been affected by the reduction of access to private funds for operational costs, and to a lesser extent institutions have been affected by the reduction of access to public funds for the same purpose. Not much change was reported in regard to access to private and public funds for loan capital. Less funds are available for operational costs than for loan capital as it can be expected that lenders and/or donors would like to see a return on their contributions.

Institutions did not report any significant changes in the interest rate charged to clients. It would be interesting to follow this trend as late/default payments begin having an effect on the overall portfolio to see how institutions cover this loss.

The number of loans approved has affected institutions heterogeneously. In countries such as Germany or Italy, a high number of institutions that responded to this question, 67% and 65% respectively, have seen an increase in the number of loans approved. However, at the same time, in countries such as Romania, Bulgaria or Spain, the majority of institutions have noted a decrease in the overall number of loans approved. In Romania, 100% of the institutions that responded to these questions have seen their number of loans approved decrease. This percentage was 75% in the case of Bulgaria and 70% in the case of Spain. An overall difference between the number of loan applicants and the number of loans approved can be seen.

11.2 Client impact

Graph 54: Clients



The above graph demonstrated the impact of the crisis on microcredit clients and their respective microenterprise from the perspective of the MFI. Where the crisis had the greatest impact on clients was in the access to other sources of financing; 50% of MFIs reported that their clients were very affected by the crisis in this aspect, followed very closely by liquidity, or the ability to convert assets into cash. As the crisis has affected the general population, demand for said assets would be expected to decrease.

The majority of institutions reported difficulty in the ability of the client to keep to the loan payment schedule. Reporting institutions have noted that in 70% of cases clients have been either "very" or "somewhat" affected in their ability to keep to loan payment schedules. As almost 80% of responding institutions also reported an increase in late and/or default payments, this figure is not surprising.

In the remaining areas, the responses were varied and no observable pattern can be seen regarding the impact on business performance, staff retention and demand for services/products.

Future 12

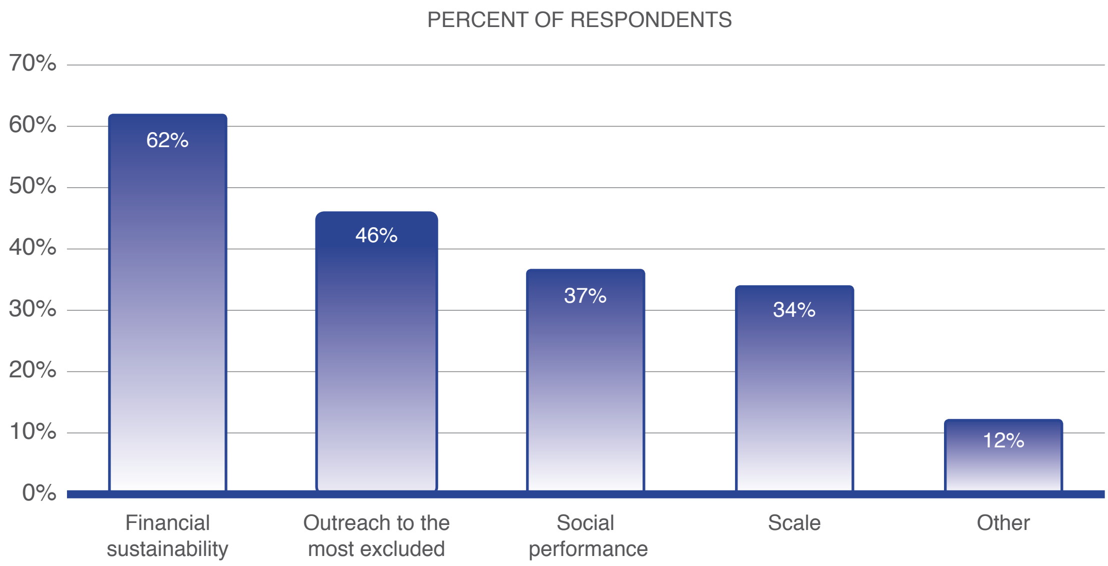
Finally, respondents were asked about their future plans. However, the questionnaire on this point was condensed to ask the same questions as the previous survey but in a more concise fashion. Respondents were asked to indicate future plans on growth and sustainability through the following questions:

- What are your most important future goals?
- What are the biggest constraints you face in reaching the above goals?

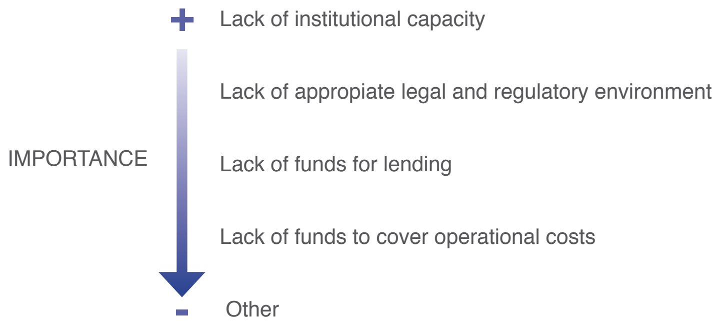
12.1 Growth

The majority of lenders provided information regarding their future goals and could choose one or more responses to this question. The most important challenges are reaching financial sustainability, which is in line with the responses from the previous survey. Outreach to the most excluded is next, which differs from the previous survey, where European institutions listed social performance as the next most important goal. Scale as a response did not differ significantly from the responses of the previous survey.

Graph 53: Most important future goals



Respondents were asked to identify constraints to growth and to rank their importance from 1 (most important) to 5 (least important). Lack of institutional capacity is the most significant and frequently identified constraint. Appropriate legal and regulatory environment are also concerns. Accessing funds to cover operational costs or for lending are at the bottom of the list. The constraints identified and rated by institutions have not differed over the previous years. This demonstrates that, in spite of the expansion of the microfinance sector year after year, these institutions continue to confront the same constraints that have yet to be resolved, which limits growth in the sector.



12.2 Challenges

Based on information gathered in the current study, access to long-term funding is the most commonly cited challenge faced by European microfinance institutions. The lack of access to stable long-term funding restricts the institution in many ways – it restricts their ability to grow, to broaden and deepen outreach across the sector, their ability to build institutional capacity, and their ability to reach sustainability, especially during the financial and economic crisis currently endemic throughout Europe. Institutions also mentioned the need for regulatory flexibility to be able to tap new opportunities for growth as the market is becoming more mature and saturated within Europe.

The graduation of the previously targeted group into formal financial services and the general change of target focus was the next most cited challenge for institutions. Bulgaria, Hungary and the Netherlands noted the need to adapt and fine-tune the products and services currently offered to adjust to the perspectives and economic development of the changing client base.

Hungarian, Romanian and Spainish organisations raised concerns regarding the need for the standardization and professionalization of the sector by increasing coordination, training, monitoring and transparency standards across Europe. As pressure increases on European microfinance institutions to become more efficient, greater networking and training is needed to ensure that the sector reduces duplication of effort, works in a transparent manner and has well-trained professionals working in the sector.

For more information regarding current challenges that participating countries are facing, please refer to the individual Country Summaries.

Conclusion 13

This fourth EMN survey presents a European microfinance sector that is beginning to feel the impact of the economic and financial crisis, but has yet to be deterred as a result. In spite of recent setbacks, such as access to funding, the European Union has helped keep microfinance activities running in Europe and the sector has continued to grow as a result. Microfinance can therefore be considered as a tool that is increasingly accessible for the socially and financially excluded members of society.

Over the last eight years, the number of microcredit actors has increased. There were 18 new entrants that began lending in 2008 and 2009. Eastern Europe has the most mature microfinance market while the Western European microfinance market is undergoing a process of consolidation. In terms of value of loans disbursed (or gross loan portfolio) France and Germany are responsible for 63% of the Western Europe market share and in terms of loans disbursed they represent a 73% of total number of loans disbursed in Western Europe.

As a whole, the number of loans disbursed in the EU countries decreased by 7% between 2008 and 2009, though the value of loans disbursed increased by 3%, which may suggest an increase in the average loan value. This represents a change in the trend when compared to the previous survey. This edition also shows a change over previous years in the trend of average loan size, which was smaller in Eastern European countries than in Western Europe. Nevertheless, the average loan size between 2008 and 2009 decreased from 11,000 to 9,000 euros.

In 2009, the number of loans disbursed was 84,523 worth 828 million euros. Eastern European countries represent 40% of total loans and 26% of total value, whereas Western European countries represent 60% of total loans and 74% of total value. As a whole, the number of active clients in the EU was 135,815 at the end of 2009.

There continues to be diversity in the various types of organisation involved in microlending, including non-governmental organisations, foundations, government bodies, savings banks, banks, credit unions and non-bank financial institutions. Sixty percent of respondents have a non-profit status, 17% less than the previous survey. Most of the for-profit organisations can still be found in Bulgaria and Romania while the majority of non-profit organisations can be found in Hungary, Italy and Spain. As institutions reach for sustainability, long-term access to stable funding continues to be a challenge. As a result, for-profit institutions may be charging higher interest rates and granting larger loans to recoup operational and financial costs.

In general, microloans in the EU are disbursed either by small organisations or by big institutions where the microcredit programme represents a small portion of their activity. Twenty-four percent of respondents focus solely on microlending. Thirty-five percent focus primarily on microlending whilst for 49% lending makes up less than 25% of their activity portfolio. 64% of lenders employ fewer than five people in their microcredit programme. The biggest institutions in terms of number of employees are found in France, followed by Romania and then Hungary. Overall, Eastern EU organisations tend to have a greater number of employees than their Western EU counterparts.

Lenders continue to have a variety of mission statements but most are aligned in their mission focus. The mission of 70% of lenders in Europe is microenterprise promotion, followed by job creation, then social inclusion and poverty reduction. These mission statements are very similar to previous surveys. Overall there is a greater emphasis in Western EU countries on the creation of jobs and financial and social inclusion whereas in the Eastern EU, where a larger number of non-bank financial institutions exist, there is a greater emphasis on microenterprise promotion. The most targeted types of businesses are start-up enterprises followed closely by existing enterprises.

57 percent of the European organisations disbursed less than 50 loans in 2009. On the other hand, just 13% of the organisations disbursed greater than 400 loans in 2009. These organisations are located mainly in Western EU countries (France, Germany and Spain), which signifies a change in tendency over previous years, where institutions that disbursed more than 400 loans were located primarily in Eastern Europe. There are also some organisations in Bulgaria, Hungary, Romania and Poland that operate on a larger scale.

The increase in the number of organisations at the bottom-end of the market between 2005 and 2009 may be explained by the fact that a number of new organisations have entered the market over the last few years, disbursing a small number of loans. At the same time, existing players are growing and increasing their total number of loans disbursed per year.

Microloan sizes varied from 220 euros to 37,000 euros. Average loan size is usually linked to the institutional type of the lender. Banks, non-bank financial institutions and government bodies tend to offer larger loans than credit unions, NGOs, savings banks or foundations. Loan size is also linked to organisational mission statements with lenders focusing on SME growth making larger loans in relation to per capita gross national income (GNI) than organisations focused on social and financial inclusion. In this regard, there is a clear divergence between Western and Eastern EU countries. Once again, the countries that are disbursing loans at over 100% of annual GNI per capita are Hungary and Romania, along with Bulgaria.

Financially excluded people and start-up or existing enterprises with five or fewer employees remain the primary business supported. Women, immigrants and / or ethnic minorities and the unemployed are the most significant at-risk groups. 44% of microcredit providers in the EU target women, 41% target immigrants or ethnic minorities and 29% target youth. The disabled remain underserved by EU microfinance organisations.

Loan financial conditions vary across lenders. However, average microcredit conditions in EU could be described as a 9,400 euro loan granted for three years at an annual interest rate of 9%, in addition to some loan fees. 59% of lenders do not require guarantees, based on the principles of microcredit. The remaining lenders require borrowers to be part of a bank, EU or public guarantee program, or to have collateral. The average time required by lenders to disburse a microloan is 26 days.

The majority of EU lenders provide business development services (BDS) and 27% do not provide BDS but refer clients to organisations that do. Microlenders focus on providing microenterprise loans with one half of organisations supplying other financial services such as personal microcredit loans, debt counselling, savings, insurance, money transfer services or mortgages. This suggests a tendency to cross sell other financial services to microcredit clients.

Financial performance reporting has improved slightly across the sector. Amongst the 30% of lenders that provided information on their operational self-sufficiency rates, the average OSS rate in 2009 was 93% and more than half of the respondents were operationally self-sustaining. In 2009, the average repayment rate was 63%, 20 points below the previous survey, which could be a direct result of the impact of the recent crisis. The best financially performing organisations are located in Eastern EU countries, namely in Bulgaria and Romania, and are characterised by their for-profit legal status, as well as in France.

With respect to access to funds to cover operational costs, in this edition of the survey the tendency over previous surveys has been reversed. Respondents reported covering 60% of operational costs through earned income, while the public sector has declined as a source of financing. This demonstrates the continuing trend towards efficiency and self-sustainability as well as a contraction in public lending across Europe.

Questions regarding social performance and information technology were added for the first time in the present edition, given the importance that these two areas represent in the microfinance sector. In information technology, microfinance institutions are becoming increasingly aware of the importance of a good management information system (MIS) as a means of increasing the efficiency and productivity of employees. As a result, nearly 60% of microfinance institutions are using MIS software and a large majority of respondents felt that their system covered their needs. In regards to social performance, institutions were asked if they carried out impact studies of their clients and 60% responded positively. The most common methods used to measure social impact were listed as individual interviews with clients and staff/loan officer observations. Responding institutions also noted the impact microcredit programmes were having on the lives of their clients. Positive gains were found in clients' economic situation and their financial inclusion.

As a whole, the responding institutions continue to cite the lack of access to long-term funding as a challenge to the future of the sector. Without stable access to funding, the growth of the microcredit sector may be limited and institutions may not be able to reach self-sufficiency as a result. Institutions also need regulatory flexibility to be able to tap new opportunities for growth and to target new groups of people as previous clients graduate into new financial strata of society. Greater professionalization of the sector is needed with training of new microfinance experts as well as increased networking across Europe to increase transparency, to avoid duplication of effort and to share best practices in the field.

14 Country summaries

Belgium

Macroeconomic data

- Total population: 10.8 million (2009)
- Urban population: 97% (2007)
- GDP per capita: €24,700 (2008)
- Unemployment rate: 8% (2009)
- Population below the poverty line: 15%
- Population in a situation of financial exclusion: 1% (2007)

Sources: Eurostat, Insee, REM, Indexmundi.com.

Legal framework for microfinance and policy initiatives

The origin of social finance is very old in Belgium, and goes back to the creation of the "Mont Piété", a charitable institution which granted loans against collateral to excluded persons. This institution still exists today.

Microcredit, however, developed significantly with the launching by the King Baudouin Foundation of the "solidarity loan" project in 1997. The Fonds de Participation and Crédal, both created in 1984, have been operating for more than 25 years. The Fonds de Participation is a public credit organism. In 2002, it took over the "solidarity loan" project of the King Baudouin Foundation.

There is no specific legal framework for microcredit activities. Several organisms have set up training and support services, in particular for unemployed people who wish to become self-employed; these people continue to receive their specific benefits during the training periods, but lose them once their enterprise has started (there can be certain exemptions for a duration of six months).

Banks themselves do not offer microcredits to their clients; they act through a partnership with the microfinance institutions. This is, for example, the case of the partnership with the Fonds de Participation which allows the client to apply for a microcredit and a complementary bank loan at the same time.

MFIs are not authorized to collect deposits; this limits their scope of action.

Unlike the banks, public authorities give significant support to the microfinance institutions, either through financing or through guarantee mechanisms.

Principal microfinance activity

- N° of survey participants: 4
- N° of active clients (Dec. 2009): 3,491

- N° of loans disbursed 2009: 835
- Value of loans disbursed 2009: €16.7 million
- 37% of female clients; % immigrant/ethnic minority clients: ND

In Belgium, the four main MFIs are: Fonds de Participation; Crédal; Hefboom; Brusoc.

The Fonds de Participation, a federal financial institution, supports and accompanies self-employed persons, small and medium-sized enterprises, as well as job-seekers who wish to create their own activity.

Crédal is a credit cooperative that proposes microcredit for entrepreneurial (MC2) and personal purposes ("prêt social accompagné", "prêt vert"). Moreover, since 2005, it runs a programme specifically targeted at women entrepreneurs, the AFFA programme ("Affaires de Femmes, Femmes d'Affaires"). Another organism, Hefboom, has been offering microcredits of a maximum amount of €12,500 since the end of 2007. Its activity covers the Flemish region.

In Belgium, as in the other European countries, microcredit targets socially excluded persons or persons at risk of exclusion (unemployed or economically inactive persons), as well as microentrepreneurs without access to traditional bank credit. There are specific programmes for young people less than thirty years old and for women (provided by Fonds de Participation and Crédal in particular). The Réseau Financement Alternatif, created in 1987, is an association which develops tools and financial mechanisms with an ethical and social character for its members. Organized as a network, it aims to promote alternative products by means of campaigns, studies and research.

Finally, independently of the MFIs, it is necessary to mention The Walloon Financing and Guarantee Company for Small and Medium-sized Enterprises (SOWALFIN), a limited company of public interest, created in 2002, which aims more widely to support the setting up and development of SMEs in the Walloon region. In particular, it guarantees up to 75% of the amount of the loans granted by banks to very small or medium-sized companies. In 2009, 44 microcredits (max. 25,000€) were re-insured for a total amount of €525,066.

In Belgium, in 2009 835 microloans were disbursed with an average of €17,000.

Principal challenges

The challenges for the microcredit sector lie in the respective roles of public authorities and MFIs. It would be helpful to further promote the independent worker status with incentives that have an immediate effect, i.e. the possibility of maintaining unemployment benefits during the launch of a self-employed activity or the reduction of social security contributions. In terms of financing, government subsidies to MFIs are usually given out punctually; guaranteed recurring funding to MFIs on a longer term would provide them with a more stable financing source. Additionally, guarantee mechanisms could be further developed.

For the MFIs, in order to reach out to the target public, it could be beneficial to strengthen their communication means and simplify the loan approval procedure. Moreover, efforts towards operational and financial sustainability could help MFIs gain more independence from public subsidies. Finally, more impact studies could help increase the credibility of MFIs and enable them to present concrete results to public or private financiers.

Sources: http://www.european-microfinance.org/pays_en.php?pild=19; Réseau Financement Alternatif, Le microcredit en Belgique: naissance, état des lieux et future, March 2009.

Authors: Cesarea Brisbois and Stefanie Lämmermann, EMN.

Bulgaria

Macroeconomic data (Dec 2009)

- Total population: 7.6 million
- Urban population: 71%
- GDP per capita: €4,467
- Unemployment rate: 9.1%
- Population below the poverty line: 21% (2008)
- Population in a situation of financial exclusion: ND
- % of microenterprises: 99% (all sole proprietor, family business, small trade and producing companies up to 10 employees)

Sources: Bulgarian National Bank, National Statistical Institute, Eurostat, Bulgarian Association of Microenterprises.

Legal framework for microfinance and policy initiatives

There is no special law concerning microcredit. Currently, the legal framework for micro-scale lending carried out by smaller institutions in Bulgaria is defined by the Credit Institutions Act (CIA), the Cooperatives Act and Ordinance No. 26 of 23 April 2009 on Financial Institutions. The CIA regulates credit institutions, banks and financial institution that can provide loans as well as other matters related to banks and lending (in this sense also microcredit).

Many of the local microfinance actors are registered under the Cooperatives Act (CA). Pursuant to Art.36, par.3 of the CA, cooperatives may perform deposit and lending activities, pursuant to a decision of its General Meeting and a decision of the Bulgarian National Bank under conditions and procedures stipulated in a special law. So far such a law has not been adopted.

Financial institutions, which are not subject to licensing or registering under another law, shall be recorded in a register of the BNB in order to conduct activities. The register shall be public and a certificate shall be issued thereof. Financial Institutions can provide loans with funds other than accepted deposits or other repayable funds, and through mutual aid funds extending loans only to their members on the account of contributions made by them and at their risk according to CIA. Non-Bank Microfinance Institutions are not authorized to collect savings.

Principal microfinance activity

- N° of survey participants: 16
- N° of active clients in Dec. 2009: 3,248
- N° of loans disbursed 2009: 2,637
- Value of loans disbursed 2009: €98.3 million
- 33% of female clients; 4% of immigrant/ethnic minority clients

A total of 16 organisations participated in the survey. However, the whole microfinance sector in Bulgaria is bigger. In 2009, microcredits represented an amount of € 566 million for 91,649 loans. Overall, 20 banks corresponding to 69% of all banks operate in the SME sector. The microfinance sector in Bulgaria also includes a group of experienced MFIs who piloted various programmes over the past decade. Microfinance in Bulgaria emerged in the early 1990s primarily as a donor-driven tool to address some urgent aspects of transition.

Most microfinance operations started as pilot projects or programmes initiated and funded by international donors, which included the United States Agency for International Development (USAID), the EU Phare Programme, bilateral cooperation mechanisms (with Germany and Switzerland), the Soros Open Society Institute, and the Catholic Relief Services (CRS).

Among the pioneers in the industry were the foundation Nachala (established with USAID funds in 1993) and the EU Phare credit cooperatives (1995). Other programmes also chose that model to take advantage of the credit cooperative exemption, usually under memoranda of understanding between the Government and donors. The World Council of Credit Unions launched its technical assistance programme for the kasas, or credit unions, and CRS began a microfinance group-lending program through USTOI. The United Nations Development Programme piloted alternative microfinance options through several small projects in 1998-2000, notably loan guarantees and financial leasing for business equipment. A service company model for delivering microfinance was launched by the Open Society Foundation in 1999.

All non-bank MFIs identify their mission as a contribution towards fighting social and/or financial exclusion, job creation and entrepreneurship promotion. Microfinance institutions in Bulgaria identify a range of client groups: micro and small businesses, start-up businesses, unemployed people, poor people, agricultural producers, self-employed, women, ethnic minorities, youth, disabled people, rural population and the financially excluded. Some of the institutions target ethnic minorities and have special products for them.

The banks are providing working capital and investment loans ranging on average between €5,000 and €13,000. Loan terms vary from 3 to 6 years mainly for investment loans. Working capital loans are usually for 12 months with revolving terms. The interest rates are in the range of 7 to 15 per cent. The common practice for banks is to guarantee the loans with collateral (real estate or other physical assets).

MFIs in Bulgaria provide a variety of products that address in different ways the main barriers preventing clients from access to bank financing – lack of assets and property to cover guarantee/collateral requirements; poor financial skills and no credit history; lack of formal books, accounts and financial statements among micro and rural entrepreneurs; reluctance to disclose business and income information to the institutions, etc. Microfinance institutions in Bulgaria provide financial products with terms and conditions adapted for their target groups. The MFIs are providing loans ranging on average between €1,300 and €15,800. Loan terms vary from 1 to 4 years mainly for investment loans. The interest rates are in the range of 9 to 23 percent.

Principal challenges

Microfinance institutions in Bulgaria are now entering into a phase of maturity, backed by a decade of experience in the very difficult context of transition, they need to focus on their ability to tap new opportunities for growth to serve their unique market. They have gained momentum and must be even more innovative and pro-active, diversifying and improving their approaches, products, services and operating practices. The big issue is to further broaden and deepen the outreach of microfinance to particular at-risk groups, which may be more difficult to reach.

Another challenge for the sector, which is particularly relevant for those non-bank MFIs that are committed to serving the needs of socially excluded people and communities, is that most MFIs lack financial resources to expand their services. Development of long-term funding strategies is essential for increasing outreach and sustainability, and if such strategies are to work and be successful, they will require consistent strengthening of MFI capacities. The current clientele of the microfinance industry in Bulgaria – typically micro and small business owners and self-employed people, is becoming ready to graduate to formal financial services as a result of economic development, financial sector growth and the critical support they have received through microfinance. Therefore, the MFIs need to be prepared to adapt and fine-tune their products and delivery methods to the needs of the next generation of microcredit users, with an ever growing shift to disadvantaged populations and inclusion.

Author: Nikolay Yarmov, CEED.

France

Macroeconomic data

- Total population: 64.4 millions (2009)
- Urban population: 77% (2007)
- GDP per capita: €22,900 (2008)
- Unemployment rate: 9,9% (2009)
- Population below the poverty line: 13% (2008)
- Population in a situation of financial exclusion: 2% (2007)
- % of microenterprises: 92% (2007)

Sources: Eurostat, Insee, REM, Indexmundi.com.

Legal framework for microfinance and policy initiatives

France is one of the countries in Europe where the microfinance activity is at present relatively evolved. Bank microcredit was developed by France Initiative in 1985. It is a federation of organisms whose mission is to facilitate business start-ups at the local level with the support of the Local Authorities and in connection with the banks. Moreover, in 1988, the Association France Active was established as a product of the "Fondation de France", the "Caisse des Dépôts et Consignations", l'Agence Pour la Création d'Entreprise (APCE) and the Crédit Coopératif. Non-bank microcredit was initiated in 1989 by Maria Nowak who created Adie (Association pour le Droit à l'Initiative Economique) whose fundamental mission is to grant microcredits to socially and financially excluded persons.

During the last twenty years, the legislative context and the whole regulatory framework have evolved, allowing a more coherent growth of microcredit in the country. This evolution is largely due to the lobbying actions of Adie. The "Law for Economic Initiative" of August 2003, and the "Law in favour of Small and Medium-sized Enterprises" of August 2005, have produced a simplification of procedures. And even more importantly, the legal measures taken to simplify registration procedures as well as the implementation since 2009 of the status of "auto-entrepreneur", have had a very beneficial impact on the development of business start-ups.

Finally, the French State has shown its interest in this activity through the "Supporting the development of microfinance" section of the Social Cohesion Law (Borloo Law of January 2005). This law recognizes the importance of the auto-entrepreneurship initiative and aims to further facilitate access to support services for job creation as a way of returning to employment. The Social Cohesion Fund, endowed with €73 million, created at the same time, in particular guarantees loans to unemployed persons wishing to set up their own activity, as well as a new type of loan, the "personal microcredit", intended to finance personal projects (mobility, training, professional integration, etc.).

Principal microfinance activity

- N° of survey participants: 6
- N° of active clients in Dec. 2009: 70,252
- N° of loans disbursed 2009: 28,863
- Value of loans disbursed 2009: €152.6 million
- 35% of female clients: 19% of immigrant/ethnic minority clients

A large part of the activity is produced by Adie, which has now a network of 130 offices and 400 contact points throughout France. Adie has more than 400 employees and 1,200 volunteers and 14,581 loans granted in 2009. It has at the moment more than 26,500 active clients. The integration rate of the persons financed (meaning the rate of financed persons who left social assistance programmes during the last five years) stands at 80%. Since 2001, modifications to the banking law have allowed Adie to directly on-lend funds borrowed from the banks; this contributed appreciably to improving the functioning of the whole programme by accelerating the processing of requests. Adie serves exclusively non-bankable borrowers, i.e. financially and often socially excluded persons.

Other significant associations work at the local or national level. They primarily serve nearly bankable clients (existing microenterprises and classical microenterprises in the start-up phase). The France Initiative association, which has a decentralized network, has a highly developed activity with regard to so-called "honour loans" ("prêts d'honneur"), loans at zero interest, which allow the beneficiaries to access significant complementary bank credits. The Association France Active which operates mainly with funds from the Caisse des Dépôts, participates actively in the development of economic activity, in particular through the guarantee funds which it has set up. These funds target microentrepreneurs, and guarantee the loans obtained from other organisms (banks, etc.).

Parcours Confiance, created in 2006, brings together the associations set up by the savings banks ("caisses d'épargne") which also aim to fight financial exclusion through the provision of microloans. These associations are non-profit bodies, even if they remain connected to the banks that created them. Finally the MFI CREA-SOL is an association created by the Caisse d'Epargne de Provence-Alpes-Corse. It finances and accompanies persons excluded from the banking system; it grants microcredits to individuals or very small firms. In 2009 28,863 loans were disbursed (including the "prêts d'honneur" of France Initiative) in France, with an average of 4,950€.

Principal challenges

Despite its dynamism, the microcredit activity in France still faces several barriers. The concept of microcredit as such does not exist, and the only existing definition today is that of the European Union (credits below €25,000). The sector brings together very different actors, with different economic models and sources of funding, and thus heterogeneous modes of functioning. Potential clients may thus find the offer -microcredit and support services- complex and difficult to understand; however, the demand remains high.

The challenges are important because both offer and demand are significantly growing in this sector of activity and private financial organisms and public institutions are getting more and more interested, in view of the results obtained by the sector in the recent years. The recently published report of the Department of Financial Supervision (Inspection Générale des Finances) proposes four concrete axes of action in order to reinforce the activity and improve the efficiency of the programmes: clarifying the definitions and contents of the offer, further developing the support services which considerably improve the clients' success chances, easing and simplifying guarantee mechanisms, and finally, inciting commercial banks to engage more strongly in the microcredit sector.

Sources: Rapport de l'Inspection Générale des Finances de décembre 2009 sur le microcrédit (Rapport n°2009-M-085-03).

Authors: Cesarea Brisbois and Stefanie Lämmermann, EMN.

Germany

Macroeconomic data

- Total population: 81,850 million (2009)
- Urban population: 74% (2009)
- GDP per capita: €29,400 (2009)
- Unemployment rate: 8.6% (2010)
- Population below the poverty line: 15% (2008)
- Population in a situation of financial exclusion: 3% (2007)

Sources: Bundesagentur für Arbeit, Statistisches Bundesamt Deutschland, Eurostat, INSEE, EMN.

Legal framework for microfinance and policy initiatives

The German banking sector alone is authorized to supply credits; this state of affairs obliges microfinance institutions to make agreements with banks in order to be able to grant loans. Besides this, public bodies - like (regional) Ministries - are allowed to disburse loans as a component of employment and economic development schemes.

Principal microfinance activity

- N° of survey participants: 16
- N° of loans disbursed 2009: 8,208
- Value of loans disbursed 2009: €147.8 million
- 2% of female clients; 1% of immigrant/ethnic minority clients

In Germany, the microfinance sector is developing. In the past, banks and public authorities showed relatively little interest in this type of activity. However, for about ten years, the interest of public authorities in this sector has been growing. We can notice significant and continual changes in products and institutions supplying microcredits. In recent years, several microfinance programmes have entered the market while others have withdrawn from it or changed their products and operations.

Today we can note three types of programs:

- Those of the regional and development banks, of which the most conspicuous is the KfW Mittelstandsbank (KfW) which, in particular, targets small and medium-sized enterprises; KfW supplies credit lines, guarantees 80 % of the loans granted by the banks (public banks, savings banks, cooperative banks and private banks) and fixed processing fees per loan disbursed (f.e. “KfW Startgeld”). In addition to investment finance, KfW Mittelstandsbank provides advice (“Gründercoaching Deutschland”) by regional institutions like chambers of commerce. Here starters and young enterprises can apply for grants to finance approved consultants.
- Those of private bodies, set up in business start-up centres, accredited by the German Microfinance Institute (Deutsches Mikrofinanz Institut, DMI); these private bodies operates as intermediaries and provide loans by the ethical-ecological GLS Bank within the framework of the German Microloan Fund. Beside approval of loan application, loan recommendation to the bank and ongoing client / loan monitoring, they often also provide companies with the necessary support and training. Their target groups are often economically disadvantaged areas and target groups. Basic principle of accreditation as a DMI-MFI is the participation at a quality and risk management system with a monthly analysis of portfolio of risk for all MFIs (DMI Benchmarking) and the participation at bimonthly workshops. The German Microloan fund started on January, 27, 2010 and supports the provision of loans to microenterprise starters and micro / small enterprises with a volume of € 100

Mio (€ 60 Mio by the European Social Fund and € 40 Mio budget fund of the Federal Ministry of Employment and Social Affairs). Beside risk covering for microloans, the fund grants at this time € 800 for each microloan, which MFIs can use to cover institution building costs. This helps to increase the number of MFIs and microloans (2006-2009: 12 MFIs and 521 microloans thereof 273 microloans in 2009; I. Quarter 2010: 15 MFIs and 270 microloans).

- Those of governmental or para-governmental bodies such as the ARGEs (local job centres resulting from an agreement between social services and the municipalities) that locally target financially and socially excluded persons such as immigrants and the unemployed.

Principal challenges

The sector is developing, even if microfinance is still a young activity. The lack of financing and the lack of means in general affect the activity overall, in particular that of the private bodies. This is a crucial point, particularly when considering that DMI-MFIs e.g. have to cover 20% of the default risk for which they have to set up a deposit account at the cooperating GLS Bank. Thus, the creation of the "Microloan Fund Germany" in 2010 and its financial support for MFI is an import step forward for the development of a microfinance sector.

Banks and microfinance institutions serve different clients. Therefore it is important to improve the provision of bank loans for bankable starters and SMEs on the one hand and nearly bankable microenterprise starters and very small and small enterprises on the other hand.

Concerning the second target group the general goal of the "Mikrokreditfonds Deutschland" is the disbursement of total 15,000 microloans until 2015. In order to reach this goal the "German Microfinance Institute" DMI and the affiliated microfinance institutions have to achieve increased professionalism to bring microfinance from small numbers into the mainstream (increase of outreach) and to establish more intermediaries (increase of MFIs). MFIs have a special need for improvement regarding the following topics: co-operation to boost outreach (multiplier); product-development; public relation / common DMI-branding; production /processes; building of competences / personal / qualifications; sources to finance cost of operations and raising liability / risk capital (20% of yearly loan sum).

To support this development, a transnational exchange project – support by the Federal Ministry of Employment and Social Affairs – started and is searching for cooperation with microfinance networks and practitioners in EU member states for the next two years.

Authors: Stefanie Lämmermann, EMN and Brigitte Maas, DMI.

Hungary

Macroeconomic data (Dec 2009)

- Total population: 10 million
- Urban population: 30%
- GDP per capita: €5.390
- Unemployment rate: 10,8%
- Population below the poverty line: 12%
- Population in a situation of financial exclusion: 34%
- % of microenterprises: 95%

Legal framework for microfinance and policy initiatives

Microcredit in Hungary microcredit has been provided by the Local Enterprise Agencies (or LEAs), which are the specialized units of the enterprise promotion foundations created with the financial and technical assistance of the EU PHARE programme since 1992. In 2000 the Hungarian Foundation for Enterprise Promotion (HFEP) launched the National Microcredit Programme through the LEAs, partly by centralizing the local microcredit funds of the LEAs. Since 2004, other non-bank institutions have also been providing microcredit. In 2005, started the Microcredit Plus Programme operated by the Hungarian Development Bank through the limited liability companies owned by the LEAs. In 2007, the JEREMIE programme was implemented in Hungary and branded New Hungary Microcredit Programme, disbursing credit through 52 intermediary agencies (including several commercial banks and savings cooperatives). However, over 97% of the amount disbursed the last 2 years was lent by 10 LEAs and MIFIN, a new organization founded by HFEP, with the share of LEAs in microcredit provision increasing gradually. In the last 14 months their total microcredit disbursement of LEAs exceeded each month the amount disbursed by all other organizations combined.

In terms of legislation Act XXXIX/2003 on the modification of Act CXII/1996 on lending institutions and financial enterprises, defines operational rules and conditions for microcredit provision by profit-oriented financial institutions. However, the microlending activities of the enterprise promotion foundations and any lending from the National Microcredit Fund,are exempted from this law, on the basis of Article 1 of this Act.

A significant part of commercial banks and saving cooperatives take part in the New Hungary Microcredit Programme, however their share in the disbursement of microcredit is minimal. Banks provide mainly regular loans to microenterprises without any counselling or mentoring.

Banks provide personal consumer loans provided as well as some other financial institutions (e.g. PROVIDENT) and informal credit providers (moneylenders) at very high interest rates. However, such activities cannot be considered as microcredit since they do not help in creation of microenterprises, emplyment or social inclusion.

Principal microfinance activity

- N° of survey participants: 22
- N° of active clients in Dec. 2009: 181,897
- N° of loans disbursed 2009: 10,402
- Value of loans disbursed 2009: €181.9 million
- 2.5 % of female clients; 0.33% of immigrant/ethnic minority clients

The local enterprise agencies in the counties and the capital cities that make up the Hungarian Microfinance Network are the most important actors of the Hungarian microfinance sector. **http://www.hungarian-microfinance.org.hu/**. The members of the Hungarian Microfinance Network, the local enterprise agencies in the counties and the capital city started their microfinance activities in 1992 with professional and financial support from the PHARE SME program. Since its inception, the LEA Network made over 29,000 loan contracts and dispersed over HUF 60 billion (ca. EUR 220-230 million) worth Microcredit and Microcredit Plus to microenterprises (up to autumn 2009), despite permanent lack of resources and shortcomings in central regulations which hindered their operation.

Other Microfinance institutions in Hungary, besides the LEAS, include Mikrohitel Zrt and Life Career Foundation, which also have microcredit programmes, although their microcredit portfolio is small and their activities are not exclusively oriented towards SME lending but also include lending to NGOs, or Inclusion lending. Mikrohitel together with Autonomia Foundation have managed a small pilot program based on the Grameen model for lending to Roma Communities in rural communities. Besides this, the Polgár Foundation for Equal Opportunities has just launched a new microcredit program targeting Roma communities with EU support, also based on the Grameen model. Constructions currently operated by the Hungarian Microfinance Network: In December 2005, after several years of professional debate, the Economy Minister, approved of most of the initiatives of the Hungarian Enterprise Promotion Network Consortium regarding the re-establishment of the Local Microcredit Funds and the rationalization of the National Microcredit Program, with the re-establishment in 2006-2007 of Local Microcredit Funds.

The Hungarian Enterprise Promotion Network Consortium developed a multi-stage microcredit system, with complementary products that is operated by LEAs members of the network, including:

- The Local Microcredit Program (with resources from Local Microcredit Funds)
- The National Microcredit Program (with resources from the National Microcredit Fund)
- The Microcredit Plus Program (with resources from the Hungarian Development Bank)
- The New Hungary Microcredit Programme: it was created from European Union funds within the framework of the Hungarian Economic Development Operative Programme (i.e. GOP) on the initiative of the JEREMIE programme. The funds for this programme are managed by Venture Finance Hungary Private Limited Company, which provides funding for microcredit, guarantees and venture capital funds. 12 LEAs, have been refinanced through this program for their microcredit activities.

Principal challenges for Microfinance in Hungary

- Enforcing professionalism of the sector and rationalization of the national Microcredit Program.
- Developing structures that are more suited to the target group of social and entrepreneurial microlending.
- Enforcing a more effective national co-ordination of training, monitoring and marketing services for microentrepreneurs.
- Access to alternative funding resources for the operation of the Local Microcredit Programs.
- Improving the efficiency and professional standards of the individual microfinance institutions up to a unified standard and homogeneous level.
- Developing further the JEREMIE Microcredit Program with a focus on entreprise promotion, taking into account the importance of counselling as well as financing programmes, and focusing on re-financing on specialized providers rather than spreading financing through a multitude of private financial operators, which are unable to reach microentrepreneurs and have little impact.

Sources used: KSG, DG Employment, The Microlending sector in Hungary, Microlending to SMEs by Istvan Kovacs, and studies written by Tibor Szekfu.

Authors: Istvan Kovacs, Hungarian Microfinance Network and Daniel Sorrosal, EMN.

Italy

Macroeconomic data (Dec 2009)

- Total population: 60.3 million (Oct. 2009)
- Urban population: 68% (2007)
- GDP per capita: €26,250 (2008)
- Unemployment rate: 8.6%
- Population living in relative poverty: 13.6%; absolute poverty: 4.9% (2008)
- Population in a situation of financial exclusion: 16%
- % of microenterprises: 94.9% of total enterprises; 47.7% of employees (2006)

Sources: istat.it; European Commission, March 2008, "Financial Services Provision and Prevention of Financial Exclusion".

Legal framework for microfinance and policy initiatives

There is a lack of a specific microfinance law, despite an increasing awareness amongst domestic practitioners of the need of a proper legal framework. Loan provision is regulated under the mainstream bank legislation: according to the D. Lgs. 385/1993, financial intermediation is mainly reserved to banks. Non-banking financial institutions may grant loans and provide payment services if registered under the article n. 106 with a minimum capital requirement of €600,000. Interest rates are limited by the law n. 108, 7 march 1996. The Bank of Italy records the average actual interest rates applied in the market for several financial services so as to determine which level represents usury. Interest rates cannot exceed the identified value increased by the half, unless they would be considered usurer and sanctioned.

Principal microfinance activity

- N° of survey participants: 32
- N° of active clients in Dec. 2009: 2,146
- N° of loans disbursed 2009: 1,909
- Value of loans disbursed 2009: €10.9 million
- 40% of female clients; 30% of immigrant/ethnic minority clients

One of the main consequences of the legal framework is that the activity of microloan provision in Italy often involves more than one entity: with the exception of commercial banks and authorized non-bank financial institutions, most of the Italian microcredit projects involve three entities:

1. **a promoter or mediator:** a public or private entity (often an NGO or a non-profit institution) that is rooted in the local context and often close to target groups, which is responsible for the selection process (collects information and documents from the potential client, conducts preliminary investigations, selects borrowers to be presented to the lender, provides them with guarantees directly or through a third party) and provides non-financial services and/or business development services. Promoters (or mediators) are identified as MFIs in the data collection process, as you find in the Italian database;
2. **a lender:** commercial banks and authorized non-bank financial institutions;
3. **a guarantor:** the promoter or a third subject (banking foundations, public agencies or *Confidi*) create a guarantee fund to secure the loan.

Principal challenges

One must take into account the above-described structure of the Italian model of microloans provision in the analysis of the data collected through the survey questionnaire. Some changes are requested to the Italian database in order to avoid data overlapping and the resulting overestimation of loan portfolios. More precisely, Banca Etica (a commercial ethical bank) and PerMicro (non-bank financial institution) are two survey participants allowed to lend money. Part of the lending activity (n° of loans and corresponding amounts) described by Banca Etica and PerMicro is managed on behalf of partner institutions (NGOs, associations, public agencies not allowed to grant loans by the law) that are the actual promoter of the microcredit project. As such PerMicro manages the whole lending activity of MicroProgress as well as part of Micro.Bo's lending. Banca Etica manages the lending of Caritas Diocesana Vicentina – Ass. Diakonia Onlus, Caritas Andria, Comune di Venezia, Caritas Diocesana di Andria, Fondazione La Casa and part of Progetto SMOAT.

Adjustments to the Italian database

Some adjustments to the Italian database were collected in the follow-up phase with some responding MFIs. Please take into account the following changes to data collected through the on-line database:

Loans disbursed by Microprogress

2008: 1 loan (value: €8,100);

2009: 18 loans (value: €98,500) – out of these: 7 to women (€21,850) and 15 to immigrant/ethnic minority entrepreneurs (€82,150), 4 to young entrepreneurs (€44,500) and 4 to start-up enterprises (€27,500).

Loans disbursed by Associazione micro.Bo Onlus:

2008: 23 loans (value €115,649)

2009: 6 loans (value of €43,193) - out of these: 3 to women (€25,000), 2 to immigrant/ethnic minority entrepreneurs (€10,000), 6 to young entrepreneurs (€43,193) and 6 to start-up enterprises (€43,193).

Authors: Maria Cristina Negro, Fondazione Giordano Dell'Amore and Fabrizio Botti, microfinance expert.

Portugal

Macroeconomic data (Dec 2009)

- Total population: 10.7 million (July 2009 est.)
- Urban population: 59%
- GDP per capita: $21,800 or about €16,000 (2009 est.)
- Unemployment rate: 9.2% (2009 est.)
- Population below the poverty line: 18% (2006)
- Population in a situation of financial exclusion: 17%

Sources: CIA World Factbook; Eurobarometer 60.2; Eurostat, News Release STAT/08/47, April 2008.

Legal framework for microfinance and policy initiatives

The main binding legislation in Portugal is the Legal Framework of Credit Institutions and Financial Companies (*Regime Geral das Instituições de Crédito e Sociedades Financeiras*). This law regulates the activities of credit institutions and financial enterprises, which are the only two that are able to grant credit on a professional basis. Financial enterprises do not have bank status and are allowed to lend but not to borrow. The Institutions concerned are commercial banks, state-owned and savings banks. There is no specific legislation for microcredit or microfinance institutions. There is also a lack of usury laws as well as a lack of regulations restricting the amount of interest an institution can charge.

Principal microfinance activity

- N° of survey participants: 2
- N° of active clients in Dec. 2009: 829
- N° of loans disbursed 2009: 454
- Value of loans disbursed 2009: €3.8 million
- 47.7% of female clients; 7% of immigrant/ethnic minority clients

Microcredit was introduced in Portugal in 1999 by the Associação Nacional de Direito ao Crédito (ANDC). This initiative was aimed at people excluded from the banking system, in particular those unemployed. ANDC hence searched for partners that would enable them to respond to financing needs. Presently, ANDC has signed protocols with three of the largest financial institutions in Portugal (Millenium bcp, Caixa Geral de Depósitos and Banco Espirito Santo). Another important partner is Instituto de Emprego e Formação Profissional (Institute for Employment and Vocational Training) that financially supports ANDC while also promoting employment. ANDC grants loans between €1,000 and €5,000 with convenient repayment schemes. It is also important to note that due to the necessity for microcredit in Portugal, Millenium bcp and Casa da Misericórdia de Lisboa created their own initiatives. Millennium bcp, the largest private financial institution in Portugal and partner of ANDC since 1999, has set up its autonomous network of microcredit in 2005. It is an exception for microcredit in Portugal as it is the only project that applies non-preferential interest rates.

Portugal has seen a significant shift in social policies since 1996, with the introduction of the Minimum Guaranteed Income and also due to a change in allocation of EU funds. There is now increased support and more incentives focused on the creation of employment and microentreprises. Especially in the current economic context with unemployment rates of more than 10%, microcredit is seen as an instrument to promote employment.

There are today a number of public entities that are working towards these goals. It is important to mention two in particular: Instituto de Emprego e Formação Profissional-IEFP (Institute for Employment and Vocational Training) and Instituto de Apoio às Pequenas e Médias Empresas-IAPMEI (Institute to Support Small and Medium-sized Enterprises). IAPMEI has implemented instruments in order to help microentreprises, focussing on both microcredit and micro risk capital.

In September 2009 the Government made an agreement with several banks in partnership with IEFP aiming to expand microcredit strongly (Microinvest). The goal is to create a National Programme of microcredit (PADRES), sponsored by the government in partnership with banks and private institutions and associations. In December 2009 the Portuguese government created new legislation that regulates microfinance institutions.

Principal challenges

There has been a slow but positive evolution of microfinance in Portugal, in particular in the last decade. This is largely due to better awareness of the issue and its complexity with respect to the entities more directly involved, whether they are public or from civil society. In spite of the existing incentives and the progress of the last years, there are still obstacles that remain in the path.

Presently only banks are allowed to lend money in Portugal. Since the beginning ANDC defended that it should be possible, in certain cases, to extend loans directly to the microentrepreneurs, as this is the case in France for example. To create the necessary conditions for the introduction of alterations to the Financial Institutions Regulation may, in the future and under specific conditions, allow the development of ethical financial institutions, a development that will bring financial, economic and social advantages to public administration. Since December 2009 specific regulation is under study and it will be presented and discussed during 2010. For bank microfinance providers, efficiency and cost management as well as tight risk management are important challenges.

Sources used: The Regulation of Microfinance in Europe (European Commission); Microfinance in Portugal: A Sparkling Activity, EMN Newsletter, July-Sept 2007; Manuel Brandao Alves, "Microcredit in Portugal", in: Handbook Of Microcredit In Europe Social Inclusion through Microenterprise Development, 2010.

Authors: Casey Conzett, Fundación Nantik Lum, Spain and Stefanie Lämmermann, EMN.

Romania

Macroeconomic data (Dec 2009)

- Total population: 21.6 million
- Urban population: 53.2%
- GDP per capita (2009): €10,300
- Unemployment rate: 7.8%
- Population below the poverty line:
  - Population below 1,25 UDS a day (extreme poverty): <2%
  - Population below 2 UDS a day (relative poverty): 3.4%
  - Population below the national poverty line: 28.9%
- Population in a situation of financial exclusion: NA
- % of microenterprises: 98.2% from the total number of enterprises registered, 88% from the total number of SMEs registered.

Sources: Human Development report-UNDP Romania 2009 (data related to the period 2000–2007); Law 346/2005 SMEs definition Ministry of Economy_ Agency for SMEs and cooperatives.

Legal framework for microfinance and policy initiatives

Microfinance institutions are recognized as part of the Romanian financial sector, the existing legal framework support sector development and its commercialization. The regulatory framework is mostly liberal, for instance, no limitations are set on geographical expansion or foreign investment and there are no usury rates or caps on interest charged. All MFIs have to be registered as Non Bank Financial Institution, are subject to the regulations in force for non-bank financial institutions and need to report to the National Bank, which registers and licenses the MFIs.

After the microfinance law was passed in July 2005, the Ministry of Finance and the National Bank of Romania created a full legal environment for the non-bank financial institutions which accelerated the commercialization of the sector. Law 93, approved by the Romanian Parliament in May 2009 is the current legal framework for all financial activities developed by leasing, mortgage, consume credit, and microfinance non-bank financial institutions.

Law 93/2009, as main legal document setting forth the principles under which non-bank financial institutions should conduct their activity, which:

- Defines the minimum capital requirements for non-bank financial institutions to develop microcredit activities: EUR 200,000;
- Establishes the specific environment for the organization and functioning of nonbank financial institutions: no interest caps, no deposits, transparency in costing, protection of clients, etc.;
- Defines the criteria based on which non-bank financial institutions should be monitored and supervised by the National Bank of Romania (Central Bank)

Source: National Bank of Romania - legal framework for NBFI.

Principal microfinance activity

- N° of survey participants: 10
- N° of active clients in Dec. 2009: 15,163
- N° of loans disbursed 2009: 3,493

- Value of loans disbursed 2009: €20.3 million (not including UNCAR)
- 24 % female clients; % of immigrant/ethnic minority clients: ND

The ten MFIs including the Credit Unions apex structure that took part in the survey, are registered as NBFIs and one of them, CAPA Finance, is in the process of transformation to a SME Bank: Patria Credit.

Out of these, seven are mature MFIs: Patria Credit, Express Finance, Good bee Romania, Opportunity Microcredit Romania, FAER, ROMCOM and LAM with more than 10 years of operations, operationally sustainable and more social-oriented, serving underserved entrepreneurs located rural and peri-urban areas in. Moreover, two new MFIs with less than 5 years of operations participated: Aurora credit and Fair Credit House, registered since the enforcement of the new legal framework for non bank financial services, more commercial, serving mainly clients from urban and peri-urban areas.

The Credit Unions apex structure UNCAR, with less than 10% of the portfolio related to microcredits funded Aurora MFIs in order to increase the microfinance operation.

Principal challenges

In 2007, when the Romanian MF sector reached operational sustainability and Romania was admitted as a member of the EU, the initial donors and founders withdrew from the MFIs, selling their shares or handing them over to the initial foundations, maintaining more a consultative position at the institution's Board.

The 700 million Euros estimated uncovered credit demand of the microenterprise sector underserved by the formal financial sector is, within the current liquidity crisis, the biggest challenge of the Romanian microcredit sector.

It is also a challenge that the innovative models developed by the mature MFIs prove to be sustainable and replicable at larger scale in Romania as well as in the other Eastern and Central European countries. In the following period, overcoming the difficulties faced by the sector in implementing its development strategies and vision, which are to serve the underserved entrepreneurs and contribute to the development of the sustainable microenterprise and poverty alleviation, supporting the enhancement of the triple bottom line impact of the microcredit: financial, social and environmental, improvement of MIS/IT infrastructure and staff performance and a improvement of the funding model to keep growing in an competitive market environment, is challenging the Romanian MF sector as well.

Sources used: Eurom Consultancy and studies- Benchmarking Romanian MF Sector 2008-2009; www.eurom-consultany.ro.

Author: Maria Doiciu, Eurom Consultancy and Studies.

Spain

Macroeconomic data (Dec 2009)

- Total population: 46.7 million
- Urban population: 67.52%
- GDP per capita: €22,886
- Unemployment rate: 18.83%
- Population below the poverty line: 19.9%
- Population in a situation of financial exclusion: 8%
- % of microenterprises: 98.7%

*Sources: National Institute of Statistics (Instituto Nacional de Estadística), La Población de España 1900 – 2009 Fundación BBVA, Eurobarometer 60.2, INE-DIRCE 2009, *2004 – INE Encuesta de Condiciones de Vida 2004.*

Legal framework for microfinance and policy initiatives

Thus far, no specific regulatory measures exist regarding microfinance and microcredit activity in Spain. There have been, however, widespread requests from social and financial institutions demanding a more well-established legal framework to accompany the increase in microcredit activity. At the national level, a usury law similar to that of other European countries exists that effects microcredit operations by regulating interest rates. The usury law dates back to 1908 (*Ley de represión de la usura, 2 de Julio de 1908*). In general terms, this law establishes that those loan contracts with an interest rate much higher than the market rate and disproportionate to the circumstances will not be valid, including in those cases where the interest rate has been accepted by the borrowers due to a strenuous situation, his/her inexperience or limited mental faculties (Bank of Spain, 2009a). At the regional level so far, it appears that only the Autonomous Community of Murcia has included specific mention of microcredit in its legislature. In October 2003, Murcia enacted Decree 166/2003 in an attempt to further regulate the Social Work of its savings banks. The decree established the granting of microcredit as a priority development area for Murcia's savings banks.

Principal microfinance activity

- N° of survey participants: 20
- N° of active clients in Dec. 2009: 9,786
- N° of loans disbursed 2009: 5,172
- Value of loans disbursed 2009: €46.6 million
- 40% of female clients; 45% of immigrant/ethnic minority clients

Most microfinance institutions began lending between the years 2005 and 2009. The primary focus of institutions is on social inclusion and the reduction of poverty as well as job creation (81%). 50% of respondents in Spain are listed as non-profit organizations. The target client profile that most institutions sought were immigrants and/or ethnic minorities, but also targeted those financially excluded from the system and women. In Spain, there is a limited offering of products and services which are primarily focused on lending to start or expand businesses. Loans for consumption, savings, insurance and the like have yet to catch on. The average effective interest rate charged to clients is 8.6% and a grand majority do not charge additional fees over and above this rate. Individual loans are the most common methodology with 88% of the loan portfolio based on individual lending for all responding institutions. Even though Spain has been severely affected by the economic crisis, the number of loans given rose from 7,386 in 2008 to 11,984 loans in 2009, counting for an increase of over 4,500 loans. However, the average loan amount decreased by almost a third – in 2008 the average loan size amounted for €9,504 and in 2009 that number fell to €3,976, perhaps representing the clients capacity and the subsequent effects of the economy on their borrowing capacity. The number of active clients also rose from 7,892 clients in 2008 to 9,786 in 2009, representing an increase of about 19% in one year. 8 in 10 Spanish microfinance institutions have been impacted by the recent economic crisis, with the greatest effects being felt in the late or default payment by the clients and the decreasing number of loans being approved. When asked about the most important future goals for Spanish institutions, 85% listed financial sustainability.

Principal challenges

Coordination, Networking and Training: institutions need to coordinate to increase efficiency and efficacy as well as to avoid duplicity, such as the organisation of workshops to discuss any issues, for example, an agreement on a singular definition for what will be considered "microcredit" in the Spanish context. Another challenge is the training and professionalization of employees and loan officers.

Financing: microfinance in rich countries is not financially sustainable, therefore attracting external funds in the form of grants and financiers willing to back mechanisms for reducing risk is indispensable.

Social Impact and Performance Measurement: a common methodology needs to be developed that establishes indicators, tracking and reporting methodologies, as in a European Mix Market system.

Sources used: Evaluación de las necesidades de fortalecimiento institucional de las Instituciones Microfinancieras Españolas by Bárbara Jayo and Alex Stein (pending publication).

Author: Casey Conzett, Fundación Nantik Lum, Spain.

Sweden

Macroeconomic data (Dec 2009)

- Total population: 9.3 million
- Urban population: 47%
- GDP per capita: €33,480
- Unemployment rate: 9%
- Population below the poverty line: 9.1% 2010[45]
- Population in a situation of financial exclusion: 2%
- % of microenterprises: 95% (As defined by Swedish standards, to qualify as a microenterprise the enterprise should have a total of 10 or less employees).

Sources: Statistics Sweden, Unit for Population Statistics; Swedish Tax Authorities (Skatteverket); Social Styrelsen http://www.socialstyrelsen.se/publikationer2010/2010-3-11; EMN http://www.european-microfinance.org/niveauxexclusions_en.php; Enterprise Association (Företagar Förbundet) http://www.foretagarforbundet.se; Newsletter 2, February 2009 from Ministry of Enterprise, Energy and Communications.

Legal framework for microfinance and policy initiatives

There is no established legal framework for microfinance. However, the organization MFI is currently in policy dialog with government concerning legal framework for microfinance.

Principal microfinance activity

- N° of survey participants: 4
- N° of loans disbursed 2009: 864
- Value of loans disbursed 2009: €18.8 million
- 42% of female clients; 30 of % immigrant/ethnic minority clients

In 2009, Sweden not only topped the economic ranking with a GDP per capita of €33,480, but also ranked high in the social classification with a HDI (human development index) that allowed it to be in 7th position worldwide. However, in this country with strong social values, certain individuals are excluded from access to formal financial services because they do not belong to the client groups targeted by financial institutions. The people excluded are found mainly among migrants and those wishing to start their own businesses. There is, therefore, a strong demand for microfinance in Sweden.

There are several socially-oriented financial institutions: the network of *savings banks*, the *JAK* (cooperative bank), *ALMI Företagspartner* (public support agency for very small businesses and SMEs) and *Ekobanken* (ethical bank).

However some individuals, especially the most vulnerable, are unable to find services tailored to their situation with existing financial institutions. This is the reason that some NGOs providing assistance and support services to excluded people have decided in addition to provide microfinance services to meet the growing demand. Among these organizations there is NEEM (for women from ethnic minorities) and Basta Workers' Cooperative (for the poorest and most vulnerable people such as ex-prisoners). Through a project created by NEEM (Network of Entrepreneurs from Ethnic Minorities), microfinance is now offered to immigrant women who are financially excluded from the banking sector.

The project Micro Finance Institute (MFI), is the only organization in Sweden that offer the entire spectrum of micro finance such as, business planning, business development, financial advice, and a three year follow-up. Most of existing financial services are offered to the target group to make them productive members of society. Loans are not given out by MFI due to structural and financial restraints. Instead private banks provide the loans as MFI is signed up as the guarantor for the loan. Up to Dec 2009, about 3 enterprises had been set up successfully with the services provided by MFI.

Principal challenges

The biggest challenges microfinance is facing in Sweden are structural and funding challenges. Since there is no established microfinance company yet, the Swedish banking structure have not yet adapted to the requests of MFI. However, a big demand exists and from the successful pilot project run by NEEM, policy dialog have been initiated and funding sources are being sought out. One principal challenge, the maximum amount of microloans that can be given has been relaxed in one MFI. ALMI has raised the ceiling for microloans from 10,000 Euro to 25,000 Euro in 2009, so microentreprenuers can have access to greater capital.

Author: Joyce Kimwaga Lundin, NEEM.

[45] To find oneself living in poverty in Sweden, one has to have an income less than 60% of the average income level. It should be noted that unlike the OECD, which has set a European poverty level of 50%, the Swedish Social Ministry has set a 60% standard. Total rate of the population who live in poverty are 9.1%. Sweden has categorized poverty into three groups with the poorest first: (1) Very poor – 25% less than the average poverty level, (2) Poor – average poverty level, (3) Limited income – 25% above average poverty level. The first group, very poor, consists of 1.9% of the total Swedish population. Second group, poor, consists of 5.5% of the total population. Third, the limited income group includes 14.1% of total population.

The Netherlands

Macroeconomic data (Dec 2009)

- Total population: 16,72 million
- Urban population: 49%
- GDP per capita: €29,200
- Unemployment rate: 5%
- Population below the poverty line: 10.5%
- Population in a situation of financial exclusion: 1%
- % of microenterprises: 38% - A microenterprise is defined as an enterprise with less than 10 employees and a turnover or yearly balance sheet of under €2 million.

Sources: Worldfacts Book (https://www.cia.gov/library/publications/the-world-factbook/index.html) and (http://europa.eu/legislation_summaries/enterprise/business_environment/n26026_nl.htm)

Legal framework for microfinance and policy initiatives

There is no special legal framework for MFIs in the Netherlands. Institutions legally registered (either foundations or private limited) are allowed to extend (micro-) loans as long as they do not offer savings facilities. There exist only limitations (interest caps) for consumer loans; interest rates for loans for economic purpose are not regulated by the Central Bank of the Netherlands and the Financial Market Support Authority. In the Netherlands, most MFIs offer their services at market rates (or with a small increase of 2 to 4%). Recipients of loans under the social security programme have access to lending at a lower rate (4% below market rates).

Principal microfinance activity

- N° of survey participants: 4;
- N° of active clients in Dec. 2009: 850
- N° of loans disbursed 2009: 572
- Value of loans disbursed 2009: €11.7 million
- 32% of female clients; 18% of immigrant/ethnic minority clients

In 2009 a total of 44 organisations extended 1,107 microloans. The two private NBFIs - Qredits and HandsOn - provided 555 microloans[38]. The 13 NGOs and municipal programmes with special target group focused microcredit programmes gave 333 loans in 2009. The national public programme extending comprehensive services (BDS and loans) provided 52 loans[39] and the pilot scheme with banks 129 loans[40]. Five municipal banks with microcredit programmes gave 43 loans[41]. No general bank had an explicit microfinance programme in 2009, but six banks had “hidden/ undisclosed” microlending activity[42]. Finally, there are twelve credit providers on the internet[43].

Principal challenges

The sector has developed dramatically in the past two years. In 2007, about 12 organisations reported to be active in microfinance[44] but none of these organisations had a portfolio of more than 20 clients per annum. The situation in 2009 tells us that the number of clients has increased significantly mainly attributable to one new NBFI; Qredits. This organisation started disbursing loans in 2009 and has shaken up the sector considerably.

There are some major changes taking place in the Dutch society and in the labour market:

1. Society is becoming more diverse ;

2. Lifelong employment and lifelong entrepreneurship are fading away;

3. More people want to become active citizens and do not accept to remain socially excluded.

Thus, new target groups for microcredit and microfinance emerge:

- The socially excluded look for ways to combine the social benefits with income generating activities;
- The young professionals look at self-employment not as a career, but as a temporary activity;
- The housewives and househusbands – even or maybe just those who have not been registered as "unemployed" – look for ways to initiate small economic activities that would allow them to generate additional income, albeit on a small scale;
- The part-time employed will look for ways to generate additional income through part-time self-employment and small economic activities.

Sources used: Microfinance and enterprising people…different markets with specific approaches..., Klaas Molenaar Professor in Microfinance and Small Enterprise Development INHolland University of Applied Sciences The Netherlands, 2010 (forthcoming – sec, ed.).

Author: André Woudenberg, Centrum voor Micro Finance & Small Business, INHolland Den Haag.

[38] Including 530 loans of one NBFI- Stichting Microkrediet Nederland , operating with trade name Qredits

[39] Source: Ministry of Social Affairs and Employment - 2010

[40] Source: Ministry of Social Affairs and Employment - 2010

[41] Source: Central Bureau of Statistics, 2010

[42] See also Triodos Facet (2005) – general banks not explicitly reporting on Microfinance but important player (personal loans, overdrafts, current account, mortgage loans)

[43] Only two specialising in micro finance products; others mainly offering consumer loans

[44] Estimates of Senter Novem, corrected by the Centrum voor Microfinanciering INHolland – Sept 2007 / 2009

United Kingdom

Macroeconomic data (Dec 2009)

- Total population: 61.4 million
- Urban population: 90%
- GDP per capita: 23,900 euros
- Unemployment rate: 7.8%
- Population below the poverty line: 19%
- Population in a situation of financial exclusion: 6%
- % of microenterprises - less than 10 employees: 97%

Sources: Office for National Statistics, UK Population Estimates (population figures 2008); EMN Country Information (urban population; GDP per capita) ONS Labour Market Bulletin, February 2010 (Unemployment); Poverty line: Eurostat, At-Risk-Of Poverty rate after social transfers, February 2010 (data for 2008); Population in situation of financial exclusion and GDP per capita from EMN country website; Office of National Statistics: UK Business: Activity, Size and Location 2009 / own calculation (% of enterprises).

Legal framework for microfinance and policy initiatives

There is no specific legislation for microfinance; community development finance institutions (CDFIs) cannot take deposits. To deliver personal loans, they (and other organisations, e.g. Credit Unions) need to hold need a consumer credit license from the Office of Fair Trading. Deposit taking institutions such as Credit Unions or banks have stricter regulations, but these do not relate to microfinance, but to deposit-taking. Credit Unions represent a very small proportion of personal lending in the UK, and, with a few notable exceptions such as ScotCash (a registered CDFI), they are run by volunteers.

There is no interest rate ceiling in the UK; social lenders have an average APR of 11.9 % for business loans and 27% for personal loans. This is much below the level (up to 2000% APR) charged by sub-prime lenders. A floating interest rate ceiling is under discussion, but is unlikely to be introduced before the next general election in May. This would be set at a level unlikely to affect affordable lenders.

In the past, the government has supported both business and personal lending from CDFIs (exceeding the microfinance threshold of €25,000) with operational and capital funds. The current programme called the Growth Fund targets personal lenders. Between 2008 and 2011, £32m will be made available to third sector lenders (CDFIs and credit unions). Enterprise lending CDFIs have not benefited from additional support since the economic crisis. The Small Firms Loan guarantee scheme was reformed to the Enterprise Finance Scheme to include loans of £1000, but the reforms, however, have resulted in reduced guarantee coverage, and from anecdotal evidence, the conditions are not helpful to CDFIs.

Principal microfinance activity

- N° of survey participants: 22
- N° of active clients: 3,102
- N° of loans disbursed: 880
- Value of loans disbursed 2009: €6.7 million
- 26% of female clients; 6% of immigrant/ethnic minority clients

Microfinance in the UK is delivered by Community Development Finance Institutions (CDFIs) which were set up on the mid-late 1980s to counteract capital flight from deprived areas. They initially were designed to give loans to existing or start-up local enterprises whose loan applications were rejected by banks but had a viable business proposition. From the beginning, loans exceeded the microfinance threshold of €25,000; the average loan size for all CDFI lending is €45,298 (All CDFIs reporting to the cdfa). As a consequence of this development, there is only a very small dedicated microfinance sector, and the distinction is mostly based on employment figures rather than loan sizes. Most organisations provide loans to companies of all sizes and loans of up to £150,000 (€163,500).

Exceptions to this are the EMN members Business Finance Solutions, Fair Finance, First Enterprise Business Agency, Foundation East, the PSYBT and WEETU. They use microfinance methodology and terminology. Of the six, PSYBT is the largest. In 2009, the loaned just over €2m in business loans to young people who cannot access loans from banks. Since they started lending in 1989, they've made 9.097 loans with a value of 34m. Their maximum loan size is €5,550, and the minimum loan size 550. Their average loan is €3,582.

The next largest providers are First Enterprise Business Agency and Business Finance Solutions with 157 and 127 active clients and average loan amounts of €14,231 and €19,423 respectively. Moreover, in London, Fair Finance has served 155 clients since 2005 to date, providing loans with a value of €634,642. It serves currently 82 clients, of which ca 20 are business clients and 62 are personal loan clients. They have no specific target population, but due to their area of operation, they attract a high share of ethnic minorities (79%). They lend a maximum of £10,000 (€12,000) in their business lending programme and a maximum of £2000 (€2,400) for personal loans. In 2009, they disbursed 38 loans with a value of €138,750.

Principal challenges

Organisations responding to the survey overwhelmingly stated that lack of funds for lending (13) and lack of an appropriate regulatory and legal framework (8) were the principal challenges for the future. This reflects the lack of recognition of especially microlenders in the UK as a separate market strand with its own particular challenges.

Sources used: CDFA Inside Out 2009; EMN additional questions UK survey; EMN Full survey; UK personal Lenders Survey.

Author: Veronika Thiel, Centre for Responsible Credit.

15 Summary of data

Sector Characteristics

Countries	Average loan size		Number of loans		Active clients[45]	
	2008	2009	2008	2009	2008	2009
Belgium	16.118€	17.029€	844	835	2.982	3.491
Bulgaria	7.926€	6.298€	5.040	2.637	6.012	3.248
Croatia	4.907€	6.250€	996	160	1.987	508
Finland	19.674€	19.058€	2.709	3.194	19.400	19.600
France	6.296€	4.959€	26.709	28.863	22.797	70.252
Germany	10.782€	10.214€	7.700	8.205	1.963	2.513
Hungary	13.826€	16.138€	6.990	10.402	2.046	2.589
Ireland	13.750€	14.545€	80	55	175	151
Italy	5.367€	5.875€	1.364	1.909	1.389	2.146
Latvia	1.375€	2.658€	60	149	60	63
Netherlands	4.000€	14.745€	16	572	13	541
Norway	7.963€	3.645€	43	6	-	-
Poland	3.811€	3.318€	17.760	16.655	1.422	1.769
Portugal	8.018€	7.811€	351	454	467	829
Romania	8.702€	6.837€	11.265	3.493	19.978	15.163
Spain	9.587€	8.279€	7.132	5.172	7.892	9.786
Sweden	16.667€	13.949€	913	864	1	8
Switzerland	13.875€	11.944€	16	18	30	56
United Kingdom	5.440€	9.623€	617	880	1.766	3.102

Institutional types		Loan Size by Institutional Type
Bank	5%	11.070€
CDFI	11%	11.379€
Credit Union/ cooperative	8%	8.054€
Government body	5%	15.852€
NGO or foundation	26%	10.948€
Non-bank Financial Institution	16%	8.340€
Other	23%	6.456€
Savings Bank	6%	9.144€

[45] It should be noted that there are some organisations that have responded to number of loans disbursed but not the number of active borrowers. This is the case for Germany (big provider), Hungary (big provider), Latvia, Norway, Spain and Sweden. There are also organisations that have responded more number of loans disbursed than number of active borrowers (e.g. in the Netherlands). In the case of Poland the difference is due to the fact that in number of loans disbursed Fundusz Micro is included but not in number of active clients.

Number of staff members	
0 to 5	64%
6 to 10	14%
11 to 20	7%
over 20	15%

Clients

Bankable	68.3%
Non-bankable	40.3%

Type of business supported	
Informal sector/unregistered businesses	24%
Entrepreneurs in the pre-start-up phase for feasibility studies, etc.	32%
Start-up enterprises	78%
Existing enterprises	62%
Registered businesses with less than 5 employees	55%
Registered businesses with 5-9 employees	45%
Other	15%

Clients specific targeting	
Rural population	32%
Urban population	38%
Unemployed people or people on welfare	32%
Women	44%
Ethnic minorities and/or immigrants	41%
Youth	29%
Disabled people	21%
People excluded from mainstream financial services	47%
No client-specific targeting	30%
Other	%

Client targeting of the institutions by country			
	Women	Ethnic minorities and / or immigrants	Youth
Belgium	25%	0%	25%
Bulgaria	56%	56%	38%
Croatia	100%	100%	0%
Estonia	100%	0%	0%
Finland	100%	0%	0%
France	33%	50%	50%
Germany	31%	25%	0%
Hungary	10%	0%	10%
Italy	27%	33%	18%
Latvia	50%	0%	50%
Netherlands	50%	50%	50%
Norway	50%	50%	50%
Portugal	50%	100%	50%
Romania	33%	22%	0%
Spain	80%	90%	60%
Sweden	75%	100%	75%
Switzerland	100%	100%	100%
United Kingdom	68%	50%	45%

Products and services

% microloans for entrepreneurial activity	
less than 5%	7,5%
5-25%	9,9%
25-50%	7,5%
50-75%	6,2%
more than 75%	68,9%

Fees charged by microlenders	
BDS fees	1%
Loan application fee	15%
Loan closing fee	9%
Loan processing fee	23%
Other	18%

Interest rate	
Belgium	4,7%
Bulgaria	14,3%
Croatia	11,0%
Estonia	7,0%
Finland	2,0%
France	4,8%
Germany	4,5%
Hungary	7,8%
Ireland	9,0%
Italy	3,7%
Latvia	6,0%
Lithuania	4,0%
Netherlands	8,3%
Norway	6,0%
Poland	17,0%
Portugal	3,0%
Romania	16,9%
Spain	8,6%
Sweden	6,7%
Switzerland	4,0%
United Kingdom	22,2%

Loan security	
Personal Savings	12%
Borrower contribution	13%
Peer Group Guarantee	25%
Guarantee	23%
Friend or Family	41%
Collateral	49%
Bank / public / EU Guarantee Programme	52%
No guarantee	59%

Business development services	
Yes, it is obligatory	20%
Yes, but only if a client asks for it	14%
Yes, in some cases we require it, in others not	20%
No, but we refer clients to organisations that do	27%
No	19%

Social Performance

Average loan size and mission statement	
Social inclusion and poverty reduction	8.031€
Microentreprise promotion	9.620€
Job creation	10.334€
Financial inclusion	11.732€
SME promotion	13.021€

Operational Performance

Operational self-sufficiency	
less than 60%	20%
60% to 100%	20%
over 100%	60%

Repayment rate	
Less than 80%	37%
81% to 90%	27%
91% to 100%	37%

Portfolio at risk rate	
0% to 5%	23%
6% to 15%	39%
16% to 25%	21%
over 25%	18%

Write-off ratio	
0% to 5%	69%
6% to 10%	14%
over 10%	17%

Debt / equity ratio	
0% to 2%	29%
3% to 10%	29%
11% to 80%	22%
81% to 100%	11%
101% to 200%	2%
over 200%	7%

Portfolio yield	
0% to 5%	53%
6% to 15%	23%
16% to 25%	14%
over 25%	9%

Operating expenses ratio	
0% to 5%	39%
6% to 15%	28%
16% to 40%	24%
over 40%	9%

Funding

Sources Operational and Financial Costs	
Public Sector	34%
Private Sector	42%
Earned Income	60%

Sources of Loan Capital	
Public Sector	50%
Private Sector	36%
Commercial Debt	19%
Own Funds	44%
Client deposits	24%

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17 Appendix - Survey Participants

	2008-2009	2006-2007	2004-2005	2002-2003
Austria	-	ÖSB Consulting GmbH	-	-
Belgium	BRUSOC	BRUSOC		
	Crédal	Crédal	Crédal	Crédal
	Fonds de Participation	Fonds de Participation	Fonds de Participation	Fonds de Participation
	Hefboom vzw	Hefboom vzw		
Bulgaria	MIKROFOND AD	MIKROFOND AD	-	-
	UNDP JOBS Project	UNDP JOBS Project	-	
	Ustoi JSC	Ustoi JSC	-	
	Nachala Cooperative	Nachala Cooperative		
	DSK ABV	Microcredit Guarantee Fund Project		
	Piraeus Bank			
	Russe Popular Kassa			
	Credit Group			
	Credible			
	BC Lending Ruse			
	"Primorska Popular Business Cooperative Organization"			
	Credit Coop Smilyan			
	Credit Coop Doverie			
	Credit Coop General Toshevo			
	"Cooperation MCCPAP-Stopanin x Haskovo"			
	Credit Coop Aetos			
Croatia	DEMOS	-	-	-
	NOA			
Estonia	Enterprise Women in Estonia (Etna)	-	-	-
Finland	Finnvera plc	Finnvera plc	Finnvera Plc	Finnvera Plc
France	Adie	Adie	Adie	Adie
	Groupe Caisse d'Epargne	Groupe Caisse d'Epargne	AIRDIE	AIRDIE
	CREA-SOL	AFILE 77		
	Crédit Coopératif	Société financière de la Nef		
	Credit Municipal de Paris			
	France Initiative			
Germany	Arbeitsförderung Kassel-Stadt GmbH	Arbeitsförderung Kassel Stadt GmbH	Arbeitsförderung Kassel Stadt GmbH	
	Behörde für Wirtschaft und Arbeit (Hamburg Kleinstkreditprogramm)			Behörde für Wirtschaft und Arbeit Hamburg
				Enigma Siebte Säule Microlending GmbH
	iq consult GmbH		EnterBusiness GmbH / iq consult GmbH	
				EXZET Existenzgründerzentrum Stuttgart e.V
		GLS Bank		
	Goldrausch e.V.			GOLDRAUSCH-Frauennetzwerk Berlin e.V
	GUM Gesellschaft für Unternehmens - beratung und Mikrofinanzierung mbH			
	Investitionsbank Berlin (Mikrokredit aus dem KMU-Fonds)	Investitionsbank Berlin		Investitionsbank Berlin
		Investitionsbank Schleswig Holstein	Investitionsbank Schleswig-Holstein	
	KfW-Mittelstandsbank	KfW Bankengruppe		
	Land Brandenburg			
				Landeshauptstadt München Referat für Arbeit und Wirtschaft
			L- Bank	
				Magistrat Stadt Kassel, Sozialamt, ProGES
	Mikrofinanzagentur Thuringen			

	Mikrofinanzzentrum NRW/ Niedersachsen - Brechmann Management GmbH	Mikrofinanzzentrum NRW/ Niedersachsen - Brechmann Management GmbH	Mikrofinanzzentrum NRW - Brechmann Management GmbH	
	MONEX Mikrofinanzierung	MONEX Mikrofinanzierung Baden-Württemberg e. V.	MONEX Mikrofinanzierung Baden-Württemberg e.V	
	MOZAIK innovative Beratung Eg			
	Regionale Wirtschaftsförderung Dahme-Spreewald			
			run - Rheinhessisches	
		Saarländische Invesitionskreditbank AG		
	Sächsische Aufbaubank			
	Senatorin für Arbeit, Frauen, Gesundheit, Jugend und Soziales	Senatorin für Arbeit, Frauen, Gesundheit, Jugend und Soziales	Senatorin fur Arbeit, Frauen, Gesundheit, Jugend und Soziales	
		Stadt Mainz - MiMi Mikrolending in Mainz Initiative		
	Westerwälder Initiative- und Betriebe-Netz e.V. “Feuerwehrfonds”	Westerwälder Initiative- und Betriebe-Netz e.V. “Feuerwehrfonds”		
Hungary	Bács-Kiskun Megyei Vállalkozásfejlesztési Alapítvány			-
	Baranya Megyei Vállalkozói Központ Alapítvány a Vidék Kis- és Középvállalkozásainak Fejlesztésére			
	Budapesti Vállalkozásfejlesztési Közalapítvány	Budapesti Vállalkozásfejlesztési Közalapítvány		
	Heves Megyei Vállalkozás- és Területfejlesztési Alapítvány			
			Hungarian Microfinance Network	
	Jász-Nagykun-Szolnok Megyei Vállalkozásfejlesztési Alapítvány			
	Kelet Gazdaságélénkítő Zrt.			
	KKV Fejlesztő Kft.			
	Komárom-Esztergom Megyei Regionális Vállalkozásfejlesztési Alapítvány			
	KRF Észak-Magyarországi Regionális Fejlesztési Zrt.			
		Magyar Vállalkozásfejelsztési Hálózat Konzorcium Nonprofit Kft.		
	Nógrád Megyei Regionális Vállalkozásfejlesztési Alapítvány			
	OTP Bank			
	Pest Megyei Vállalkozásfejlesztési Alapítvány			
	PRIMOM Szabolcs-Szatmár-Bereg megyei Vállalkozásélénkítő Alapítvány	PRIMOM Szabolcs-Szatmár-Bereg megyei Vállalkozásélénkítő Alapítvány		
	Progress Vállalkozásfejlesztő Alapítvány			
	Rakamaz és Vidéke Körzeti Takarékszövetkezet			
	Somogy Megyei Vállalkozói Központ Közalapítvány			
	Szigetvári Takarékszövetkezet			
	Tolna Megyei Vállalkozásfejlesztési Alapítvány			
	Vas Megye és Szombathely Város Regionális Vállalkozásfejlesztési Alapítvány			
	Veszprém Megyei Vállalkozásfejlesztési Alapítvány			
	Zala Megyei Vállalkozásfejlesztési Alapítvány	Zala Megyei Vállalkozásfejlesztési Alapítvány		
Ireland	First Step Microfinance	-	First Step Microfinance	First Step Microfinance
Italy	Associazione Diakonia Onlus	Associazione Diakonia Onlus		-
	Associazione Micro.Bo	Associazione Micro.Bo Onlus	Associazione Micro.Bo	
	Associazione Progetto SE.ME.	Progetto Seme		
	Banca Popolare Etica		Banca Popolare Etica	
	Caritas Andria			
	Caritas Dicesana Vicentina - Diakonia Onlus	Caritas Diocesiana Vicentina-Ass.Diakonia Onlus		
	Caritas Diocesana di Agrigento			
	Caritas Diocesana di Gorizia			
	Caritas Diocesana di Reggio Emilia e Guastalla			

	Caritas Diocesana di Trento			
		Caritas Italiana		
		Compagnia Del SS. Sacramento - Caritas Reggiana		
	Compagnia di San Paolo		Compagnia di San Paolo	
	Comune Di Torino	Comune Di Torino		
	Comune Di Venezia	Comune Di Venezia		
			Dieci Talenti	
		Ecipar Emilia Romagna Scarl		
	Emilbanca			
	Essere - Fondo di Aiuto Sociale	Fondo Essere		
		Fondazione Anti Usura Crt		
	Fondazione Antiusura “Padre Pino Puglisi - O.N.L.U.S.”	Fondazione Antiusura “Padre Pino Puglisi - O.N.L.U.S.”		
	Fondazione Cassa di Risparmio Carpi			
	Fondazione Cassa di Risparmio Pistoia e Pesci			
	Fondazione Don Mario Operti ONLUS	Fondazione Don Mario Operti ONLUS		
	Fondazione Giovanni dalle Fabbriche			
	Fondazione La Casa Onlus	Fondazione La Casa Onlus		
	Fondazione Lucana Antiusura M. V. Cavalla	Fondazione Lucana Antiusura M. V. Cavalla		
	Fondazione Risorsa Donna	Fondazione Risorsa Donna	Fondazione Risorsa Donna	
	Fondazione San Carlo ONLUS			
		Fondazione San Giuseppe Moscati Onlus		
		Fondazione Antiusura “San Matteo Apostolo”		
		Fondazione S. Maria del Soccorso Catanzaro		
	Fondazione Santa Maria del Soccorso di Genova	Fondazione Santa Maria del Soccorso di Genova	Fondazione Santa Maria del Soccorso di Genova	
	Fondazione SS. Simplicio e Antonio			
		Fondazione Toscana Per La Prevenzione Dell’usura - ONLUS		
	Le piaggie - Cooperativa Sociale Il Cerro			
	MAG2 Finance		MAG2 Finance	
		Mag 4 - Piemonte Società Cooperativa		
	Mag Soc. Mutua per L’Autogestione (Verona)		Mag Soc. Mutua per L’Autogestione	
			Magvenezia Soc. Cooperativa	
	Micro Progress Onlus			
	Microcredito Siena Di Solidarietà Spa	Microcredito Siena Di Solidarietà Spa		
	PerMicro	PerMicro		
	Progetto SMOAT	Progetto SMOAT		
		Sviluppo Lazio S.P.A.		
		Terre In Valigia Servizi - Fondazione Di Venezia		
Latvia	Mortgage and Land Bank	-	-	-
	Latvia Rural Women Association			
Lithuania	Ministry of Economy	-	-	-
	INVEGA			
The Netherlands		GKB Drenthe	-	-
	HandsOn Microkrediet Nederland	HandsOn Microkrediet Nederland		
		Kredietbank Utrecht		
	Kunstenaars&Co			
		Materiaalfonds voor Beeldende Kunst en Vormgeving		
	Microkredietfonds Amsterdam			
	Qredits			
		Senter Novem		
		STASON		
Norway	Nettverkskreditt BA (Network Credit Norway - NCN)	-	Nettverkskreditt BA (Network Credit Norway - NCN)	Nettverkskreditt BA (Network Credit Norway - NCN) with its loan Fund Microinvest
	Cultura Bank			
Poland	Inicjatywa Mikro		Inicjatywa Mikro	-
		Rural Development Foundation	Rural Development Foundation	
			Foundation for the Development of Polish Agriculture (FDPA)	
Portugal	Associação Nacional de Direito ao Crédito – ANDC	Associação Nacional de Direito ao Crédito – ANDC	Associação Nacional de Direito ao Crédito – ANDC	Associação Nacional de Direito ao Crédito – ANDC
	Millenium Bank			

Romania	Express Finance Institutie Financiara Nebancara S.A.	Express Finance Institutie Financiara Nebancara S.A.	-	-
	FAIR CREDIT HOUSE IFN S.A.			
	GOOD.BEE ROMANIA IFN S.A.			
	OPPORTUNITY MICROCREDIT ROMANIA IFN S.A.	OPPORTUNITY MICROCREDIT ROMANIA IFN S.A.		
	PATRIA BANK (former CAPA Finance IFN)	SC CAPA FINANCE IFN S.A.		
	S.C. DE MICROFINANTARE AURORA IFN S.A.			
	S F Rurala FAER IFN S.A.	S F Rurala FAER IFN S.A.		
	IFN ROMCOM S.A.	IFN ROMCOM S.A.		
	SOCIETATEA DE FINANTARE RURALA LAM - I.F.N. S.A.			
	UNCAR (Romanian Credit Union)			
Slovakia	-	Integra Foundation	Integra Foundation	-
			Voka Slovakia	
Spain	ACAF			
	Acció Solidaria Contra l'Atur		Acció Solidaria Contra l'Atur	
	AD Molinos			
	Asociación Grupo de Apoyo a Proyectos			
			Asociación Tierra Nueva/ Fundación Valdocco	
			Agencia Desarrollo Local Ayuntamiento de Alcoy	
	Ayuntamiento de Collado Villalba			
			Ayuntamiento de Sabadell- Promicio Economica de Sabadell S.L.	
			Ayuntamiento de Santa Lucia de Tirajana	
	Barcelona Activa			
		BBK Gazte Lanbidean Fundazioa		
	BBK Solidarioa Fundazioa	BBK Solidarioa Fundazioa	BBK Solidorioa Fundazioa	
	Fundación Caixa Catalunya	Fundación Caixa Catalunya	Fundación Caixa Catalunya	Fundación Caixa Catalunya
	Caixa Galicia	Caixa Galicia	Caixa Galicia	
	Caixa Sabadell			
			Caja de Ahorros de Gipuzkoa San Sebastian - Kuxta	
		Caja de Ahorros de la Inmaculada de Aragón	Caja de Ahorros de la Inmaculada de Aragon	
			Caja de Ahorros de la Rioja	
		Caja de Ahorros de Valencia, Castellón y Alicante - Bancaja		
			Caja de Ahorros de Zaragoza, Aragon y Rioja - Ibercaja	
	Caja de Ahorros del Mediterraneo (CAM)			
	Caja de Baleares "Sa Nostra"			
			Caja Duero (dpto. Banca Universal)	
		Fundación CajaGranada Desarrollo Solidario	Fundacion CajaGranada Desarrollo Solidario	
	Caja Sol			
			Cámara de Comercio de Girona - Chamber of Commerce	
			Cámara de Comercio de Peru in Spain	
	Colonya Caixa Pollença	Colonya Caixa Pollença	Colonya-Caixa de Pollenca	
			Consorci de Promoció Econòmica de Lleida	
			Cruz Roja Espanola	
			Empresa Municipal per al a la Formacio Ocupacional	
	Federacion de Mujeres Progresistas			
			Fundació Privada Trinijove	
	Fundación Economistas Sin Fronteras			
			Fundacion Genus	
			Fundacion International de la Mujer Emprendedora - FIDEM	
	Fundación Magdala			
			Fundación Mujeres, Spain	
	Fundación Secretariado Gitano			
			Interarts	
	Microbank La Caixa	Microbank La Caixa	Microbank La Caixa	
	MITA ONG		MITA ONG Centro de Desarrollo de Iniciativas Empresariales	
			Organizacion de Mujeres Empresarias y Gerenicia Activa (OMEGA)	

			SECOT, Seniors Esponoles para la Cooperacion Tecnica	
			Transformando Sociedad Cooperativa Madrid	
			Union de Asociaciones de Trabajadoras Autonomas y Emprendedoras	
			Women's World Banking - Banco Mundial de la Mujer	Fundacion Laboral WWB en España
Sweden	ALMI Företagspartner AB	-	ALMI Företagspartner AB	ALMI Företagspartner AB
			Ekobanken Medlemsbank	
	NEEM - Sweden			
	Roslagen Sparbank - Sweden			
	Sörmlands Sparbank - Sweden			
Switzerland	Microcrédit Solidaire Suisse (formerly known as Fondation Asece – Georges Aegler)	Fondation Asece – Georges Aegler	Fondation ASECE - Georges Aegler	
United Kingdom	ART (Aston Reinvestment Trust)	ART (Aston Reinvestment Trust)	ART (Aston Reinvestment Trust)	
				Aspire Microfinance
	Black Country Reinvestment Society Ltd	Black Country Reinvestment Society Ltd	Black Country Reinvestment Society	
			Blackpool Moneyline	
	Bristol Enterprise Development fund Ltd			
			Business in Prisons	
		Capitalise Business Support	Capitalise Business Support Ltd	
	Coventry and Warwickshire Reinvestment Trust			
			Derbyloans	Derby Loans
			Developing Strathclyde	
	DSL			DSL
				East End Microcredit Consortium
		East Lancs Moneyline	East Lancs Moneyline	East Lancs Moneyline
			East London Small Business Centre	
	Fair Finance	Fair Finance	Fair Finance	
	First Enterprise Business Agency Loans East Midlands	First Enterprise Business Agency	First Enterprise Business Agency	
	Foundation East Limited			
			Fredericks Foundation	
			GLE One London	
		Gloucestershire Development Loan Fund Ltd	Gloucestershire Development Loan Fund Ltd	
	Goole Phoenix Loan Fund			
				Head for Business
				Incredit
	Innovative Finance (Hastings Trust)			
	Key Fund Yorkshire			
	Leicester Shire Moneyline (IPS) Ltd			
	Moneyline Yorkshire (IPS) Ltd			
			Norfolk and Waveny Enterprise SVS	
	Northern Pinetree Trust trading as Spirit of Enterprise			
		NWES Advance		
	PRIME			
	Prince's Scottish Youth Business Trust (PSYBT)		The Prince's Scottish Youth Business Trust (PSYBT)	
	Salford Moneyline			Salford MoneyLine
			Senet Ltd	
		Southcoast Moneyline	Southcoast Moneyline	Portsmouth Area Regeneration Trust (now known as South Coast MoneyLine)
	South West Investment Group			
		Street Cred / Quaker Social Action		
			Street Northeast	
	Street UK			Street UK
			Suffolk Regeneration Trust	
	The Enterprise Fund Ltd	The Enterprise Fund Ltd	The Enterprise Fund Ltd	The Enterprise Fund Ltd
		The Five Lamps Organisation	The Five Lamps Organisation	
	WEETU	WEETU	WEETU	WEETU

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MICROCRÉDITOS PARA EL DESARROLLO

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