Overview

of the Microcredit Sector in the European Union

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September 2014

European Microfinance Network (EMN)

2012-2013

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Content

Foreword

By learning more about the current scale and nature of microfinance's activities in Europe, we are in a better position to identify and meet the needs of the sector and help it to meet its objectives. The pan-European survey of microfinance providers has therefore been carried out on a biennial basis since 2004. The survey covered 32 micro-lenders (organisations that actually disburse the loan) in 10 European countries in 2004, 89 lenders in 15 countries in 2006 and 94 institutions in 21 countries in 2008, 170 institutions in 21 countries in 2010, 154 institutions in 25 countries in 2012 and 150 institutions from 24 countries in the current edition.

This evolution shows that 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 renovation of the initiatives in support for the sector by the European Commission in the framework of the Programme for Employment and Social Innovation (EaSI) 2014-20.

The results of the overview show that the demand has never been so high for Microfinance in Europe (more than 400,000 microloans for a total value of €1.5 billion in 2013), but also that the industry has become more professional to meet this demand: behind the figures, there are in fact men and women who are willing to take their future by themselves with the help of microfinance institutions.

This 6th Overview of the Microcredit Sector in the European Union has been coordinated by evers&jung (Germany) on behalf of EMN. Nevertheless, this project would not have been possible without the collaboration of a big number of EMN members with the support of other external organizations. With the application of the EMN 2013-17 strategy, our organization has been increasing still further the collaboration and the knowledge-share within the sector and opening it to new ways of working from outside.

Like Microfinance itself, the overview of the sector has been constantly evolving since its first edition in 2004. On this occasion, the study has been further simplified in order to obtain less but more relevant conclusions. At the same time, the data showed are totally aligned with the current international standards.

The main purpose of this overview is 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 its impact and the diversification of its funding sources. Through this study, EMN will be in a better position to influence the regulatory framework for the development of microfinance at a European level.

We want to give thanks to all the organizations that have collaborated in the preparation of this study and we really hope that the conclusions and the different analysis carried out will help in the development of the microfinance sector in Europe.

The EMN Board of Directors

Preface

The "Overview of the Microcredit Sector in the European Union" has established itself as a key publication for the European microfinance market. It provides useful statistics for policy makers, transaction managers and market researchers alike. It also tracks the evolving nature of European microfinance and gives some perspectives as to what can come next in terms of market development. Therefore, we are happy to continue support for this publication and provide an updated and enhanced overview.

As a manager of the Progress Microfinance Facility on behalf of the European Commission (DG Employment), we have come to play an active role in support of the development and scaling-up of the European microfinance market over the last couple of years. We have been in contact with a large number of potential cooperation partners across the EU-28, seen a wide range of different business models and intermediary types, and aimed to provide funding and loss coverage solutions that fit the scattered picture of the European microfinance market. Simultaneously, we have tried to establish certain standards for financing agreements, encouraged transparent and fair microloan pricing, and stressed the importance of various business support services complementary to micro credit provision. Moreover, we promote the ideas underpinning the European Code of Good Conduct for Microcredit Provision – the findings presented in this report show increased awareness of the Code among MFIs, are in line with our efforts - and we agree with the statement that further efforts are needed to increase the willingness to implement the Code.

The lessons learnt to date will be factored into the successor of the Progress facility under the new Programme for Employment and Social Innovation (EaSI). Although the financial instrument range will become more focused and provide additional support in particular, social inclusion lending will also remain in focus in the 2020 perspective. Self-entrepreneurship is certainly one viable route out of unemployment. Microfinance has an important role to play in that respect – and available data in this report indicate its substantial employment impact. Even though the funding conditions for micro-enterprises change over time, the evidence still hints at significant funding gaps in many EU countries. Also, in general, micro-enterprises face harsher conditions than SMEs. Furthermore, across the EU, there are many countries with increasing trends for the share of the population at risk of poverty and unemployment rates among young people remain at very high levels. It is, therefore, likely that the support to vulnerable micro-borrower groups envisaged under EaSI will have a high impact in the foreseeable future.

EU-wide microfinance schemes need to establish synergies with other microfinance initiatives set up at national or regional level, e.g. backed by government funds or structural funds. Also, and increasingly important, crowding-in of private funding providers is needed to build a sustainable eco-system for the European microfinance market. For the design of efficient public support schemes, in-depth information is essential. In this context, we think that this "Overview of the Microcredit Sector in the European Union for the Period 2012 – 2013" plays a very important role as a valuable source of information.

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Executive Summary

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

In this new iteration of the EMN Overview survey report, MFIs from 24 countries took part. In total, 150 out of 447 MFIs that were contacted[1] provided data to the survey, translating to an overall response rate of 34%. Although this represents a decrease compared to the response rate of the previous survey, the absolute number of responses remained stable.

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

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

1 Compared to the previous survey, 60 additional MFIs were identified and contacted in this survey round. The total number of organizations active in microfinance can only be estimated between 500 and 700 entities, not taking into account credit unions and commercial banks, which provide loans below 25,000 EUR for entrepreneurial means as part of their standard loan provision. Exact numbers of the scale of microcredit provision by commercial banks are not available, since these institutions serve microcredit clients as a mere sub-set of their regular clients. That is why they are not able to deliver robust numbers about their provision microloans in Europe.

reporting to the survey remained the same or decreased compared to the last iteration of the survey).

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

Thirdly, the average loan size increased, reaching a level similar to that observed in 2009 for the covered EU member states. The average volume of loans disbursed in 2013 was 8,507 EUR (2011: 5,135)[2]. In the covered EU member states the average volume was 9,234 EUR, which is an increase compared to the results from the previous edition (2011: 7,129 EUR, 2009: 9,641 EUR).

Key findings scale and development:

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

Institutional diversity in types and missions prevails

The survey results show that the institutional diversity in the sector is still high. Non-Governmental Organizations (NGOs) or foundations, non-bank financial institutions (NBFIs), governmental bodies, savings and commercial banks, credit unions, cooperatives, Community Development Financial Institutions (CDFIs), microfinance associations, and religious institutions are active in microcredit provision in Europe and are represented among the MFIs surveyed. The distribution in the year 2013 among the institutional types shows that the highest shares of institutions surveyed are NBFIs (29%) and NGOs or foundations (23%), accounting for more than half of all surveyed organizations. While the share of NGOs and foundations is similar to the share identified by the last survey in 2011 (22%) the share of NBFIs in the sample rose compared to 2011 (20%). The prevalence of both institutional types is observable as well in the sub-groups of small, medium and large MFIs.[3]

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

Key findings institutional types and missions:

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

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

The impact of European microfinance on employment is hard to measure since most European MFIs do not regularly track how many jobs are created or saved by their activity. As a proxy, the reported number of supported enterprises and startups is used here, which needs to be interpreted cautiously. The survey shows that in 2013, a minimum of 121,270 microenterprises and start-ups were supported by the surveyed organizations, resulting in an approximate impact of at least 250,000 jobs throughout Europe.[4]

2 For further analysis the average loan size per country has been deflated by the GNI per capita (per country) to correct for national income differences. This measure is then used to identify the notion of targeting disadvantaged groups in the countries (see e.g. Cull et al. 2007).
3 The size is based on the number of loans provided.
4 The underlying assumption of an average number of two jobs created/preserved in the supported microenterprises and start-ups is based on available data on the employment effect of micro-lending to microenterprises in France (see Balkenhol and Guézennec (2014)) and the average number of employees in European microenterprises (see Gagliardi et al (2013).

The availability of data on the outreach of European MFIs to specific target groups and social performance indicators also remains limited. The results of the survey indicate that women continue to be underrepresented as a target group (compared to the gender balance in the total population), although to a lesser extent than in the previous years. In 2013, roughly a third of all surveyed organizations offered information about the share of loans to women. Forty-one percent of all microloans distributed by these organizations were given to women, an increase of 3% compared to 2011 and 14% compared to the survey in 2009. Information on the outreach to ethnic minorities and immigrants[5] is even scarcer. The available information indicates that the share of loans to this target group of microfinance increased among the MFIs surveyed compared to 2011 (18% vs. 12%).

Key findings outreach:

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

Transparency on the rise

One of the main efforts of this iteration of the EMN survey was to increase the overall transparency of the sector's developments and to support the MFIs to provide more and higher quality performance data.[6] As a result, the survey shows overall higher response rates for specific and important indicators, which leads to a broader picture of the situation in the sector and thus, to more transparency and knowledge about the sector. For example, the response rate for the portfolio quality indicators increased significantly, e.g. the response rate increased to 63% of the MFIs surveyed compared to 41% in the previous survey round. The same is true for basic financial performance indicators, e.g. the response rate for portfolio yield increased by 14 percentage points.

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

Key findings transparency:

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

Financial performance and sustainability still a complex issue

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

The total value of the microcredit portfolio affected by overdue loans for more than 30 days was lower for both 2012 and 2013 (2012: 12.8%, 2013: 13.1%) compared to 2009 (16%), although a bit higher than in 2011 (12%). Nevertheless, this illustrates an ongoing positive trend in the microloans sector, as institutions with lower portfolio at risk have lower impairment loss expenses and higher return on assets. Although the overall situation for portfolio at risk shows a positive evolution, PAR30 remains quite high in some of the covered countries.

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

5 For the purpose of this survey, "ethnic minority" refers to those individuals who are not a member of the national majority ethnic group. They may come from migrant, indigenous or landless nomadic communities. Immigrants are those individuals, not born in the country of residence. This definition was highlighted in the online survey tool.

6 Therefore, the size of the questionnaire (related to the questions asked) was significantly reduced and focused on the most important key indicators. This was also ensured by a quality check loop of the questionnaire with a representative of the Mix Market initiative.

Key findings financial performance and sustainability:

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

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

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

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

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

The growth of microfinance operations also invites closer scrutiny by funders and policy makers on both the EU and national level regarding MFI financial and social performance. Consequently, a concentrated effort by MFIs, funders and policy makers is necessary to produce suitable transparency in this regard. As a result, this iteration of the overview survey put an emphasis on the issue of more transparency (see above). The same is true for the pilot implementation project of the EU Code of Good Conduct, which was introduced by DG Regio after the publication of the previous version of the overview survey report. The vision behind these efforts is to implement a transparent and central tool/platform for the European microfinance sector similar to the Mix Market[7]. Related to the promise of creating jobs and supporting financial inclusion, it is necessary to increase knowledge about the social impact of the microfinance activities in Europe. Therefore, quality datasets apart from the overview survey (i.e. not supply-oriented, but based on microfinance clients' data) is needed, which would enable policy makers, the European Microfinance Network and the sector, i.e. the MFIs, to demonstrate the impact microfinance can supply to the objective of job creation and financial inclusion. The same debate has already occurred in the international microfinance sector.

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

The general public support for microfinance provision is expected to decline in the coming years, due to budget restrictions and high deficits at national and regional levels. MFIs are attempting to prepare for this by developing more efficient and lean processes and reducing costs. To address these challenges, the ongoing digital transformation of the economy offers several opportunities, but creates some challenges to the European microfinance sector as well. Challenges include new competitors such as crowdfunding and crowdlending platforms, which cater to similar target groups as existing MFIs. Nevertheless, the opportunities of these societal changes are substantial, as the new competitors can also be seen as complementary actors or pioneers for new tools and ways to address the target groups of microfinance. Recent examples include new providers for mobile payment solutions,

7 For more information please see here: http://www.mixmarket.org/.

providers offering credit scoring via social media data or digital lending clubs among friends, which can be easily scaled up online. The most relevant market and business opportunities for microfinance providers are: new online application tools, scoring measures, repayment solutions and business development measures to support microenterprises with low digital threshold approaches. From our perspective, we believe it's necessary that European MFIs and the EMN continue to discuss the opportunities of this development and establish strategic partnerships with actors from this field.

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

Key findings future challenges:

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

Introduction 1

With the development and increasing outreach of the European microfinance sector, the political and public attention for the sector has increased in recent years. This complements public support measures, as the European Commission (EC) and the EU member states have provided a substantial amount of funding and other support through instruments like JASMINE[8], the European Progress Microfinance Facility (EPMF) and the allocation of structural funds to support the provision of micro-credit. The same is true for support by national public actors.

Simultaneously, the public sector is increasing its expectations and goals from the microfinance. Initially, these are attributable to higher outreach of the microfinance sector and impact on job creation, e.g. in terms of youth unemployment in the Southern European states and financial inclusion due to the impact of the financial crisis on traditional financial markets. To succeed in these endeavours, there is a need to develop the existing microfinance sectors in European countries and especially encourage the sustainability of microfinance institutions (MFIs). Previous research[9] has already identified the development of economically sustainable institutions as one of the major difficulties for the development of the sector.

Therefore, the EMN overview survey report aims to advance this progress by creating insights about the development of the market and sector, the characteristics and the performance of its organizations. By doing so, the report provides for the sixth time reliable and comparable data of the European and more specifically the EU microfinance sector. The key audience consists of policy makers and investors at the European, national and regional levels. Other stakeholders such as academics, consultants, journalists and practitioners of MFIs are increasingly interested in quantitative data of the sector to benchmark the various lending approaches among peer groups. Existing online data hubs like MIX Market mostly cover the international microfinance sector, but leaves out information regarding the majority of MFIs in the EU.

With that in mind, Evers & Jung facilitated the sixth edition in 2014 – the second iteration after the 2010-2011 version by Evers & Jung - of the EMN survey covering the time period 2012 – 2013. The main objective of this edition is to further improve the structure and quality of the questionnaire. One change was to shorten and emphasize the most relevant indicators to improve not only the outreach but also the quality of the data filled in by the participating organizations, thereby increasing the usability of this exercise for MFIs. To ensure this, the EMN crosschecked the developed questionnaire with the expertise of the MIX Market experience of data collection at the global level.

In respect to the content, the survey provides a consistent picture of the various microfinance activities, market segments and MFI activities to compare the performance of European MFIs based on their organizational forms that characterize the sector. By doing so, another request was to improve the transparency of the sector, especially in respect to portfolio quality, profitability and cost structure. This was mainly achieved by significantly improving the response rate for these indicators. Furthermore, this edition –as in the fifth edition – widely covered Non-EU member states in Eastern Europe including all potential EU candidate states.

8 JASMINE (Joint Action to Support Microfinance Institutions in Europe) is a technical assistance initiative developed by the EC, the European Investment Bank (EIB) and the European Investment Fund (EIF) to provide effective support for the promotion of microcredit in the EU.
9 See for example Jung et al. 2009.

2

Survey Approach

This is the sixth edition of the Pan-European overview report on the microcredit sector in the EU for the Period 2012 – 2013[10]. As done in previous iterations, the basis of this report is the conduction of an exhaustive survey among active micro-lending institutions.

It is important to note that the survey is not a complete inventory count of all microfinance activities; we identified a large portion of all existing MFIs, but cannot ensure that we contacted every MFI that exists in Europe. Furthermore, in this new iteration of the EMN Overview survey, MFIs from 24 countries took part; in total, 150 out of 447 MFIs that were contacted[11] provided data to the survey, corresponding to an overall response rate of 34% (see Table 1). Even though this represents a major decrease compared to the response rate of the previous survey, the absolute number of responses stays the same. Within the survey, all listed institutions were contacted using a non-random sampling approach. Due to this data collection approach, the representativeness of the data is limited to estimate the size of the total European microfinance market. Due to this fact, these 150 MFIs represent only an extract of the overall microfinance market in Europe and each of the covered countries. Therefore, the results we present here should be interpreted and used cautiously, especially in respect to the generalization for the total European sector.

Nevertheless, it is important to note that the majority of the MFIs were not able to fill out the whole questionnaire, leading to lower response rates for specific questions, especially for the more complex or time consuming questions (e.g. portfolio at risk). This is not a new issue, as in the previous surveys the response rates decreased among these questions significantly as well, which might be traced back to the high number of very small or nascent micro-lending institutions in the European Microfinance sector. To create transparency, the number of observations is explicitly presented in all tables and figures.

The methodological approach of this survey has two components. The first major element was a broad quantitative data sample from prevalent MFIs in Europe. Therefore, the survey collected respective MFI data for the second time via an online survey tool ('SurveyMonkey'). Further, a simplified questionnaire compared to the previous survey iteration was developed. For the second component, national coordinators were nominated and integrated into the survey team to support the general survey team by motivating the MFIs to answer the survey. Also, the national coordinators were included to share and present qualitative information about the sector and its framework conditions and offer their expertise and opinion about the sector and development of microfinance via the selective country profiles (see Appendix, Section 9).

The list of the participating institutions is presented in Table 41 (Appendix). The figures and numbers presented in this survey edition are exclusively related to the data collected via the 150 covered MFIs. Additional information from other data sources, i.e.

10 The last edition was done by us as well. The previous three versions were carried out by Fundación Nantik Lum as the coordinating institution, while the first survey of the sector were undertaken by the new economics foundation (nef) on behalf of EMN. The coverage of the current and the three previous surveys are displayed in Table 1.

11 This is an increase of more than60 MFIs compared to the last iteration of the survey.The total number of organizations active in microfinance can only be estimated and should range between 500 and 700 entities, not taken into account credit unions and commercial banks, which provide loans below 25,000 EUR for entrepreneurial means as part of their standard loan provision. Exact numbers of the scale of microcredit provision by commercial banks are not available since these institutions serve microcredit clients as a mere sub-set of their regular clients. That is why that there are not able to deliver accurate numbers about their provision of microloans.

other market studies, was not taken into consideration for the presentation of the survey data, but was included into the respective country profiles. Furthermore, data from other market studies was mostly published on an aggregate level, so it was not possible to merge the information for all questions analysed here.

The 24 countries covered in the survey do not include all EU member states, only 20 member countries were covered, as no active MFIs were identified or the contacted MFIs did not participate in the survey in a few countries. The following list shows the non-participating EU-member states:

1. Cyprus (contacted)
2. Czech Republic (no active MFI identified)
3. Denmark (contacted)
4. Estonia (contacted)
5. Finland (contacted)
6. Luxembourg (no active MFI identified)
7. Slovakia (contacted)
8. Slovenia (contacted)
9. Sweden (contacted)

Additionally, this edition has covered MFIs from countries that are not EU members, i.e. Serbia, Macedonia and Bosnia-Herzegovina. Further, microlending organizations were identified and contacted in Montenegro and Norway as well, but none of these institutions took part in the survey.

The accepted EU definition of microloans as loans of 25,000 EUR or less issued for business or entrepreneurial purpose was used here as the guideline in the questionnaires[12]. In addition, to identify specific sector trends, the differentiation between microloans for business and personal consumption are used in the report whenever it is feasible, with particular detail to the percentage of each classification.

Microcredit for business or entrepreneurial purpose (EU definition): is a loan under 25,000 EUR to support the development of self-employment and microenterprises.

Microcredit for personal consumption purpose[13]: is a loan under 25,000 EUR for covering client's personal or consumption necessities, such as rent, personal emergencies, education, and personal consumption needs (e.g. white goods).

If the term "microcredit" or "microloan" is used in general here, it includes both definitions, i.e. for business/entrepreneurial and personal consumption purpose. Otherwise, it is separately referred to the purpose of the microloans examined.

Table 1

Overview of the survey coverage by country in comparison to previous editions

N°	Country	2012/2013		2010/2011		2008/2009		2006/2007		2004/2005	
		Contacted	Participated	Contacted	Participated	Contacted	Participated	Contacted	Participated	Contacted	Participated
1	Albania (non-EU)	0	0	5	5	0	0	0	0	0	0
2	Austria	2	1	1	1	1	0	1	1	1	0
3	Belgium	6	5	6	2	4	4	5	4	4	2
4	Bosnia-Herzegovina (non-EU)	12	7	17	8	0	0	0	0	0	0
5	Bulgaria	34	5	33	8	66	16	5	5	0	0
6	Croatia	2	2	2	2	2	2	0	0	0	0
7	Cyprus	1	0	1	0	1	0	1	0	0	0
8	Czech Republic	0	0	0	0	3	0	0	0	0	0
9	Denmark	1	0	0	0	1	0	0	0	0	0
10	Estonia	1	0	1	0	1	1	0	0	0	0
11	Finland	1	0	1	1	1	1	1	1	1	1
12	France	19	8	9	9	14	6	8	4	5	2
13	Germany	76	25	70	33	25	16	34	11	20	9
14	Greece	2	1	1	0	0	0	0	0	0	0
15	Hungary	28	10	31	15	55	21	6	4	2	20
16	Ireland	2	2	1	1	1	1	1	0	2	1
17	Italy	64	23	34	14	94	33	40	27	9	9
18	Latvia	1	1	2	1	2	2	0	0	0	0
19	Liechtenstein (non-EU)	1	1	0	0	0	0	0	0	0	0
20	Lithuania	4	4	3	1	2	2	1	0	0	0

12 Nevertheless, some MFIs have included loans in their reported data that feature a higher volume than 25,000 EUR. Since these loans could not be individually extracted from the data provided by these MFIs they have been included in the survey. The results were controlled for substantial distortions by these portfolios. This showed only a small effect on overall numbers.
13 This definition was set up together with EMN for the last iteration of the survey.

21 Luxembourg	0	0	0	0	9	0	0	0	0	0
22 Macedonia (non-EU)	4	2	4	3	1	0	0	0	0	0
23 Malta	1	1	0	0	0	0	0	0	0	0
24 Moldova (non-EU)	0	0	3	2	0	0	0	0	0	0
25 Montenegro (non-EU)	1	0	3	0	0	0	0	0	0	0
26 Netherlands, the	3	2	7	1	16	4	6	6	0	0
27 Norway (non-EU)	0	0	2	1	2	2	1	0	1	1
28 Poland	50	12	5	1	5	1	5	1	5	3
29 Portugal	4	3	2	1	7	2	1	1	1	1
30 Romania	26	17	14	9	18	9	9	5	0	0
31 Serbia (non-EU)	5	3	5	1	0	0	0	0	0	0
32 Slovakia	1	0	3	0	4	0	2	1	2	2
33 Slovenia	1	0	0	0	0	0	0	0	0	0
34 Spain	53	9	62	13	53	20	40	9	61	32
35 Sweden	4	0	5	1	6	4	2	0	2	2
36 Switzerland (non-EU)	1	1	1	0	1	1	1	1	1	1
37 Turkey (non-EU)	0	0	2	0	0	0	0	0	0	0
38 United Kingdom	36	5	40	20	37	22	38	13	22	23
Total	**447**	**150**	**376**	**154**	**432**	**170**	**208**	**94 (rep. 114)**	**139**	**109**

Sources: EMN (2006-2010): Overview of the Microcredit Sector in the European Union (2004 – 2010); new data collection for 2010-2011 by evers & jung.

3 Sector Overview: Scale and Development

In this new survey iteration, a steady growth of the microcredit provision can be shown among the European MFIs that reported to the survey compared to the past years, i.e. both the overall total volume and the number of microloans reported have increased significantly. In detail, MFIs from the 24 countries covered by the survey disbursed a total of 387,812 microloans with a total volume of 1.53 billion EUR in 2013 (2012: 324,406 microloans with a volume of 1.30 billion EUR). This is a significant increase compared to the last survey from 2011 (benchmark) with 204,080 microloans and a respective volume of 1.05 billion EUR. The trend is the same for the organizations based in EU member states only: 207,335 microloans with a total volume of 1.26 billion EUR (the benchmark from 2011: 122,370 loans with a total volume of 872 million EUR). Compared to the 2011 survey data, the 2013 survey shows an increase of 45% in the total value of microloans and 69% in terms of the number of loans reported by the EU-based participants of the survey.

Table 2

Total number and value of microloans disbursed over the EMN Overview Reports

	2003	2004	2007	2008	2009	2010	2011	2012	2013
Number	27,000	35,553	42,750	90,605	84,523	178,572	204,080	324,406	387,812
Value (million EUR)	210	295	394	802	828	779	1,074	1,303	1,528
Responses	109/139*	94/206*	94/206*	118/170	138/170	102/148	108/148	122/150**	122/150**

Sources: EMN (2006-2012): Overview of the Microcredit Sector in the European Union (2004 – 2011).
Note: *represents the overall response rate of the respective survey. For the years 2008 – 2011 the response rate is only shown for the number and value of loans disbursed. **For this survey edition the number of observations differs between number and value of loans. Thus, the respective lower "n" has been applied.

Table 3

Total value of microloans disbursed by country, differentiated between business and personal purpose (2012, 2013)

Country	'n' observations 2012	'n' observations 2013	Total (EUR) 2012	Total (EUR) 2013	Business (EUR) 2012	Business (EUR) 2013	Personal (EUR) 2012	Personal (EUR) 2013
Austria	1	1	412,630	137,000	412,630	137,000	0	0
Belgium	5	5	10,746,740	11,619,371	7,567,713	8,019,959	3,179,027	3,599,412
Bosnia and Herzegov.	6	6	179,581,298	194,426,889	132,263,049	132,572,894	47,318,249	61,853,995
Bulgaria	3	3	1,757,806	2,647,816	1,271,438	2,275,833	486,368	371,983
France	7	7	244,672,618	276,069,105	225,707,949	256,801,552	18,964,669	19,267,553
Germany	20	21	141,948,136	150,888,778	141,948,136	150,888,778	0	0
Hungary	10	10	42,285,776	45,628,964	42,285,776	45,628,964	0	0
Ireland	2	1	39,000	1,430,000	39,000	1,430,000	0	0
Italy*	16	17	25,142,356	64,600,497	8,630,585	9,574,830	16,511,771	18,338,681
Latvia	1	1	3,665,318	2,270,000	3,665,318	2,270,000	NA	NA
Lithuania	3	3	6,790,556	9,149,170	6,790,556	9,149,170	0	0
Macedonia	2	2	12,146,237	15,079,176	7,961,432	8,337,720	4,184,805	6,741,456
Netherlands, the	2	2	52,009,218	68,335,407	52,009,218	68,335,407	0	0
Poland	12	12	197,390,639	198,631,554	197,390,639	198,631,554	0	0
Portugal	3	3	3,164,000	2,519,000	3,164,000	2,519,000	0	0
Romania	17	17	90,932,570	103,653,142	52,208,601	58,165,416	38,723,969	45,487,726
Serbia	3	3	46,209,701	55,797,071	36,914,764	41,718,669	9,294,937	14,078,402
Spain	5	5	240,672,292	319,103,169	121,628,400	175,068,306	119,043,892	144,034,863
Switzerland	1	1	291,050	303,250	291,050	303,250	NA	0
United Kingdom	3	2	4,139,093	5,828,403	176,950	250,147	3,962,143	5,578,256
Total	**122**	**122**	**1,303,997,034**	**1,528,117,762**	**1,042,327,204**	**1,172,078,449**	**261,669,830**	**319,352,327**

Note: N = 150; No data available for Croatia, Greece, Liechtenstein, and Malta.
* = Since one institution from Italy did only provide total numbers (not distinguished between personal and business), the sum of personal and business differs from "total".

The overall allocation between microloans for business and personal purpose has slightly shifted towards loans for business purpose among the participating MFIs. In 2013, 79% of the total value of microloans was issued for business purposes while 21% was for personal consumption (2011: 74% for microloans for business purpose, 26% for microloans for personal consumption). Overall, for 2013, 218,679 microloans for business purpose were surveyed compared to 171,774 microloans for personal purpose among the MFIs participated in this survey round. This indicates the distribution between loans for business (2013: 56%) and personal purpose (2013: 44%) are much narrower than the comparison of the value of loans disbursed; thus, the provision of microloans for personal purpose, especially in terms of numbers of microloans disbursed, are on the rise among the survey institutions. This can be attributed to a few countries with a high number of microloans disbursed for personal purpose, i.e. Bosnia-Herzegovina, Spain and Romania; MFIs from France also reported a significant share of microloans disbursed for personal consumption.

Organisations from Western European countries reported 59% of the total volume of microloans disbursed (55% in 2012). Eastern European countries accounted for 64% of the total number of microloans disbursed, but only 41% of the total value of microloans reported. This highlights the already described change in the distribution of microcredit supply in the survey, as in 2009 around three quarters of the loans and 60% of the volume of loans that were reported were issued in the Western part of Europe. However, the results of this edition of the survey underline the finding that the microcredit market in Eastern Europe is characterized by more mature institutions, i.e. providing microloans on a larger scale per institution (including the surveyed credit unions, see the spotlight at the end of this section). These Eastern European institutions disburse higher numbers of comparatively smaller loans to their clients than the MFIs from Western Europe. The lower value of the loans corresponds with the lower GNI per capita in these countries.

Table 4

Total number of microloans disbursed by country, differentiated between business and personal purpose (2012, 2013)

Country	'n' observations 2012	'n' observations 2013	Total (no.) 2012	Total (no.) 2013	Business (no.) 2012	Business (no.) 2013	Personal (no.) 2012	Personal (no.) 2013
Austria	1	1	182	243	182	243	0	0
Belgium	5	5	1,467	1,601	839	956	628	645
Bosnia and Herzegov.	6	6	122,699	146,942	77,073	85,583	45,626	61,359
Bulgaria	3	3	794	629	132	236	662	393
France	7	7	43,092	46,879	34,794	38,465	8,298	8,414
Germany	23	23	10,300	11,484	10,299	11,483	1	1
Hungary	10	10	3,683	3,699	3,683	3,699	0	0
Ireland	1	2	4	136	4	136	0	0
Italy	17	19	14,944	14,121	11,555	11,243	3,389	5,519
Latvia	1	1	445	280	445	280	NA	NA
Lithuania	3	3	430	574	430	574	0	0
Macedonia	2	2	4,466	5,137	3,135	3,145	1,331	1,992
Netherlands, the	2	2	2,842	3,800	2,842	3,800	0	0
Poland	12	12	15,906	16,166	15,906	16,166	0	0
Portugal	3	3	274	235	274	235	0	0
Romania	17	17	39,402	47,097	7,709	8,722	31,693	38,375
Serbia	3	3	19,556	28,376	12,367	17,772	7,189	10,604
Spain	6	6	41,391	56,570	11,356	15,867	30,035	40,703
Switzerland	1	1	18	22	18	22	0	0
United Kingdom	3	3	2,511	3,821	35	52	2,476	3,769
Total	**126**	**129**	**324,406**	**387,812**	**193,078**	**218,679**	**131,328**	**171,774**

Note: N = 150; No data available for Croatia, Greece, Liechtenstein, and Malta.

A similar trend of growth and consolidation is found among a sample of 35 MFIs (Table 5), which is constructed by clustering MFIs reporting data on the number and volume of loan provision in both this survey and the previous iteration (2010-2011). In this sub-sample of 35 MFIs, the value of microloans disbursed increased by 22% from 2011 to 2012 and by 17% from 2012 to 2013. Taking the numbers of loans disbursed, the sub-sample's outcome indicates that the number of microloans disbursed increased by 20% from 2011 to 2012, but slightly decreased by 3% from 2012 to 2013.

Table 5

Number and value of microloans disbursed among a sample of 35 MFIs providing data from 2010 to 2013

Country	n	Value of loans disbursed (EUR) 2010	Value of loans disbursed (EUR) 2011	Value of loans disbursed (EUR) 2012	Value of loans disbursed (EUR) 2013	No. of loans disbursed 2010	No. of loans disbursed 2011	No. of loans disbursed 2012	No. of loans disbursed 2013
Austria	1	359,740	772,295	412,630	137,000	34	65	182	243
Belgium	1	NA	492,945	1,354,891	1,926,288	NA	100	275	86
Bosnia and Herzegovina	3	97,266,847	92,285,409	115,765,031	130,701,818	49,120	48,697	75,367	57,593
Bulgaria	2	763,461	138,205	530,703	1,029,912	241	211	167	35
France	3	129,014,320	130,097,103	163,013,400	180,384,000	15,925	15,883	22,104	19,055
Germany	7	1,306,450	4,932,846	8,935,368	12,401,621	310	7,394	1,274	7,783
Italy	5	3,451,978	4,527,984	11,781,982	18,053,516	749	842	11,755	6,206
Lithuania	1	17,428,248	20,837,956	3,395,278	4,574,585	842	1,028	215	201
Macedonia	1	12,397,536	14,540,825	9,441,912	12,264,655	2,895	3,737	2,494	287
Netherlands	1	9,000,000	16,000,000	52,009,218	68,335,407	567	1,000	2,842	3,122
Poland	1	48,671,539	100,354,269	145,664,026	134,855,413	13,401	23,732	11,027	3,800
Romania	6	32,057,892	51,209,802	49,248,476	53,858,000	6,218	9,606	6,844	17,374
Serbia	1	2,655,202	2,552,412	2,769,880	1,970,086	1,637	1,679	2,026	172
Spain	2	212,017,000	217,978,946	235,489,792	313,198,369	36,836	34,308	40,784	55,773
Total	**35**	**566,390,213**	**656,720,997**	**799,812,587**	**933,690,670**	**128,775**	**148,282**	**177,356**	**171,730**

Note: N = 150, n = 35 (constructed panel data of MFIs, which reported data in the last and current survey editions. The figures have to be interpreted with caution, since the number of observations slightly differs in Bosnia and Herzegovina, Germany and Italy.

Combined with the results of the past EMN surveys, this indicates a remarkable growth of the micro–lending activities in Europe since 2009. The number of loans disbursed has increased by more than 400% and the total loan volume has more than doubled since 2009. What are the main driving forces behind this development and how does the surveyed growth relate to any observed developments in the national microfinance markets in the countries surveyed?

First, it is important to note that the survey data is not a panel data set, so only more general interpretations can be observed and it is impossible to show any representative insights, since the composition of the MFI sample differs throughout the survey editions. The survey does not include all MFIs in Europe or for any given country, so the data does not fully represent the microfinance markets within the individual countries or on a European basis. For this iteration of the survey, the coverage (absolute numbers) of responses increased fundamentally in some countries, and thereby increased the overall number of reported microloans issued in the respective countries in the survey. In Poland, for instance, a country with a high level of micro-lending activities, which were not covered to this extent by previous survey editions, twelve organizations reported to the survey. This does not mean that the disbursement of microloans has increased by this level or that so many new institutions are active in the market. It just highlights that more Polish MFIs responded than previously surveyed. Consequently, the 2013 survey provides a better, but still incomplete picture of the Polish microfinance market. The same is true for Romania, from which data on the ten biggest credit unions was included for the first time. Furthermore, the years between 2012 and 2013 saw a steep rise in the number and value of loans provided in certain countries (e.g. where the number of organizations reporting to the survey remained the same or decreased compared to the last iteration of the survey).

Taking the number of all microloans disbursed (i.e. loans issued for business and personal consumption) into consideration (Table 4), the greatest outreach of organizations among the covered countries that reported to this edition of the survey can be stated for Bosnia-Herzegovina, followed by EU member states Spain[14], France and Romania. The same outcome holds true for the number of active borrowers presented by country in Table 6. In France, for instance, the number of reported loans increased by 63% to 46,879 in 2013. In Romania, the ten largest Credit Unions (see the spotlight at the end of this section) were included for the first time so the value of reported loans rose to around 104 millions in 2013 (compared to 60 million in 2011).

Table 6

Number of active borrowers by country, differentiated between business and personal purpose (2012, 2013)

Country	'n' observations 2012	'n' observations 2013	Total (no.) 2012	Total (no.) 2013	Business (no.) 2012	Business (no.) 2013	Personal (no.) 2012	Personal (no.) 2013
Austria	1	1	182	243	182	243	0	0
Belgium	5	5	2,403	3,282	1,168	1,824	1,235	1,458
Bosnia and Herzegov.	6	6	146,005	161,583	97,831	100,528	48,174	61,055
Bulgaria	3	3	801	706	180	237	621	469
Croatia	1	1	140	120	130	110	10	10
France	6	5	70,628	73,171	60,819	62,606	9,809	10,565
Germany	20	19	4,199	5,074	4,199	5,074	0	0
Hungary	9	10	3,190	3,835	3,190	3,835	0	0
Ireland	2	1	4	127	4	127	0	0
Italy	17	18	13,300	14,481	4,584	5,095	8,716	9,386
Latvia	1	1	575	871	575	871	NA	NA
Lithuania	3	3	412	574	412	574	0	0
Macedonia	2	2	10,191	10,109	7,051	6,661	3,140	3,448
Netherlands, the	2	2	1,046	956	1,046	956	0	0
Poland	12	12	32,762	40,445	32,762	40,445	0	0
Portugal	1	2	1,035	967	1,035	967	0	0
Romania	17	17	67,095	74,385	14,896	16,260	52,199	58,125
Serbia	3	3	30,239	38,918	20,196	25,765	10,043	13,153
Spain	5	5	42,090	57,037	12,479	16,934	29,611	40,103
Switzerland	1	1	52	55	52	55	0	0
United Kingdom	4	2	2,728	3,986	251	261	2,477	3,725
Total	**121**	**119**	**429,077**	**490,925**	**263,042**	**289,428**	**166,035**	**201,497**

Note: N = 150; No data available for Greece, Liechtenstein, and Malta.

14 The number of microloans issued in Spain is particularly related to the activities of one banking institution. This organization provides mostly personal microloans, but as well business microloans. Hereby, the institution separates clearly between personal loans for disadvantaged populations groups and microloans used for entrepreneurial and business purpose. In addition, the institution cooperates with social and public entities as well as uses its own network of branches for the distribution of loans, which enables the institution to gain scale in its micro-lending activities. It is important to note here that the rest of the microfinance sector is struggling to survive due to the lack of funds (related to the financial and economic crisis).

By reverting to the value of loans disbursed per country (Table 3), the countries with the highest volume disbursed are Spain[15], France, Poland, Bosnia-Herzegovina, Germany and France. Table 7 shows a similar outcome for portfolio outstanding per country.

Table 7

Portfolio outstanding by country, differentiated between business and personal purpose (2012, 2013)

Country	'n' observations		Total (EUR)		Business (EUR)		Personal (EUR)	
	2012	2013	2012	2013	2012	2013	2012	2013
Belgium	5	5	14,017,900	18,321,784	9,675,661	13,173,258	4,342,239	5,148,526
Bosnia and Herzegov.	6	5	195,583,293	200,920,936	148,423,644	144,147,007	47,159,649	56,773,929
Bulgaria	3	3	2,774,292	3,359,742	2,130,221	2,817,971	644,071	541,771
Croatia	1	1	440,000	330,000	400,000	300,000	40,000	30,000
France	6	7	314,935,724	432,262,707	308,172,152	412,443,348	6,763,572	19,819,359
Germany	22	21	21,366,907	23,798,829	21,366,902	23,798,824	5	5
Hungary	10	10	53,964,780	146,712,006	53,964,780	146,712,006	0	0
Ireland	2	2	52,615	1,840,850	52,615	1,840,850	0	0
Italy	18	19	106,901,754	124,162,478	50,010,080	53,476,533	56,891,674	70,685,945
Latvia	1	1	6,540,000	6,362,000	6,540,000	6,362,000	NA	NA
Lithuania	3	3	6,790,556	9,149,170	6,790,556	9,149,170	0	0
Macedonia	2	2	25,806,052	26,133,152	15,527,265	16,849,843	10,278,787	9,283,309
Netherlands, the	2	2	35,932,846	40,726,553	35,932,846	40,726,553	0	0
Poland	12	12	246,974,229	336,229,513	246,974,229	336,229,513	0	0
Portugal	3	3	10,506,000	10,133,000	10,506,000	10,133,000	0	0
Romania	17	17	130,911,026	149,624,755	87,553,737	99,207,501	43,357,289	50,417,254
Serbia	3	3	34,163,295	45,015,252	24,720,918	31,705,389	9,442,377	13,309,863
Spain	6	6	449,704,388	539,416,369	224,592,469	296,644,778	225,111,919	242,771,591
Switzerland	1	1	520,000	525,000	520,000	525,000	0	0
United Kingdom	4	3	3,121,877	4,532,781	836,067	1,006,633	2,285,810	3,526,148
Total	**127**	**126**	**1,661,007,534**	**2,119,556,877**	**1,254,690,142**	**1,647,249,177**	**406,317,392**	**472,307,700**

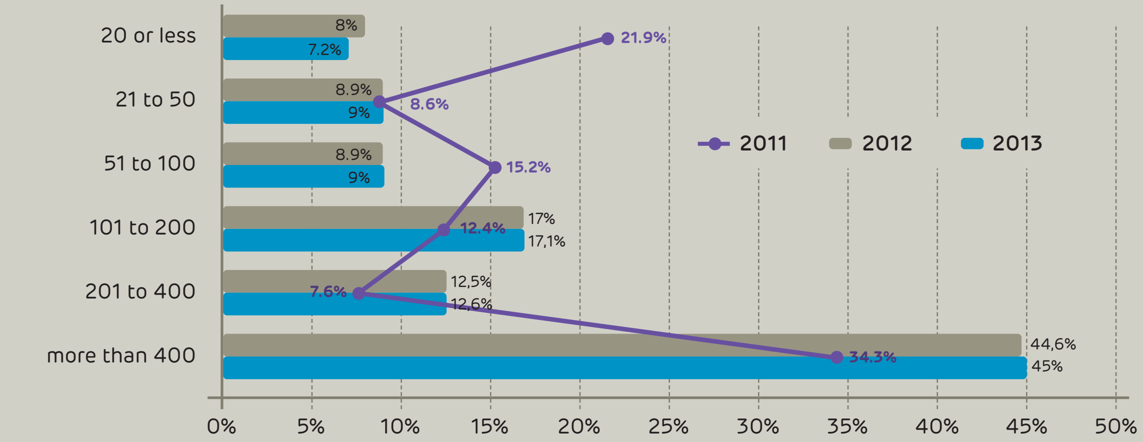
Note: N = 150; No data available for Austria, Greece, Liechtenstein, and Malta.

Better coverage of MFIs active in countries with established microcredit sectors is one explanation for the observed growth compared to past iterations of the survey. Another reason could be that this year's survey included more of the most active European MFIs in terms of number and volume of loan provision. The MFIs covered by the survey are providing, on average, more loans per institution than in the survey rounds before, as 93% of the organisations that provided data on their lending activity in 2013 distributed more than 20 loans in that year (2011: 78%). Figure 1 shows that 85% issued more than 50 loans (2011: 69%) and 74% more than 100 loans in 2013 (2011: 54%), an increase of 20 percentage points or 83 MFIs in absolute numbers. Additionally, 45% of the covered organizations provided more than 400 loans per year, i.e. 50 institutions in absolute numbers.

15 For explanations to this outcome see the footnote before.

Figure 1

Percentage of institutions by numbers of loans disbursed

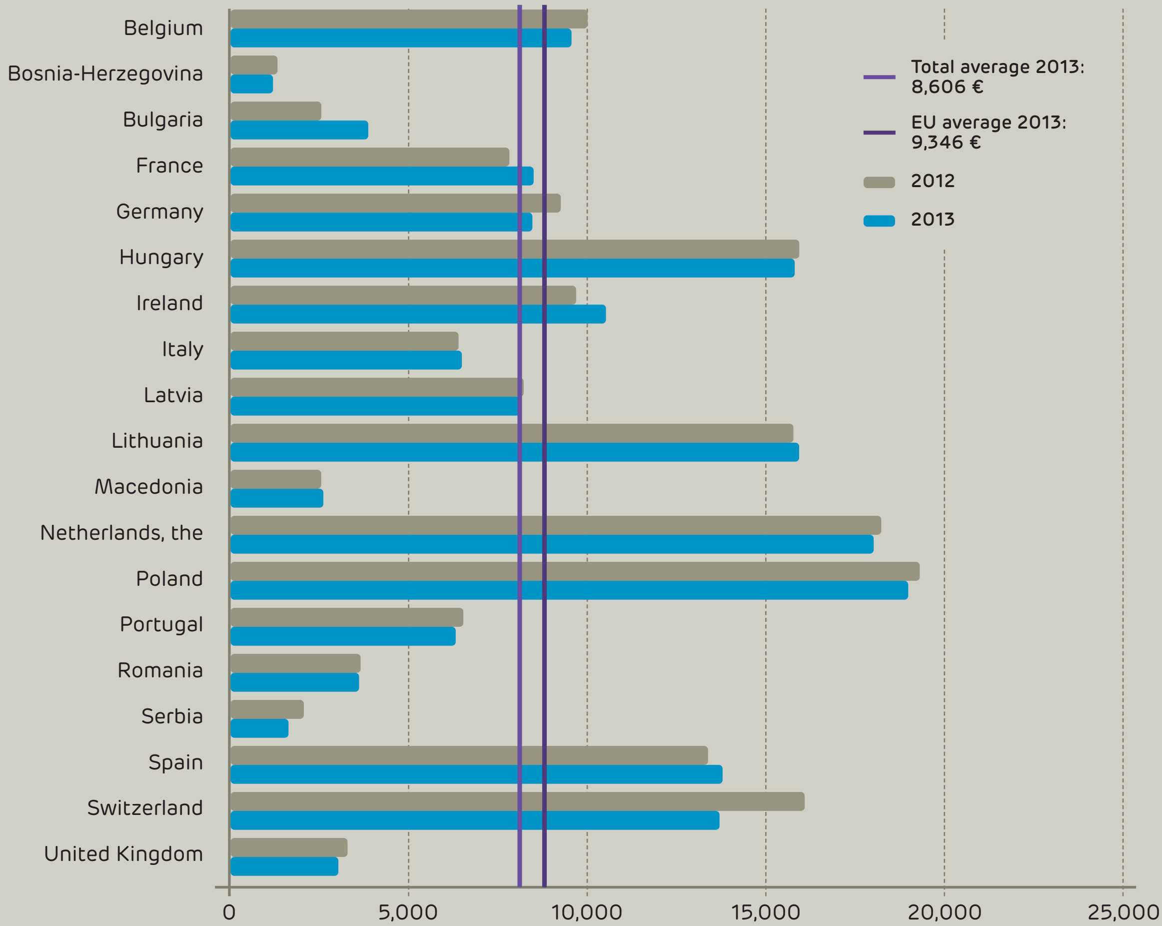


Note: N = 150 (2012/13); n 2012 = 112; n 2013 = 111. N = 148 (2011); n = 105 (2011).

Also, the average loan size increased, reaching a level similar to that observed in 2009 for EU member states. The average volume of the loans disbursed in 2013 was 8,606 EUR, 8,810 EUR in 2012 and 5,135 in 2011[16]. In the EU member states, the average volume was 9,346 EUR in 2013 and 9,562 EUR in 2012, which is an increase compared to the results from the previous edition (2011: 7,129 EUR, 2009: 9,641 EUR, see Figure 2).

Figure 2

Average loan size by country (sum of business and personal purpose)



Note: N = 150; n 2012 = 105; n 2013 = 109.

16 For further analysis the average loan size per country has been deflated by the GNI per capita (per country) to correct for national income differences. This measure is then used to identify the notion of targeting disadvantaged groups in the countries (see e.g. Cull et al. 2007).

Table 9 presents the average loan size, separated by business and personal purpose of the microloans. The average loan size for personal purpose is significantly lower (2,136 EUR) in 2013 compared to microloans for business purpose (9,960 EUR).

Table 8

Average loan size by country, differentiated between business and personal purpose (2012, 2013)

	Personal loans (EUR)				Business loans (EUR)			
	2012		2013		2012		2013	
Country	'n' observations	Average loan size	'n' observations	Average loan size	'n' observations	Average loan size	'n' observations	Average loan size
Austria	NA	NA	NA	NA	1	2,267	1	564
Belgium	1	5,062	1	5,580	5	10,323	5	10,089
Bosnia and Herzegov.	6	1,038	6	1,054	6	1,642	6	1,432
Bulgaria	3	2,019	3	2,818	2	11,699	2	10,223
France	4	2,332	4	2,352	7	11,547	7	11,866
Germany	NA	NA	NA	NA	20	8,279	20	8,032
Hungary	NA	NA	NA	NA	8	15,945	8	15,900
Ireland	NA	NA	NA	NA	1	9,750	1	10,515
Italy	11	3,949	12	3,135	12	8,182	15	9,053
Latvia	NA	NA	NA	NA	1	8,237	1	8,107
Lithuania	NA	NA	NA	NA	2	15,792	2	15,939
Macedonia	2	2,754	2	2,815	2	2,745	2	2,818
Netherlands, the	NA	NA	NA	NA	1	18,300	1	17,983
Poland	NA	NA	NA	NA	11	19,379	11	19,003
Portugal	NA	NA	NA	NA	2	6,579	2	6,312
Romania	12	1,143	11	1,412	9	6,278	9	5,786
Serbia	3	1,220	3	1,188	3	2,769	3	2,216
Spain	3	1,549	3	1,397	3	14,745	3	15,373
Switzerland	NA	NA	NA	NA	1	16,169	1	13,784
United Kingdom	2	3,332	2	3,106	1	5,056	1	4,811
Total	**47**	**2,173**	**48**	**2,136**	**98**	**10,094**	**101**	**9,960**

Note: N = 150; No data available for Croatia, Greece, Liechtenstein, and Malta.

To provide more insights for the relation between the average loan size and the target groups reached, it is necessary to deflate the average loan sizes by the GNI per capita per country, as GNI per capita differs significantly in the countries covered in the survey. The outcome for the ratio of average loan size per country and GNI per capita is shown in Table 9 for the EU countries covered[17].

Table 9

Average loan size per country deflated by the country's GNI per capita (2012)

Country	'n' observations	Average loan size deflated (index)	Country	'n' observations	Average loan size deflated (index)
Belgium	5	0.31	Macedonia	2	0.77
Bosnia and Herzegov.	6	0.40	Netherlands, the	1	0.53
Bulgaria	3	0.51	Poland	11	2.12
France	7	0.26	Portugal	2	0.44
Germany	18	0.28	Romania	16	0.60
Hungary	8	1.78	Serbia	3	0.54
Ireland	1	0.35	Spain	3	0.63
Italy	13	0.26	Switzerland	1	0.28
Latvia	1	0.81	United Kingdom	2	0.12
Lithuania	2	1.58	**Total**	**105**	**0.71**

Note: N = 150; n 2012 = 105, the GNI per capita was only available for 2012, and thus, we base the calculation of the deflated average loan size on the average loan size from 2012 and the respective GNI per capita in the respective country.

17 This is done to follow up the discussion whether the measure of average loan size is feasible to identify the notion of targeting disadvantaged groups in the countries. Here, we can only present an indicative tendency or proxy solution, as an average loan size per country has a limited explanatory power, if several MFIs are covered. For instance, there exists a biased effect to the mean, when an MFI with a very high average loan size and an MFI with a very low average loan size are covered. This could lead to a country perspective which does not represent the diversity of MFIs active in a country. The same is true for the use on the institutional level, if an MFI is examined with a diversity of target groups covered.

Microloans Provision by Credit Unions in Europe – Experience from Romania (by Maria Doiciu and UNCAR)[18]

Credit Unions, with a long and successful history in Eastern European countries, e.g. Romania, Poland, Bulgaria and Baltic Countries, as well as in UK and Ireland and more recently in the Netherlands are among the main players in the Non-Bank financial sectors in their countries in terms of number and assets.

The legal framework for Non-Bank Financial Institutions in Romania, among which included Credit Unions, reformed nearly ten years ago. These NBFIs were placed under the Romanian National (Central) Bank (RNB) authorisation and supervision, enabling the sustainable development of the Non-Bank financial sector and contributing to its growth and diversification of creating access to financial resources for individuals, entrepreneurs and companies, especially microenterprises.

The legal framework related to the registration of income generation activities and activities undertaken by professionals, law no.62/20014, mainly due to the conformation of the legal country framework with the EU Small Business Act requirements and recommendations enabled the online registration of self-entrepreneurs type of activities, reduced taxes and bureaucracy related to their operations for the newly registered individual enterprises, microenterprises registered by young entrepreneurs, professionals, family business, etc. was improved. Those reforms led to a growth of self- entrepreneurs entities of 5.99% in 2013 compared to 2012, and consequently increased demand for financial resources. Credit unions, alongside MFIs, are serving the growing demand for financial, business development services and financial education services.

In Romania, Credit Unions are registered and licenced by RNB as Non-Bank, Not-for-Profit Mutual Associations of individual employees or professionals/solo entrepreneurs, farmers, with income generating activities. In the proposed legal framework for social entrepreneurship and social enterprises currently being debated by the Romanian Parliament, Credit Unions are considered, due to their mutual and not-for profit characteristics, as social enterprises.

The 1,950 Credit Unions registered in Romania in 2013 have been providing loans to individuals and self-entrepreneurs for personal purposes over the last four years to finance income generation activities.

As reported by UNCAR, the number of active borrowers in 2013 grew by 38% compared to 2012, now totalling 610,000 active borrowers. Twenty-four percent (145,000) are new borrowers and approximately 10% of the loans provided in 2013 were used to finance/co-finance income generation activities. At the end of 2013, the gross microcredit portfolio of UNCAR's Credit Unions reached 458.3m EUR with a total loan disbursement of 513m EUR. The average loan amount within the CUs increased over the last two years to 780 EUR, 17% of Romania's GDP per capita in 2012, underlining the social inclusion feature of the financial services provided by CUs. The quality of portfolio and the net losses improved in 2013 (PAR 30: 5%) and net losses reached the lowest level in years (0.09%). Overall operational sustainability for sector reached 150% in 2013. The good financial performance of 2013 contributed to the overall increase of CAR assets by 11% compared to 2012, reaching 550m EUR through net income capitalisation. Also due to the good overall performance, the number of members increased reaching 970,000 by the end of 2013.

The financial products provided to CU members are short and medium term loans, basic financial education and technical assistance in the application process. Though the purpose of the loan is not recorded, e.g. for personal use, construction/ refurbishment, for business use, etc., new financial products adapted to the specific needs of members are in a pilot phase.

As UNCAR (the CUs apex structure) started its financial supervision and technical assistance in early 1990. With the support of the technical assistance provided by the EU/EIF funded JASMINE Programme in 2013 to 6 CUs among the largest from UNCAR members and the interest of the Romanian CUs to subscribe and implement the European code of Good Practice for MC provision, the CU's MIS are undergoing improvement. This allows the CUs to record more information related to loan utilisation, borrower characteristics, the impact of each microloan, etc. New performance indicators related to both financial and social impact are being collected and reported in order to increase transparency and improve performance management through the transfer of know-how among CUs.

The risk management procedures and the process of loan application analysis are extended not only to the current analysis of repayment capacity, but for the entire loan term for medium/long term loans. The data from the internal credit bureau implemented at the national CU level, with the assistance from UNCAR and the county CUs organizations, are used to avoid over-indebtedness and diminish the potential of fraud.

18 The authors of this spotlight are Maria Doiciu Eurom Consultancy and Studies and UNCAR – Romania. The sources used: Consolidated report of financial and social performance of 1950 CUs members of UNCAR; eurom expertise; Romanian Trade register database report on the dynamic of active professionals (sole-entrepreneurs) 2012/2013. We are very grateful for these additional insights and effort.

Due to the CUs contribution to the Romanian MF sector, the top 10 largest CUs reported their performance indicators to the EMN for the first time, positioning Romania among the top-5 EU countries in terms of number of microloans and microcredit portfolio value.

The challenges that the CUs are facing in Romania, as well as in other EU countries, are related to the lack of resources, technical and financial, needed to implement the consolidation and performance improvement process. The aim of which is to ensure sustainable development in line with the clauses of the European Code of Good Conduct for microcredit provision and the local legal framework, especially in the investment intensive areas of MIS restructuring and infrastructure development to increase outreach and risk management.

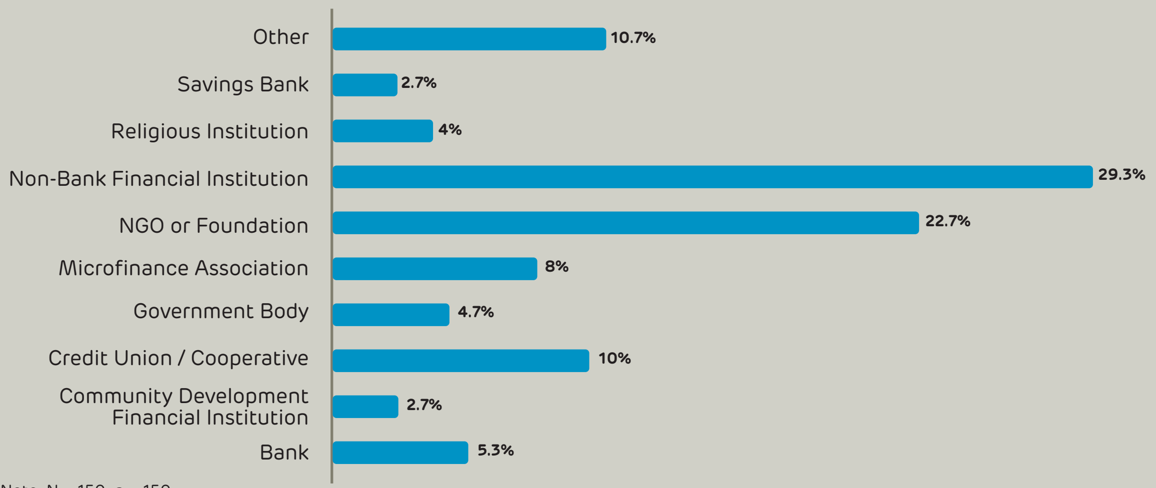
4 Microfinance Institutions, Products and Services

4.1 Institutional Key Characteristics

The European MFIs surveyed are diverse. Figure 3 presents the broad variety of institutions that issue microloans in the 24 countries covered in Europe. To a large extent, this diversity of institutional structures is related to differences in the national legal environment for loan provision, differences in the established financial systems and the variety of microenterprise promotion and underlying policy directions.

Figure 3

Distribution of MFIs by institutional type



Note: N = 150; n = 150.

This 2013 survey shows a significantly higher amount of non-bank financial institutions (NBFIs) participating (>9% more) than in the survey two years ago; NBFIs are now the most common form of the MFIs surveyed (29%). The share of NGOs or foundations nevertheless remained around 23%, now the 2nd most common form of participating organizations. Credit unions and cooperatives are the next most common institutional structure with 10% of surveyed respondents.

Surprisingly, the share of microfinance associations surveyed (previously the 3rd most common institutional structure) dropped by 6% compared to the last survey. Also, the share of community development financial institutions (CDFIs)[19] reduced by over 9%, though this was mostly caused by a lower number of responses from UK MFIs. The share of banks remains low by only 5% of the MFIs surveyed.

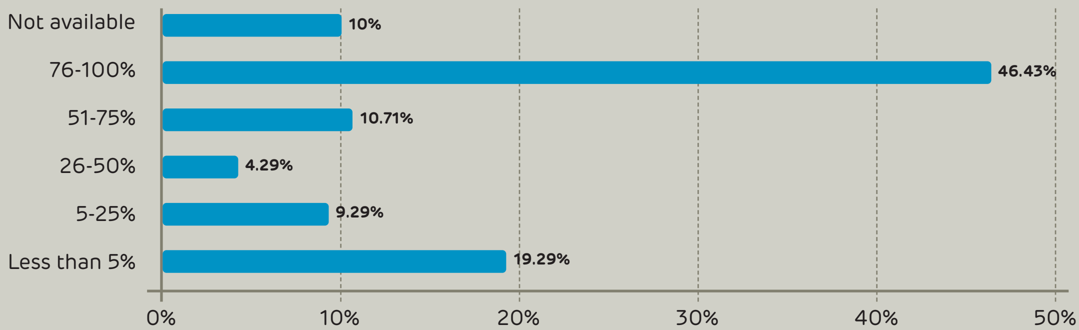
The decrease of MFIs surveyed structures as NGOs and corresponding rise of surveyed NBFIs might be explained by a maturing of the European microfinance sector, i.e. existing NGOs may be scaling their business and consequently changing their legal status to NBFI, since a NBFI can offer a wider range of services and access commercial sources of capital as they are operating under a license from the central bank.

The distribution of institutional types shows that countries with the most surveyed institutions, for instance, Bosnia-Herzegovina, Hungary, Italy and Poland are the countries with the highest shares of NGOs or foundations. In Romania, 95% of the participating MFIs are organized as NBFI, including institutions working under the credit unions' umbrella UNCAR, which are treated legally as NBFIs. In Germany, the high share of NBFIs (>50% of the MFIs surveyed) is represented by a large number of MFIs working under the so-called "Mikrokreditfonds Deutschland", which gives non-banking institutions the option to work as a front-office MFI, while one bank (operating centrally under this system) takes the legally required banking function and is responsible for the actual disbursement and back-office activities in the system.

In addition to classifying institutions by their legal structures, micro-lending organizations can also be distinguished by their focus on micro-lending activities. At one end of the spectrum are organizations which conduct micro-lending operations as their main activity (micro-lending activities representing 100-75% of their annual turnover) while at the other end are those institutions for which the share of activity dedicated to micro-lending is a minor part of overall activities (50% to less than 5%).

Figure 4

Share of the overall business activity, in terms of turnover, dedicated to micro-lending only



Note: N = 150; n = 140 (n=14 not available).

More than 46% of the surveyed institutions' main focus is (over 75% of their turnover) on micro-lending operations (Figure 4). Additionally, more than 57% of the MFIs surveyed earn more than 50% of their turnover with micro-lending. The remaining MFIs reported a substantial part of their turnover producing activities is focused on other activities besides micro-lending. Other activities include traditional banking services, business development services, as well as entrepreneurship and financial education trainings. For instance, business development services are mainly financed from the income earned by the lending activities in the Eastern European countries. Compared to the previous survey edition, in which 66% of institutions reported to be primarily active in micro-lending (i.e. 50% or more of their turnover earned by micro-lending), this survey iteration covered less specialized micro-lending institutions possibly indicating that the surveyed MFIs further diversified their activities, a finding that is supported by the higher share of organizations reporting to be active in providing financial services other than micro-lending and non-financial services (see below).

A high share of MFIs that do less than five percent of their activities in micro-lending can be found in Germany (46% of all MFIs), primarily represented by the (public) promotional banks. Their core business is

19 NGOs active in microfinance in the UK can receive a specific legal status as so-called CDFIs.

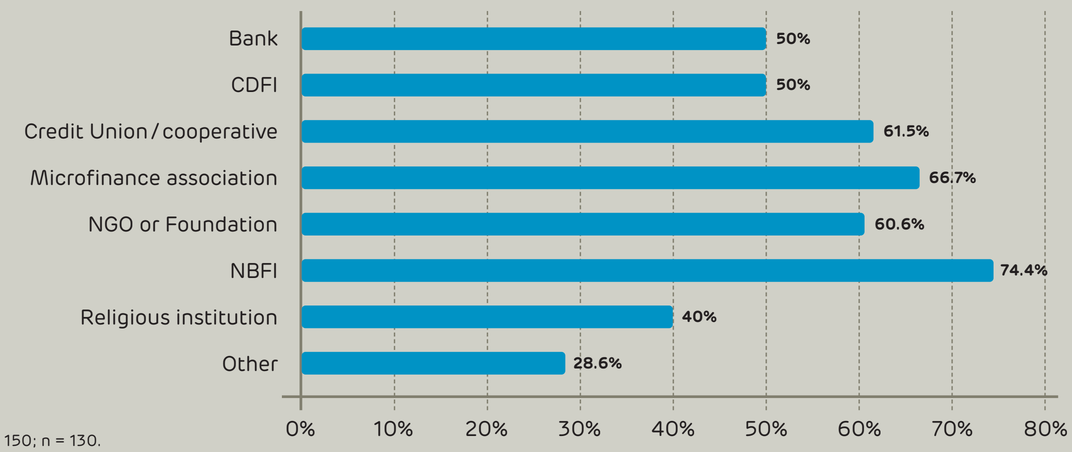
the funding and provision of a diversified set of financial products to SMEs and large corporations. In Italy, organisations with a small focus of micro-lending activity amount to nearly one third of the MFIs surveyed. In Romania, on the other end, over 80% of all surveyed MFIs report to concentrate on micro-lending activities only (75-100%). The microfinance market like the Romanian one is more specialized in micro-lending and characterized by established and mature organizations. German and Italian MFIs are diversifying their product offerings.

Additionally, a clear difference between Eastern and Western European countries can be found. Among the countries in which MFIs are focused on micro-lending, the majority (8 out of 13 countries, data for one country is not available) are from Eastern Europe (Bosnia-Herzegovina, Bulgaria, Croatia, Hungary, Macedonia, Poland, Romania and Serbia). In contrast, Western European countries are emphasising other operations (7 out of 9, data for one country is not available), including countries such as Austria, France, Germany, Greece, Italy, Portugal and Spain. This indicates that MFIs in European countries are at different stages of their life cycles. The Eastern European MFIs surveyed are generally characterized as more mature institutions that are active in markets focused on microfinance activities, whereas among the Western European MFIs surveyed, several young organizations with a broader focus of activities are present.

When separating the data by institutional type, it can be observed that Microfinance associations and NBFIs are mainly focused on micro-lending activities. (66.7% and 74.4% respectively of the MFIs surveyed).

Figure 5

Share of organizations with more than 50% of business activity dedicated to micro-lending, by type of institution[20]



Note: N = 150; n = 130.

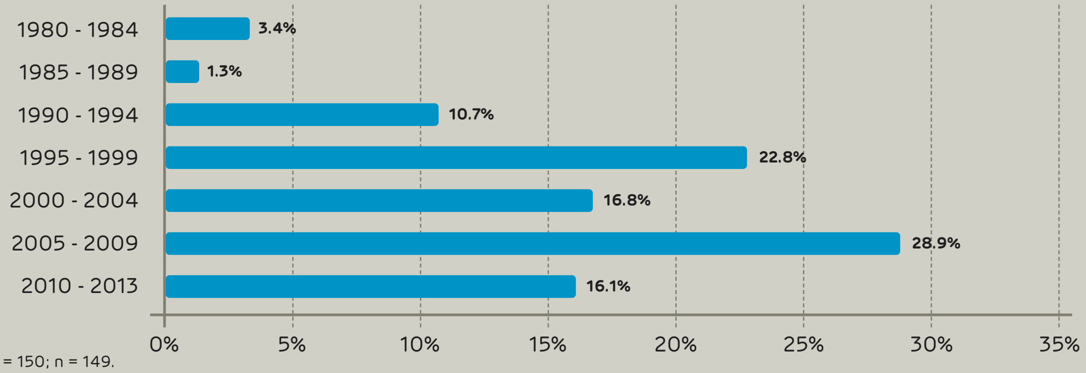
For 50% of the bank MFIs (and 100% of the surveyed savings banks) surveyed, micro-lending operations account for less than 5% of all activities. Government bodies also focus to a lower extent on micro-lending.

The European MFIs surveyed are still young on average, as 16% of all institutions surveyed started operations after 2010. Nearly two thirds of all institutions entered the sector after 2000. The time period with the highest amount of entrants (29% of all institutions) was between 2005 and 2009 (Figure 6). Compared to the last survey, there was a strong increase in the MFIs starting their operations during the 2005-2009 period (+6%), while less MFIs started operations after 2010 (-5%). The share of MFIs surveyed that started lending activities between 1995 and 1999 increased by almost 5% compared to the last survey round. MFIs that started lending before 1995 dropped slightly to 15% of respondents. In general, the current survey could have included some more established MFIs, giving a slightly more balanced picture of the European MFI landscape.

20 The surveyed government bodies and savings banks featured no organisation that reported 50% and more of business activity dedicated to micro-lending and are therefore not included in the figure.

Figure 6

Share of period MFIs started their microlending activities



Note: N = 150; n = 149.

Most of the MFIs that started lending activities only recently are coming from Germany (over 50% of all participating German MFIs were younger than three years at the time of the survey, accounting for nearly 60% of all MFIs starting activities between 2010-2013). This can be explained by the high number of new institutions entering the sector out of the "Mikrokreditsfonds Deutschland"[21] framework, which originated in 2011. The country distribution shows that Romania, Spain, Lithuania and Italy also set up a high share of MFIs between 2005 and 2009. Conversely, MFIs in Hungary, Poland, Bosnia Herzegovina and Romania were primarily established during the 90s (almost exclusively as NGOs/ foundations or NBFIs).

The survey also included a question about the number of staff employed. In general, it can be observed that the greatest number of paid employees can be found in Bosnia-Herzegovina and France[22] (see Table 10), both countries with highly prolific MFIs in terms of loans provided. On the other hand, the surveyed MFIs in Spain feature the highest ratio in terms of loans provided compared to the reported number of paid employees.

Table 10

Number of staff employed by country, differentiated between female and male (2013)

Country	'n' observations	Total (no.)	Female (no.)	Share female	Male (no.)	Share male
Belgium	5	40	14	35.0%	26	65.0%
Bosnia and Herzegov.	7	1,390	720	51.8%	670	48.2%
Bulgaria	5	68	46	67.6%	22	32.4%
Croatia	1	7	4	57.1%	3	42.9%
France	7	1,196	528	44.1%	212	17.7%
Germany	20	100	55	55.0%	39	39.0%
Greece	1	3	1	33.3%	2	66.7%
Hungary	10	82	52	63.4%	30	36.6%
Ireland	2	9	5	55.6%	4	44.4%
Italy	20	781	351	44.9%	430	55.1%
Latvia	1	270	NA	NA	NA	NA
Liechtenstein	1	4	1	25.0%	3	75.0%
Lithuania	1	37	28	75.7%	9	24.3%
Macedonia	2	154	92	59.7%	62	40.3%
Malta	1	1	1	100.0%	0	0.0%
Netherlands, the	1	43	22	51.2%	21	48.8%
Poland	12	977	556	56.9%	349	35.7%
Portugal	3	26	13	50.0%	13	50.0%
Romania	17	556	377	67.8%	179	32.2%
Serbia	3	367	189	51.5%	178	48.5%
Spain	9	209	123	58.9%	86	41.1%
Switzerland	1	4	2	50.0%	2	50.0%
United Kingdom	4	62	29	46.8%	33	53.2%
Total	**134**	**6,386**	**3,209**	**50.3%**	**2,373**	**37.2%**

Note: N = 150; n = 134.

21 See country profile Germany for further information.
22 The data of one savings bank from France was dropped from this analysis, as they provided probably the overall number of employees, which is in this case misleading due to the high number of employees.

Regarding the gender balance of men/women employed, the highest shares of female employment were reported by MFIs in France, Romania and Bulgaria (excluding countries with only one MFI surveyed). It is noteworthy that the calculated share of the surveyed MFI's female employment at national level is higher than 30% in all covered countries. The average share is 46% in 2012 and 56% in 2013.

4.2 Products

In addition to the institutional variety, the European microfinance markets are characterized by a large diversification of the products offered, especially the underlying product features. Microfinance in Europe refers mostly to the activity of micro-lending only for business or productive purposes. However, in the international community microfinance is conceptualized as three equal and coexisting pillars, the so-called "microfinance trinity" including credit for business (productive) and personal (consumption) reasons, savings and insurance[23]. Therefore, the survey requested participating organizations to report on both types of loan provision and its respective value in their loan portfolio, even though the EC and all existing EU funded support instruments exclusively focus on micro-lending for business reasons to promote self-employment and job creation in the EU.[24] The number of MFIs surveyed providing microloans for personal purposes has increased to ~67% of MFIs, measured by the value of microloans for 2013 (2011: 45% of all surveyed organizations). Due to the variety of loan products offered by the MFIs surveyed, this edition asked for key product characteristics: current average loan term, average interest rate (per year) and the presence of additional fees. The findings are shown for the first time distinguished by microloans for business and personal purpose.

The average duration of a business loan reported by the MFIs surveyed in EU-countries is 42 months and 34 months for personal loans. The average for all MFIs surveyed (including the Non-EU member countries) is 41 months for microloans for business and 34 months for personal purpose. Compared to the average loan term of 35 months for the MFIs surveyed in the previous survey edition (including microloans for business and personal purpose), the findings indicate a longer average loan term for loans provided by organizations covered in this iteration of the survey.

Since the difference between the two types of reported microloans is significant, a more diversified picture is provided (see Table 11). The microloans for business purpose disbursed by the MFIs surveyed are characterized (as shown above) by a higher average value of the loan and longer term than for the microloans for personal purpose. Although this trend is valid for nearly all countries, the average duration of a personal loan from MFIs surveyed in Bulgaria is three months longer than that of a business loan. For MFIs covered from non-EU member countries, the duration of business loans is typically shorter than average, whereas the duration of personal loans is longer than average. For example, the average duration of the personal loan is nine months longer than of the business loan for MFIs reporting from Macedonia.

Table 11

Average loan term by country

Country	'n' observations	Business (month)	'n' observations	Personal (month)
Austria	1	60	NA	NA
Belgium	5	40	1	38
Bosnia and Herzegov.	6	26	6	20
Bulgaria	2	27	3	30
Croatia	1	24	1	18
France	7	48	4	29
Germany	21	21	NA	NA
Greece	1	48	NA	NA
Hungary	10	77	NA	NA
Ireland	2	36	NA	NA
Italy	17	48	14	42
Latvia	1	36	NA	NA
Liechtenstein	**NA**	**NA**	**NA**	**NA**
Lithuania	3	31	NA	NA
Macedonia	2	30	2	39
Malta	NA	NA	NA	NA
Netherlands, the	1	52	NA	NA
Poland	11	51	NA	NA
Portugal	2	72	NA	NA
Romania	9	35	12	29
Serbia	3	24	3	24
Spain	5	39	4	29
Switzerland	1	36	NA	NA
United Kingdom	3	39	2	32
Total	**114**	**41**	**52**	**32**

Note: N = 150; n =114 (for business loans); n = 52 (for personal loans).

23 Armendáriz and Morduch (2005), p. 147.
24 See the EC definition of microloans in Section 2.

In addition to differences between business and personal loan terms, even larger differences can be observed between the average loans terms within the surveyed MFIs from the EU. The longest average loan duration can be found in Hungary (nearly 6.5 years) followed by Portugal (six years) and Austria (five years). These figures are more than double than the average loan term among those found in Croatia and Bulgaria (about two years). The MFIs surveyed from Poland, the Netherlands, Italy, Greece and France exhibit above average loan terms of four years (compared to the average of all MFIs surveyed). The MFIs surveyed from Germany reported the shortest loan terms for business loans (21 months). MFIs from non-EU countries (Bosnia and Herzegovina, Macedonia and Serbia) all reported average loan terms between 2 and 2.5 years. As opposed to differences in national legislation or demand for microfinance products, the distribution of loan terms is most likely due to (national) differences in the supply-side strategies of the MFIs surveyed.

Table 12

Average annual percentage rate of charge (APR) by country

Country	'n' observations	Business APR (%)	'n' observations	Personal APR (%)
Austria	1	3	NA	NA
Belgium	4	6	1	3
Bosnia and Herzegov.	4	24	4	26
Bulgaria	2	21	3	31
Croatia	1	12	1	12
France	4	5	3	4
Germany	18	8	2	9
Greece	1	10	NA	NA
Hungary	10	5	NA	NA
Ireland	2	9	NA	NA
Italy	12	4	11	4
Latvia	NA	NA	NA	NA
Liechtenstein	NA	NA	NA	NA
Lithuania	2	5	NA	NA
Macedonia	2	15	2	12
Malta	NA	NA	NA	NA
Netherlands, the	1	10	NA	NA
Poland	9	8	NA	NA
Portugal	2	5	NA	NA
Romania	9	18	12	17
Serbia	3	30	3	33
Spain	3	6	2	10
Switzerland	1	4	NA	NA
United Kingdom	2	27	2	42
Total	**93**	**10**	**46**	**15**

Note: N = 150; n =114 (for business loans); n = 52 (for personal loans).

The spread of the average annual interest rates reported by the MFIs[25] over the covered countries is remarkable. Interest rates range from less than five percent for MFIs surveyed in Austria, Switzerland, France and Italy for a business loan up to 42% for a personal loan in the UK. This is mainly due to differences in the national legal frameworks, particularly the existence or non-existence of usury laws. For instance, where usury laws are not in place, i.e. UK or Romania, average interest rates are much higher than for those countries with interest caps, i.e. Germany or the Netherlands. Other factors include inflation rates, refinancing costs for institutions, cost structure and the financial sustainability of the MFIs.[26]

The average interest rate of the surveyed MFIs for business loans is 10% and 15% for personal loans. However, this masks the fact that MFIs in some EU-countries are charging lower interest rates for a personal loan than for a business loan (notably for MFIs from Belgium where personal loans are only 3% compared to 6% for a business loan. This is also true for MFIs from France and Romania). However, the figure for the average interest rates is upwardly distorted by the extremely high rates charged by the MFIs surveyed in the UK (27% business and 42% personal), followed by Bulgaria (21% business and 31% personal) and Romania (18% business and 17% personal).

Ignoring Switzerland and Liechtenstein, the interest rates reported for business and personal loans by the MFIs surveyed in non-EU member countries are considerably higher at 30% and 33% in Serbia, 24 and 26% in Bosnia and Herzegovina and 15% and 12% in Macedonia.

Of the surveyed MFIs, 27% report charging additional fees on top of the interest rates on the loan. The lowest shares of MFIs that charge fees can be observed in Lithuania, Portugal, Germany and Italy (excluding countries with only one surveyed MFI). This situation is very different in several non-EU countries such as Bosnia and Herzegovina, where five out of seven surveyed MFIs are charging additional fees. The amounts of the fees reported generally range between one and five percent[27].

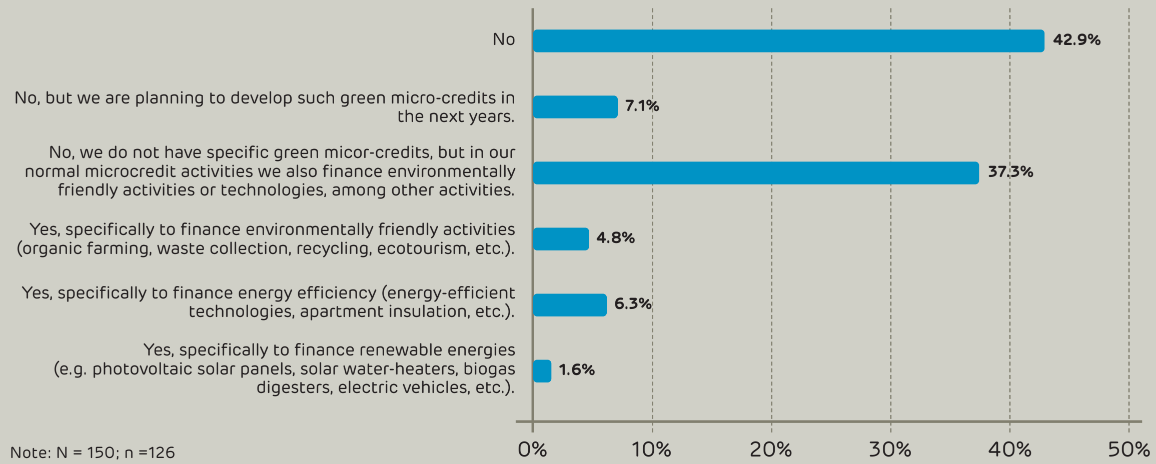
Besides these product features, the survey includes for the first time a question related to the provision of microloans specific to fund environmentally friendly purposes, the so called green microloans or green microfinance[28]. This is a new trend on the European microfinance agenda mainly promoted by politicians and researchers. So far, it is not a widespread focus

25 Here it is important to note that the online survey allowed only providing whole numbers by the MFIs, so that the average numbers are only an approximation of the real value of the numbers.
26 See a detailed description of these factors in EMN (2010). As these relationships have not changed since then, we limit our explanations to the description of the new data.
27 The only exception is in Ireland where one MFI reported additional fees amounting to 27 percent of the loan volume.
28 For more information, please see Forcella (2013).

of the MFIs, but already a significant portion of the MFIs reported to be involved in this field (Figure 7). Whereas many MFIs report to finance green projects through their normal lending activities (37% of MFIs surveyed), only a few report specifically financing these projects (13%), i.e. renewable energy, energy efficiency and environmentally friendly activities. The majority reported that they do not have any policy in this regard (43%), but another 7% of MFIs surveyed say they are planning to develop products for green microfinance in the future.

Figure 7

Provision of green microloans in Europe



Note: N = 150; n =126

Table 13

Provision of green microloans by country

Country	Yes (for renewable energies, e.g. photovoltaic)	Yes (for energy efficiency, e.g.apartment insulation)	Yes (for environmentally friendly activities, e.g. organic farming)	No (but integrated in normal microlending activities)	No (but in planning)	No.	'n' observations
Austria				100.0%			1
Belgium			40.0%	40.0%	20.0%		5
Bosnia and Herzegov.		28.6%		28.6%	14.3%	28.6%	7
Bulgaria				66.7%		33.3%	3
Croatia						100.0%	1
France		28.6%		42.9%		28.6%	7
Germany			9.5%	47.6%	9.5%	33.3%	21
Greece				100.0%			1
Hungary				44.4%	11.1%	44.4%	9
Ireland				50.0%		50.0%	2
Italy	5.6%		5.6%	16.7%	11.1%	61.1%	18
Latvia				100.0%			1
Lithuania				100.0%			3
Macedonia							2
Netherlands, the				100.0%			1
Poland				33.3%		66.7%	12
Portugal				66.7%		33.3%	3
Romania		5.9%	5.9%	29.4%	11.8%	47.1%	17
Serbia		33.3%		33.3%		33.3%	3
Spain	16.7%			16.7%		66.7%	6
Switzerland				100.0%			1
United Kingdom						100.0%	3

Note: N = 150; n =126.

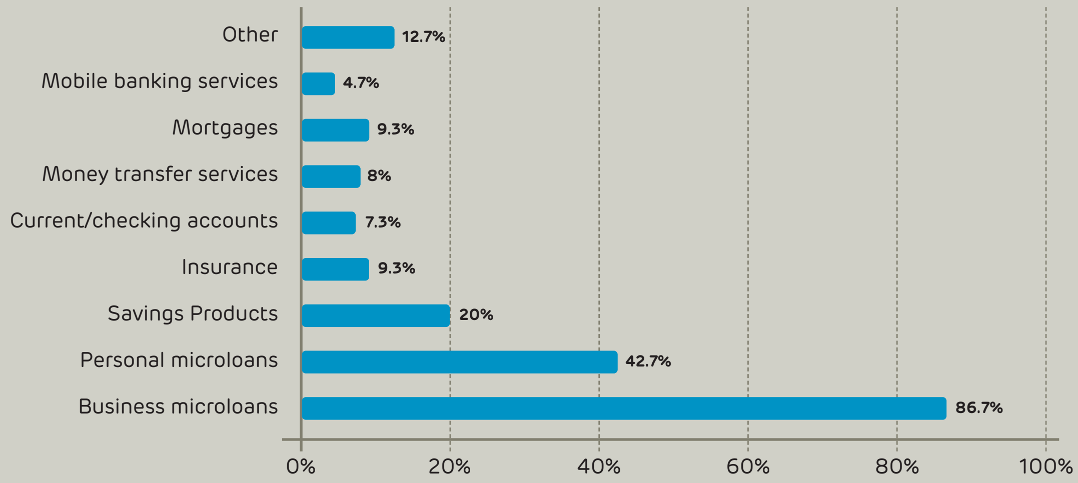
In the previous survey, the authors derived the distribution of defined lending models (micro-enterprise lending vs. social inclusion lending) in the sample of surveyed MFIs by a structural analysis of data inputs. Due to the rise of the microloan disbursement for personal purpose, this iteration does not include such a proxy calculation, since it proved difficult to integrate the provision of the microloans for personal purpose into the concept of micro-lending models. Further research on this topic is needed to derive more reliable insights on the proliferation of discrete lending models in the European microfinance sector.

Furthermore, the survey covers the provision of other financial and non-financial products and services that the surveyed organizations offer their clients. Nearly one million microfinance clients were reached by all financial products (incl. microloans) of the MFIs surveyed according to the survey in 2012. In 2013, this figure topped one million clients. This number is about seven times larger than the outreach surveyed with non-financial products. The data, separated by gender, shows outreach to clients is gender balanced, which contrasts somewhat with the outreach of non-financial services, which is shown below.

The main financial products and services provided outside of loans are money transfer services, mortgages, current/checking accounts, insurance and savings products. With respects to outreach, the microfinance products offered by the MFIs surveyed are still dominated by the disbursement of business/entrepreneurial loans, although the supply of other products or services has increased over recent years. An overview of financial products offered by microfinance organizations in Europe is given in Figure 8[29]. Remarkably, 47% of the institutions surveyed provide no other financial service than microloans for business purposes, which suggests a significant and gradient share of specialized micro-lending institutions in the European sector.

Figure 8

Share of financial products and services offered



Note: N = 150. The figures do not add up to 100%, since multiple answers were allowed in the questionnaire.

Next to microloans (business and personal), the most popular product is microsavings, offered by 20% of the surveyed MFIs, an increase of 3% compared to the last survey. Microsavings are followed in popularity by insurance, current and checking accounts, money transfer services, mortgages (all offered by nearly ten percent of surveyed MFIs) and mobile banking services (offered by around five percent of MFIs). The offering of some of these listed financial products and services is restricted for non-banking, non-financial institutions and NGOs by the respective legal frameworks in the countries (see country profiles in Appendix in Section 9), e.g. NBFIs are not allowed to collect savings in the Netherlands or in Romania. Thus, not every institution surveyed acts in an environment where it can decide which financial products or services to offer.

Aside from these financial products and services (which might be summarized under traditional banking services), many European MFIs provide non-financial services as well. Of the MFIs surveyed, less than a third (29%) do not offer any non-financial services. For the first time, MFIs providing non-financial services were asked how many clients they reached with these services. Initially, a strong increase can be observed in the number of clients reached with non-financial services from 2012 to 2013 (26%). The highest number of clients can be found among the MFIs surveyed in Germany (52,000), Romania (42,000) and France (37,000).

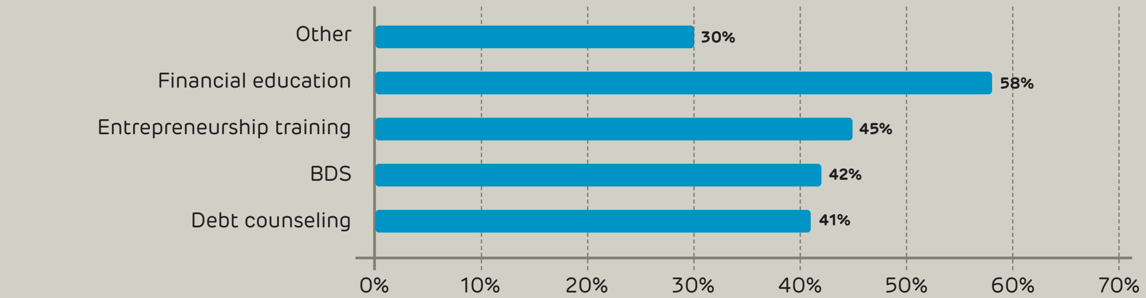
29 The findings for the provision of Business Development Services (BDS) will be discussed in the following in this chapter.

When looking at the data segregated by gender, it can be observed that outreach is quite balanced in most countries, with a slightly higher share of women overall. Comparing the outreach between financial and non-financial products, a significant difference can be found in France: only one quarter of financial product clients are male, whereas men account for nearly two thirds of non-financial products. In Serbia, the opposite holds true: the majority of clients for non-financial products are women.

Among the MFIs that reported to offer non-financial services, financial education services (58%; 2011: 24%)[30] and entrepreneurship training (45%, 2011: 30%) are the most widespread (see Figure 9). This is followed by business development services (42%, 2011: 38.5%) and debt counselling services (41%).

Figure 9

Share of non-financial products and services offered

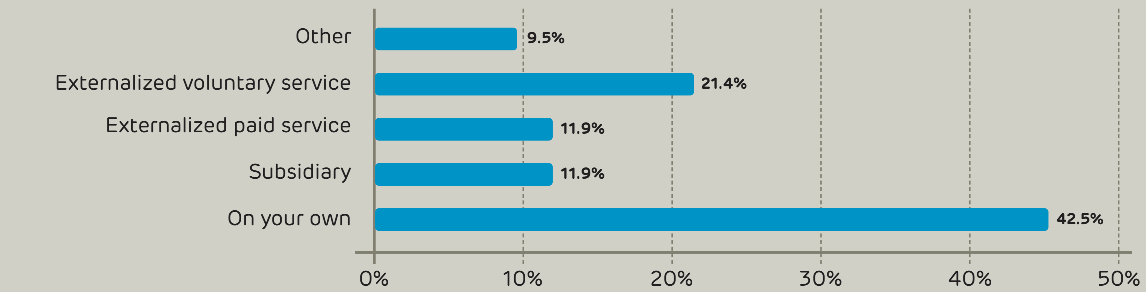


Note: N = 150. The figures do not add up to 100%, since multiple answers were allowed in the questionnaire.

The widest supply of non-financial services can be found among the surveyed MFIs in Italy. Among the organizations surveyed from Romania, debt counselling and financial education are the most prominent non-financial services. In certain countries (Greece, Latvia, Croatia, Austria and Bosnia-Herzegovina), no offer of non-financial services seems to exist. Less than a third of all MFIs that participated in the survey reported to offer BDS for their clients (28%), a slight increase compared to the 2011 iteration of the survey (26%). Figure 10 shows that most MFIs offer at least a part of business development services on their own (45.2%). However, the use of external voluntary services is also a common way of offering BDS (21.4%).

Figure 10

Share of BDS*-types offered



Note: N = 150; n = 37 (*BDS = Business Development Services).

30 Please note that the results of the previous survey were collected with a different question design, and thus, the comparability of the outcomes is limited.

5

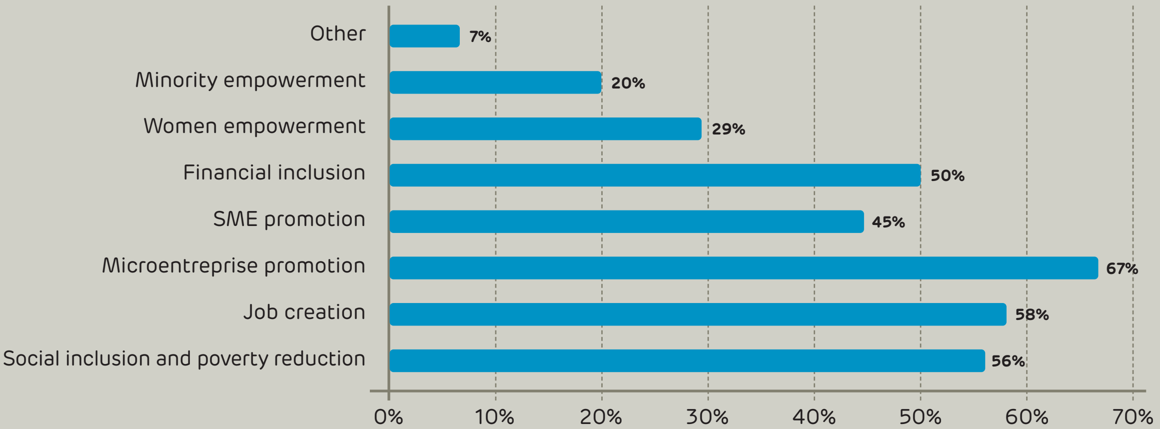
Social Mission and Target Groups' Outreach

5.1 MFIs' Mission Statements

More than 90% of surveyed institutions provided information on their mission. Figure 11 presents the outcome for eight types of missions, whereas Table 15 shows the outcomes by country. The most widespread mission of MFIs is microenterprise promotion with a 67% response rate (2011: 69%), followed by job creation (58%, 2011: 58%). The next most popular responses were social inclusion and poverty reduction (56%, 2011: 42%), financial inclusion (50%, 2011: 49%) and small and medium enterprise (SME) promotion (45%, 2011: 53%). The vast majority of surveyed MFIs (85%) include at least one dedicated employment goal in their mission (microenterprise/SME promotion and/or job creation). Women and minority empowerment was specified by less than 30% of the MFIs reporting to this iteration.

Figure 11

Total share of different missions



Note: N = 150; n = 84 (Social inclusion and poverty reduction), n = 87 (Job creation), n = 100 (Microenterprise promotion), n = 67 (SME promotion), n = 75 (Financial inclusion), n = 44 (Women empowerment), n = 30 (Minority empowerment), n = 10 (Other). It is important to note that multiple answers were allowed here.

The distribution of the reported mission statements per country and institutional type shows no remarkable differences. The three most popular options (i.e. microenterprise promotion, job creation as well as social inclusion and poverty reduction), are supported by a significant share of all institutional types. This is also true for women and minority empowerment, but to a significantly lesser extent.

5.2 MFIs' Target Groups' Outreach

The impact of the MFIs surveyed and of the European microfinance sector as a whole is one of the most important and essential questions for practitioners, policy makers and the public. Therefore, it is important to state clearly that the survey data presented here cannot finally answer these questions. The report only shows the data reported by the MFIs with respect to job creation and target group outreach, i.e. the numbers and shares reported. What the report cannot detail is the impact of microloan provision on the loan recipient/household or his/her business (microenterprise) activities. The methodology and perspective used here is too limited for such analysis. To support such an initiative, clients would need to be asked directly or field experiments would have to be conducted.[31] Only a few of the surveyed MFIs collect this kind of data on a regular basis themselves.

The impact of European microfinance on employment is still hard to measure since most European MFIs do not or cannot regularly track how many jobs are created or saved by their activity[32]. As a proxy, the reported number of supported enterprises and start-ups is used here, which must be interpreted cautiously, as the MFIs reporting (see n = observations per country) to the survey do not cover the whole microfinance/micro-lending market in Europe or in any given country. Another issue is the impossibility to state that the numbers shown below are exclusive, i.e. the presented numbers indicate so many jobs are saved or created in 2012 or 2013 respectively. Yet, it is probable that the numbers include the double counting of beneficiaries as many microloans are for a duration of more than 12 months.

The survey shows that a minimum of 105,920 and 121,270 microenterprises and start-ups were supported in 2012 and 2013 respectively by the surveyed organizations. For instance, if it is assumed that, on average, two jobs are created/preserved in the supported microenterprises and start-ups[33], the resulting number of jobs created by the loans for 2012 and 2013 is at least 250,000 throughout Europe. If the analysis is limited to EU member states, the calculation has an impact on at least 150,000 jobs (2012: 66,749 supported microenterprises and start-ups, 2013: 75,707 supported microenterprises and start-ups).

Table 14

Number of existing and start-up enterprises supported by microloans for business purpose by country (2012, 2013)

Country	2012 'n' observations	2012 no.	2012 share	2013 'n' observations	2013 no.	2013 share
Austria	1	83	0.1%	1	61	0.1%
Belgium	5	1,082	1.0%	5	1,205	1.0%
Bosnia and Herzegov.	5	31,591	29.8%	5	35,732	29.5%
Bulgaria	3	116	0.1%	3	231	0.2%
France	6	29,284	27.6%	6	31,858	26.3%
Germany	18	8,216	7.8%	19	8,675	7.2%
Hungary	9	1,166	1.1%	9	842	0.7%
Ireland	1	4	0.0%	2	135	0.1%
Italy	15	1,444	1.4%	16	584	0.5%
Lithuania	3	430	0.4%	3	574	0.5%
Macedonia	2	2,418	2.3%	2	2,388	2.0%
Netherlands, the	1	2,842	2.7%	1	3,800	3.1%
Poland	12	4,534	4.3%	12	5,180	4.3%
Portugal	3	274	0.3%	3	235	0.2%
Romania	11	5,683	5.4%	12	5,910	4.9%
Serbia	3	5,144	4.9%	3	7,421	6.1%
Spain	5	11,341	10.7%	5	15,850	13.1%
Switzerland	1	18	0.0%	1	22	0.0%
United Kingdom	2	250	0.2%	2	567	0.5%
Total	**106**	**105,920**	**100%**	**110**	**121,270**	**100%**

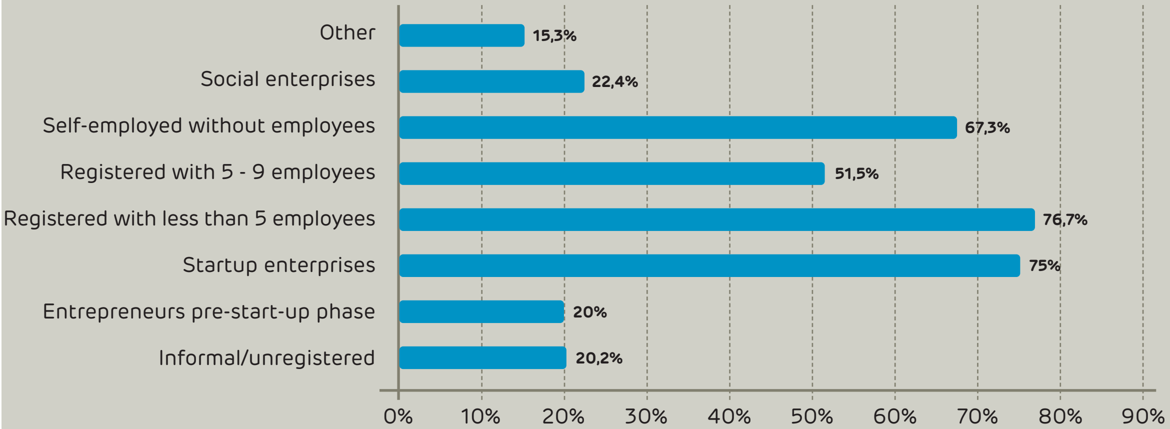
Note: N = 150; n = 106 (2012), n = 110 (2013). No data available for Croatia, Greece, Latvia, Liechtenstein, and Malta.

31 E.g. Banerjee and Duflo (2011)
32 There is also a limit to this type of impact assessment, see Balkenhol and Guézennec (2014)
33 A proxy for the employment effect of supported start-ups and existing microenterprises need to take into account the direct impact on jobs (self-employment of the entrepreneur, survival of the microenterprise supported) and the indirect effect on future employment by the supported businesses. A recent study of ILO on microcredit in France calculated an average effect of 1.5 direct jobs created/preserved per supported micro business (see Balkenhol and Guézennec (2014)). Since microcredit in France is mainly focused on lending to micro start-ups out of unemployment and many MFIs in the survey also support existent microenterprises that featured an average number of two employees for 2013 in Europe (see Gagliardi et al (2013)), it seems feasible to use a factor of two as the proxy for the employment effect of one supported start-up/enterprise.

In addition, participating MFIs were asked to identify the type of business they target. Figure 12 shows the distribution of the MFIs among the businesses supported. The output displays more than 77% of MFIs focus on registered enterprises with less than five employees (2011: 62%), followed by start-up enterprises with 75% (2011: 80%) and self-employed without employees with 67.3% (2011: 72%). Significantly, less surveyed MFIs supported entrepreneurs in the pre-start-up phase (29%). Registered businesses with five to nine employees show a slight increase to 52% compared to 49% in the previous survey round. The share of MFIs targeting "social enterprises" stayed constant at 22% since the last iteration.

Figure 12

Share of different target groups regarding microloan provision for business purpose



Note: N = 150; n = 99 (Informal/unregistered), n = 100 (Entrepreneurs pre-start-up phase), n = 104 (Startup enterprises), n = 103 (Registered with less than 5 employees), n = 101 (Registered with 5 - 9 employees), n = 101 (Self-employed without employees), n = 98 (Social Enterprises), n = 98 (Other).

The distribution across institutional structures shows the range of focus and coverage of microloans for business purpose, which is still the majority of the microloans provided in terms of value and number of loans disbursed. For instance, banks and governmental bodies reported not to target informal and unregistered businesses, which is associated with the legal regulations and rules they have to satisfy to grant loans. This is a clear contrast to NGOs/foundations and microfinance associations. Furthermore, microfinance associations and governmental bodies report high outreach for pre-start-up entrepreneurs and start-up enterprises. Conversely, non-bank financial institutions focus more on registered business with less than five employees and the self-employed.

The availability of data on the outreach of European MFIs to specific target groups and social performance indicators remains limited. The results of the survey indicate that women continue to be underrepresented as a target group (compared to the gender balance in the total population), although to a lesser extent than in the previous years. In 2013, roughly a third of all surveyed organizations offered information about the share of loans to women. Forty-one percent of all microloans distributed were given to women, an increase of 3% compared to the 2011 survey and 14% compared to the 2009 survey. Information on the outreach to ethnic minorities and immigrants[34] is even scarcer.

34 For the purpose of this survey, "ethnic minority" refers to those individuals who are not a member of the national majority ethnic group. They may come from migrant, indigenous or landless nomadic communities. Immigrants are those individuals, not born in the country of residence. This definition was highlighted in the online survey tool.

Table 15

Share of value of microloans disbursed by target groups and countries (2013)

Country	2013 n	2013 Total value of loans (EUR)	RURAL n	RURAL share	RURAL ~ in value of loans (EUR)	URBAN n	URBAN share	URBAN ~ in value of loans (EUR)	UNEMPLOYED n	UNEMPLOYED share	UNEMPLOYED ~ in value of loans (EUR)
Austria	1	137,000	1	60%	82,200	1	40%	54,800	1	72%	98,640
Belgium	5	11,619,371	3	0%	0	3	100%	11,619,371	3	49%	5,693,492
Bosnia and Herzegov.	6	194,426,889	4	64%	123,461,075	4	37%	70,965,814	4	40%	76,798,621
Bulgaria	3	2,647,816	3	40%	1,059,126	3	60%	1,588,690	3	5%	132,391
France	7	276,069,105	5	17%	46,931,748	5	51%	140,105,071	5	83%	227,757,012
Germany	21	150,888,778	17	18%	26,858,202	17	29%	43,556,561	17	14%	21,325,614
Hungary	10	45,628,964	5	16%	7,300,634	5	24%	10,950,951	5	12%	5,475,476
Ireland	1	1,430,000	1	0%	0	1	0%	0	1	60%	858,000
Italy	17	64,600,497	13	7%	4,621,420	14	46%	29,854,658	13	27%	17,293,056
Latvia	1	2,270,000	1	50%	1,135,000	1	50%	1,135,000	1	0%	0
Lithuania	3	9,149,170	3	0%	0	3	0%	0	3	2%	182,983
Macedonia	2	15,079,176	2	30%	4,448,357	1	69%	10,404,631	1	0%	0
Poland	12	198,631,554	10	46%	91,370,515	10	37%	73,493,675	10	6%	11,586,841
Portugal	3	2,519,000	2	0%	0	2	0%	0	2	20%	491,205
Romania	17	103,653,142	15	36%	37,176,927	15	47%	48,786,079	14	4%	3,775,936
Serbia	3	55,797,071	3	46%	25,666,653	3	34%	18,971,004	3	0%	0
Spain	5	319,103,169	6	2%	6,382,063	6	18%	57,438,570	6	30%	95,092,744
Switzerland	1	303,250	1	0%	0	1	30%	90,975	1	45%	136,463
United Kingdom	2	5,828,403	2	0%	0	3	100%	5,828,403	3	48%	2,768,491

Country	2013 n	2013 Total value of loans (EUR)	WOMEN n	WOMEN share	WOMEN ~ in value of loans (EUR)	IMMIGRANTS/ ETHNIC MINORITIES n	IMMIGRANTS/ ETHNIC MINORITIES share	IMMIGRANTS/ ETHNIC MINORITIES ~ in value of loans (EUR)	YOUTH (18-25) n	YOUTH (18-25) share	YOUTH (18-25) ~ in value of loans (EUR)
Austria	1	137,000	1	37%	50,690	1	25%	34,250	1	6%	8,220
Belgium	5	11,619,371	3	40%	4,647,748	3	61%	7,029,719	3	11%	1,278,131
Bosnia and Herzegov.	6	194,426,889	4	51%	98,185,579	4	0%	0	4	7%	13,609,882
Bulgaria	3	2,647,816	3	40%	1,067,952	3	6%	158,869	3	8%	202,999
France	7	276,069,105	5	39%	107,666,951	5	10%	27,606,911	5	20%	55,903,994
Germany	21	150,888,778	17	27%	41,444,118	17	22%	33,094,939	17	5%	7,946,809
Hungary	10	45,628,964	5	7%	3,102,770	5	6%	2,737,738	5	6%	2,737,738
Ireland	1	1,430,000	1	0%	0	1	0%	0	1	0%	0
Italy	17	64,600,497	15	25%	16,063,990	15	25%	16,038,150	15	12%	7,997,542
Latvia	1	2,270,000	1	0%	0	1	0%	0	1	0%	0
Lithuania	3	9,149,170	3	0%	0	3	0%	0	3	21%	1,951,823
Macedonia	2	15,079,176	2	62%	9,349,089	2	47%	7,087,213	1	6%	904,751
Poland	12	198,631,554	10	30%	60,251,571	10	0%	0	10	5%	9,931,578
Portugal	3	2,519,000	2	27%	667,535	2	10%	239,305	2	9%	214,115
Romania	17	103,653,142	15	38%	39,180,888	13	3%	3,269,061	14	7%	7,255,720
Serbia	3	55,797,071	3	48%	26,782,594	3	6%	3,347,824	3	0%	0
Spain	5	319,103,169	6	18%	58,714,983	6	23%	72,117,316	6	5%	14,678,746
Switzerland	1	303,250	1	55%	166,788	1	0%	0	1	0%	0
United Kingdom	2	5,828,403	3	58%	3,351,332	3	65%	3,788,462	2	15%	874,260

Country	2013 n	2013 Total value of loans (EUR)	DISABLED PEOPLE n	DISABLED PEOPLE share	DISABLED PEOPLE ~ in value of loans (EUR)	EXCLUDED FROM MAINSTREAM FINANCIAL SERVICES n	EXCLUDED FROM MAINSTREAM FINANCIAL SERVICES share	EXCLUDED FROM MAINSTREAM FINANCIAL SERVICES ~ in value of loans (EUR)	NO CLIENT-SPECIFIC TARGETING n	NO CLIENT-SPECIFIC TARGETING share	NO CLIENT-SPECIFIC TARGETING ~ in value of loans (EUR)
Austria	1	137,000	1	6%	8,220	1	100%	137,000	1	0%	0
Belgium	5	11,619,371	3	0%	0	4	73%	8,511,189	4	0%	0
Bosnia and Herzegov.	6	194,426,889	4	2%	2,916,403	4	64%	123,947,142	3	0%	0
Bulgaria	3	2,647,816	3	0%	0	3	18%	485,433	3	3%	88,261
France	7	276,069,105	5	5%	13,803,455	5	65%	179,444,918	6	48%	131,132,825
Germany	21	150,888,778	17	0%	502,963	17	39%	59,277,734	22	39%	59,098,105
Hungary	10	45,628,964	5	2%	912,579	7	72%	32,918,038	7	59%	26,921,089
Ireland	1	1,430,000	1	0%	0	1	100%	1,430,000	2	0%	0
Italy	17	64,600,497	13	14%	8,894,992	15	57%	36,693,083	15	25%	15,977,856
Latvia	1	2,270,000	1	0%	0	1	0%	0	1	0%	0
Lithuania	3	9,149,170	3	1%	60,994	3	0%	0	3	0%	0
Macedonia	2	15,079,176	1	0%	0	2	1%	150,792	1	0%	0
Poland	12	198,631,554	10	0%	0	10	0%	0	11	43%	85,127,809
Portugal	3	2,519,000	2	0%	0	2	50%	1,259,500	3	50%	1,259,500
Romania	17	103,653,142	13	0%	398,666	13	13%	13,076,243	15	17%	17,324,882
Serbia	3	55,797,071	3	0%	0	3	20%	11,159,414	3	0%	0
Spain	5	319,103,169	6	2%	7,020,270	5	25%	79,775,792	5	0%	0
Switzerland	1	303,250	1	0%	0	1	95%	288,088	1	0%	0
United Kingdom	2	5,828,403	2	5%	291,420	2	55%	3,205,622	2	0%	0

Note: n = no. of observations. The figures derived for the respective target group outreach category ("~ in value of loans") are merely approximations. No data available for Croatia, Greece, Liechtenstein, Malta, and the Netherlands. N = 150; n = 98 (rural), n = 100 (urban), n = 101 (women), n = 98 (immigrants), n = 97 (youth), n = 94 (disabled people), n = 100 (excluded from mainstream financial services), n = 106 (no client-specific targeting).

The available information indicates that the share of loans to this target group increased compared to 2011 (16.6% compared to 12% in 2011). Around 39% of the MFIs surveyed explicitly target urban populations, whereas only 24.3% of these reported to serve rural populations in 2013. Other major groups targeted among the MFIs surveyed are unemployed persons or people on welfare benefits with a share of 21.1% and persons excluded from mainstream financial services with 41%.

Furthermore, Table 15 shows the share of target groups regarding the value of microloans disbursed by country. This includes target group outreach for both microloans for business and personal consumption and illustrates the groups are not exclusive, i.e. a loan might be issued to e.g. a woman from a rural area, so the value of the loan will be double-counted under the rural population and the women category. In general, the country with the highest share of loans disbursed to rural populations is Bosnia-Herzegovina with over 123m EUR in 2013 or 64% of the total value of microloans disbursed by surveyed MFIs. The ten institutions surveyed from Poland provide the second highest value of rural microloans is disbursed with over 90m EUR in 2013 (or 46%). This outcome might be related to higher agricultural activities in those countries relative to the overall economy. Regarding urban populations, the highest share of loans disbursed to those in urban areas is found among the MFIs reported from France with around 140m EUR (51%), Bosnia-Herzegovina with 71m EUR (37%) and Spain with almost 60m EUR (18%).

In 2013, France issued microloans of almost 230m EUR (83%) to former unemployed persons, the highest value among all countries. Germany issued around 21m EUR (14%) or Spain around 95m EUR (30%). The same is true for the disbursement of microloans to women: the MFIs reporting from France distribute the most loans to women with almost 108m EUR (39%), followed by Bosnia-Herzegovina with 98m EUR (51%). It is important to note here and for all shares/values of the targets' group outreach that the outcome of this edition finds as well significant differences in shares of loans disbursed, for instance, to female credit, but as well other types of recipients across countries, which is not only forced by the real disbursement of microloans, but as well by the coverage or participation of the organizations in the survey. Compared to the female credit recipients, the value of microloans disbursed to immigrants or ethnic minority groups is significantly lower. For instance, the highest value is presented for Spain with 72 m EUR (23%), followed by Germany with 33 m EUR (22%).

European policy makers see the youth, especially the unemployed youth from Southern European countries, as an important (future) target group for microloan provision in Europe. So far, only a few MFIs report focusing on this target group: the highest share is provided by the French MFIs covered in the survey with 56m EUR (39%). The same is true for the "disabled persons" target group. For people excluded from mainstream financial services, the highest value of microloans issued to this target group is reported by the French MFIs with 179m EUR (65%) in 2013, followed by Bosnia-Herzegovina with 124m EUR (64%) and Spain with almost 80m EUR (25%).

6

Portfolio Quality and Financial Performance

One of the main efforts of this iteration of the EMN survey was to increase transparency regarding the sector's performance and sustainability by engaging MFIs to provide precise data. In previous versions, the response rates regarding indicators about portfolio quality, profitability and cost structure were not sufficient to provide a consistent picture.

The improved survey methodology has significantly increased the quality and quantity of information provided by participating MFIs, especially for portfolio quality and financial performance indicators, although the survey has still some disparities in the quality and quantity of the collected data.

6.1 Quality of the Loan Portfolio

In addition to the positive growth trends of the total portfolio outstanding, the data collected indicates that the quality for all types of microloans and providers also trends positively. Compared to the previous edition of the survey, the response rate for the portfolio-at-risk (PAR 30) question increased to 63% (2011: 40%) and greatly improving the explanatory power of the data entered. Although PAR 30 is still high by international comparison, it is only slightly higher for both covered years covered in the survey (2012: 12.8%, 2013: 13.1%) than in 2011 (12%). However, PAR 30 is markedly lower than in 2009 (16%).

Table 16

Average PAR 30 by country (2012,2013)

Country	2012 n	2012 PAR 30 (%)	2013 n	2013 PAR 30 (%)
Belgium	5	11.8	5	13.4
Bosnia and Herzegov.	6	2.2	6	1.3
Bulgaria	3	9.0	3	7.7
France	5	17.8	6	17.7
Germany	12	6.7	12	7.6
Hungary	8	19.0	8	17.2
Ireland	1	58.0	1	8.0
Italy	12	13.7	12	18.0
Latvia	1	2.0	1	3.0
Macedonia	2	10.5	2	9.0
Poland	11	21.9	11	21.8
Portugal	1	14.0	1	14.0
Romania	17	9.6	17	9.0
Serbia	3	4.7	3	5.3
Spain	4	19.8	4	27.3
Switzerland	NA	NA	1	18.0
United Kingdom	2	8.0	2	8.5
Total	**93**	**12.8**	**95**	**13.1**

Note: n = no. of observations. N = 150; No data available for Austria, Croatia, Greece, Liechtenstein, Lithuania, Malta, and the Netherlands.

A positive trend can be seen among the EU countries, as PAR 30 slightly decreased to 14.3% in 2013 (14% in 2012) compared to 15% in 2011.

Table 17

Average PAR 30 by EU member state (2012,2013)

Country	2012 n	2012 PAR 30 (%)	2013 n	2013 PAR 30 (%)
Belgium	5	11.8	5	13.4
Bulgaria	3	9.0	3	7.7
France	5	17.8	6	17.7
Germany	12	6.7	12	7.6
Hungary	8	19.0	8	17.2
Ireland	1	58.0	1	8.0
Italy	12	13.7	12	18.0
Latvia	1	2.0	1	3.0
Poland	11	21.9	11	21.8
Portugal	1	14.0	1	14.0
Romania	17	9.6	17	9.0
Spain	4	19.8	4	27.3
United Kingdom	2	8.0	2	8.5
Total	**82**	**14.0**	**83**	**14.3**

Note: n = no. of observations. N = 150; No data available for Austria, Croatia, Greece, Lithuania, Malta, and the Netherlands.

This indicates an ongoing positive trend among the MFIs surveyed, as institutions with lower portfolio at risk have lower impairment losses and higher return on assets. Although the total portfolio at risk is decreasing slowly, PAR 30 remains quite high in some of the covered EU countries. For instance, in Spain and Poland report 27.3% and 21.8% respectively of the total outstanding loan portfolio was engaged in risky loans during 2013.

Due to the improved response rate, PAR 30 is shown for the first time distinguished by institutional types. Governmental bodies seem to show the best loan portfolio quality (1% PAR>30 weighted by the total loan portfolio in 2013; however, this observation is supported by only one institution. Credit unions/cooperatives report the next lowest PAR metrics with a PAR 30 of 7% (11 credit unions/cooperatives surveyed). Non-bank financial institutions showed an even higher ratio of problematic loans (PAR 30 of 13% in 2013). Microfinance institutions (PAR 30 of 24% in 2013) and NGOs/foundations (PAR 30 of 18% in 2013) reported the highest PAR ratios. The few banks surveyed performed quite well (PAR 30 of 9% in 2013) in comparison to the non-banking institutions.

Table 18

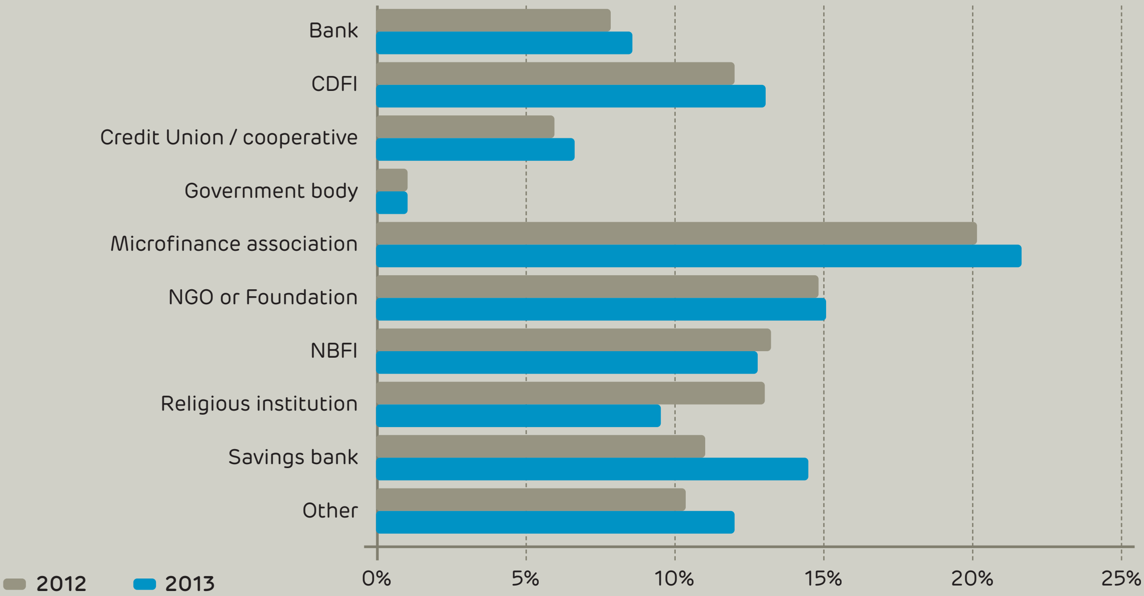
PAR 30 by institutional type (2012, 2013)

Type of institution	2012 n	2012 PAR 30 (%)	2013 n	2013 PAR 30 (%)
Bank	6	7.8	6	8.5
Community Development Financial Institution (CDFI)	1	12.0	1	13.0
Credit Union / cooperative	11	6.0	11	6.6
Government body	1	1.0	1	1.0
Microfinance association	9	20.1	10	21.7
NGO or Foundation	24	14.8	24	15.0
Non-bank financial institution	35	13.3	35	12.7
Other	3	10.3	3	12.0
Religious institution	2	13.0	2	9.5
Savings bank	1	11.0	2	14.5
Total	**93**	**12.8**	**95**	**13.1**

Note: n = no. of observations. N = 150; n = 93 (2012), n = 95 (2013). CDFI = Community Development Financial Institution; NBFI = Non-bank Financial Institution.

Figure 13

PAR 30 by institutional type (2012, 2013)



Note: N = 150; n = 93 (2012), n = 95 (2013). CDFI = Community Development Financial Institution; NBFI = Non-bank Financial Institution.

The average write-off ratio[35] decreased compared to the benchmark year of 2011. Compared to 6% in 2011, write-offs dropped to 3.5% in 2013 (4% in 2012) for all MFIs surveyed (Table 19). Among the MFIs from EU member countries reporting this data, the write off ratio was a bit higher (3.8% in 2013, 4.4% in 2012) than the ratio for all MFIs covered in 2013 (see Table 19). The highest write-off ratios were recorded in Switzerland (13%, only one observation), Italy (6.3%) and the United Kingdom (5.5%, only two observations).

Table 19

Average write-off ratio by country (2012, 2013)

Country	2012 n	2012 Write-off (%)	2013 n	2013 Write-off (%)	Country	2012 n	2012 Write-off (%)	2013 n	2013 Write-off (%)
Belgium	3	1.7	4	3.5	Macedonia	2	3.5	2	2.5
Bosnia and Herzegov.	6	2.3	6	1.5	Poland	5	4.4	6	4.0
Bulgaria	NA	NA	1	1.0	Portugal	NA	NA	1	4.0
France	6	3.8	6	4.7	Romania	2	5.0	5	2.2
Germany	14	2.2	11	3.3	Serbia	3	0.3	3	0.7
Hungary	1	2.0	2	0.7	Spain	3	3.0	2	2.0
Ireland	1	52.0	1	2.0	Switzerland	1	7.0	1	13.0
Italy	8	4.3	9	6.3	United Kingdom	2	5.0	2	5.5
Latvia	NA	NA	1	1.0	**Total**	**57**	**4.0**	**63**	**3.5**

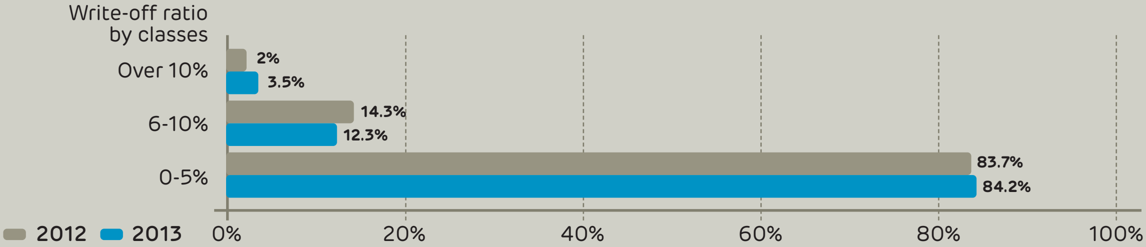
Note: n = no. of observations. N = 150; No data available for Austria, Croatia, Greece, Liechtenstein, Lithuania, Malta, and the Netherlands. CDFI = Community Development Financial Institution; NBFI = Non-bank financial institution.

Figure 14 shows the overall write-off ratio for all MFIs surveyed by class size. Compared to the MFIs surveyed in 2012/2011, a significant increase of MFIs reporting write-off ratios below 5% of the portfolio outstanding is observed (84% of institutions reported levels below 5% in 2013, 70% reported levels below 5% in the previous survey). This indicates a trend of improving portfolio quality of the MFIs surveyed.

35 Write-off ratio refers to the quotient of the value of loans that recognized as uncollectible during period and the average gross outstanding portfolio during period (in percentage).

Figure 14

Share of MFIs by size classes of Write-off ratio (2012, 2013)

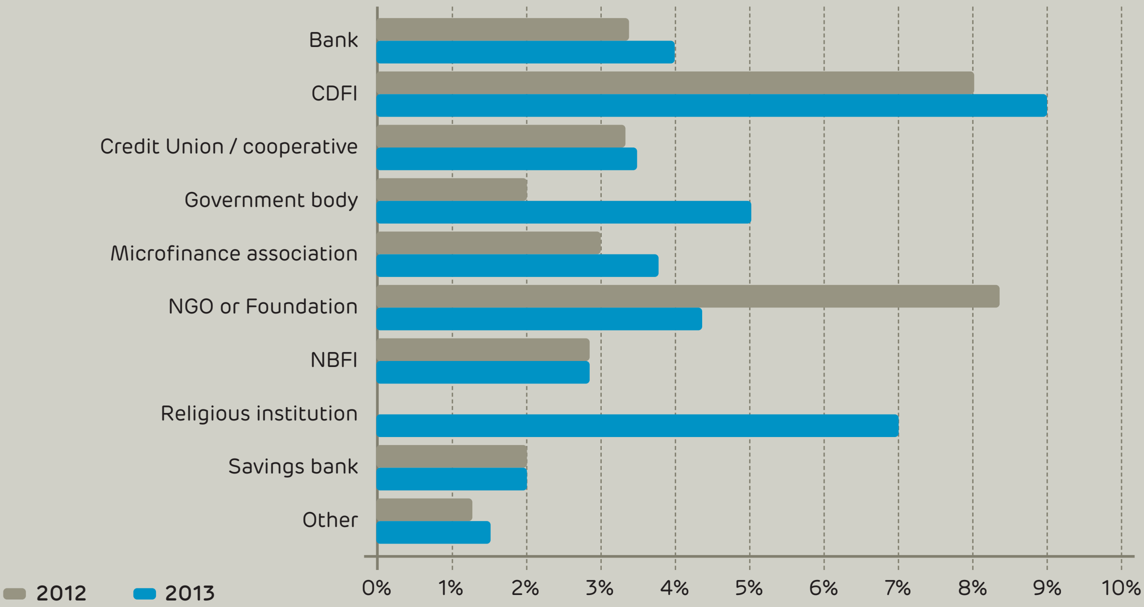


Note: N = 150; n = 57 (2012), n = 63 (2013). One institution was dropped from the data set, is not included in this diagram stated a write-off ratio of -1 in 2013.

Figure 15 displays write off ratios by institutional type: the highest being CDFIs (9% in 2013, one observation) and religious institutions (7% in 2013, one observation). Savings banks (2% in 2013, one observation) and non-banking financial institutions (3% in 2013, twenty-two observations) have the best write off ratios among the MFIs surveyed. The representatives of microfinance associations and NGOs/foundations also reported average write off ratios of 4% in 2013. This is an indication that professional credit and creditworthiness checks as well as recovery procedures and measures for overdue loans are needed.

Figure 15

Write-off ratio by institutional type (2012, 2013)



Note: N = 150; n = 57 (2012), n = 63 (2013)
Due to institutional types: Bank: n = 5 (2012), n = 6 (2013); CDFI: n = 1 (2012), n = 1 (2013); Credit Union: n = 6 (2012), n = 6 (2013); Government body: n = 1 (2012), n = 1 (2013); Microfinance Association: n = 7 (2012), n = 9 (2013); NGO/Foundation: n = 11 (2012), n = 12 (2013); NBFI: n = 21 (2012), n = 22 (2013), Religious institution: NA (2012), n = 1 (2013); Savings bank: n = 1 (2012), n = 1 (2013).
No data available for Austria, Croatia, Greece, Liechtenstein, Lithuania, Malta, and the Netherlands. CDFI = Community Development Financial Institution; NBFI = Non-bank financial institution.

6.2 Profitability, Financial Returns and Cost Structure

Regarding profitability and cost structure, more than half of survey participants provided information for the requested indicators. Consequently, the survey covered only a selection of possible key indicators. The number of these indicators was reduced compared to previous survey iterations to ensure a higher response rate.

The data provided indicates that microfinance providers manage to achieve an overall positive return on assets (2012: 6.7%, 2013: 5.6%). The same is true for the MFIs surveyed from EU member countries, with a return on assets of 4.6% in 2012 and 4.5% in 2013. The high response rate from Romania and its above-average return on assets (8.9% in 2012, 8.6% in 2013) is remarkable. Unfortunately, a reliable benchmark from the two previous survey iterations is missing, so it is not possible to provide any statement regarding the evolution of financial returns in the sector.

Table 20

Return on Assets by country (2012, 2013)

Country	2012 n	2012 Return on Assets (%)	2013 n	2013 Return on Assets (%)	Country	2012 n	2012 Return on Assets (%)	2013 n	2013 Return on Assets (%)
Belgium	1	2.0	NA	NA	Lithuania	1	10.0	1	10.0
Bosnia and Herzegov.	6	3.5	6	4.7	Macedonia	1	1.0	2	2.0
Bulgaria	3	4.3	3	2.3	Poland	8	2.0	7	2.0
Croatia	1	4.0	1	4.0	Romania	16	8.9	16	8.6
France	2	2.0	2	2.0	Serbia	3	4.7	3	3.0
Germany	2	6.0	3	10.0	Spain	1	4.0	1	4.0
Hungary	4	7.2	4	7.4	Switzerland	1	19.0	1	24.0
Ireland	1	7.0	1	2.0	United Kingdom	1	1.0	1	1.0
Italy	2	1.0	2	1.0	**Total**	**54**	**5.2**	**54**	**5.5**

Note: n = no. of observations. N = 150, No data available for Austria, Greece, Latvia, Liechtenstein, Lithuania, Malta, the Netherlands and Portugal.

The participating institutions reported decreasing the level of their operating expenses ratio to 17.7% in 2013 from the 25% figure reported in 2011. The same is true for MFIs surveyed from EU member states, although to a lesser extent, with an average ratio of 23.7% in 2013. In combination with the previously discussed lower impairment losses, this indicates a trend of overall expense reduction, which could lead to improved financial returns for the sector.

Table 21

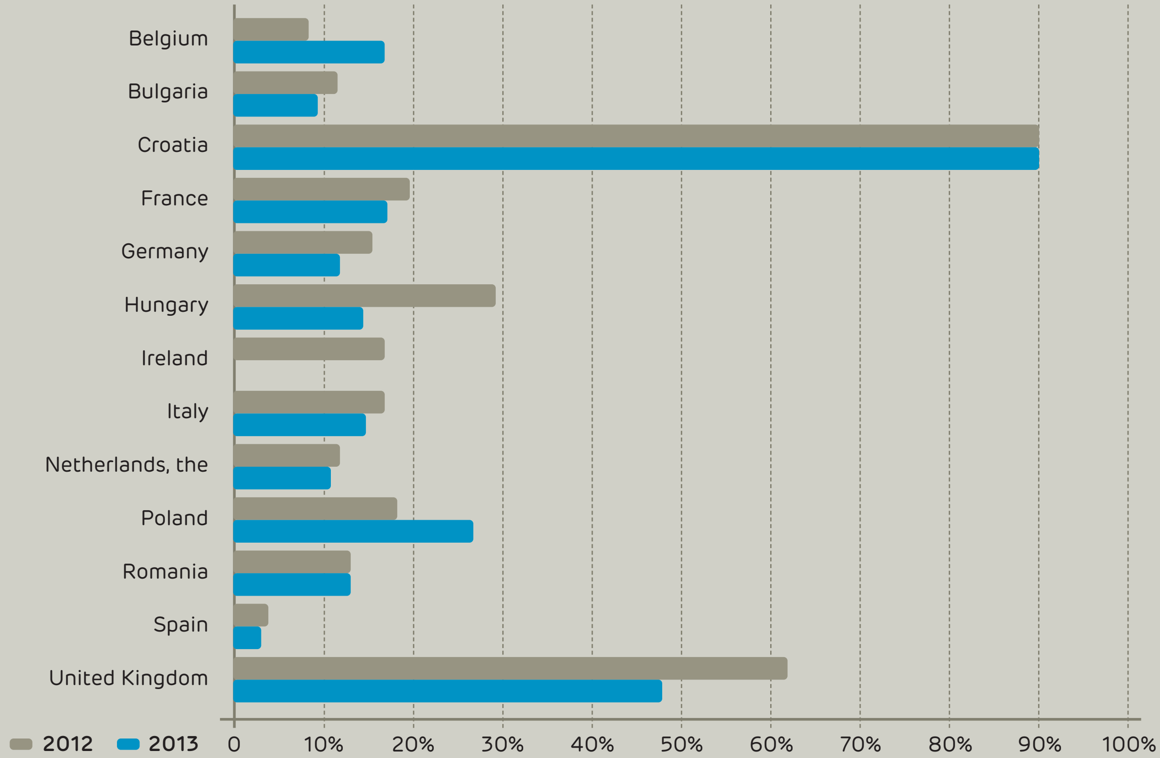
Operating Expense Ratio by country (2012, 2013)

Country	2012 n	2012 Operating Expenses (%)	2013 n	2013 Operating Expenses (%)	Country	2012 n	2012 Operating Expenses (%)	2013 n	2013 Operating Expenses (%)
Belgium	3	8.3	2	17.0	Macedonia	2	13.0	2	13.5
Bosnia and Herzegov.	6	15.3	6	15.7	Netherlands, the	1	12.0	1	11.0
Bulgaria	3	11.7	3	9.7	Poland	8	18.5	8	27.0
Croatia	1	90.0	1	90.0	Romania	17	13.2	17	13.0
France	3	19.7	2	17.5	Serbia	3	23.3	3	24.7
Germany	6	15.7	6	12.0	Spain	1	4.0	1	3.0
Hungary	6	29.5	6	14.4	Switzerland	1	40.0	1	39.0
Ireland	1	17.0	NA	NA	United Kingdom	1	62.0	1	48.0
Italy	6	17.0	6	15.0	**Total**	**69**	**18.5**	**66**	**17.7**

Note: n = no. of observations. N = 150; n = 69 (2012), n = 66 (2013). No data available for Austria, Greece, Latvia, Liechtenstein, Lithuania, Malta, and Portugal.

Figure 16

Operating Expense Ratio by EU member state (2012, 2013)

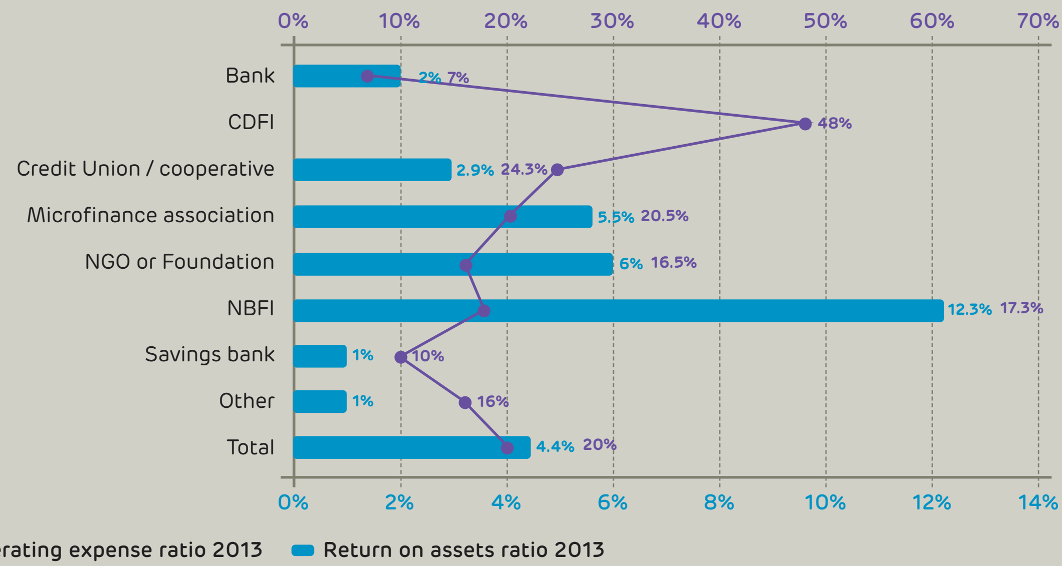


Note: N = 150; n = 57 (2012), n = 54 (2013). No data available for Austria, Greece, Latvia, Lithuania, Malta, and Portugal.

Figure 17 presents the return on assets and operating expenses for 2013 across the various institutional types. On average, all institutional structures show a positive return on assets. Non-banking financial institutions have the highest return on assets with 12% on average in 2013, but also show a middling operating expense ratio. The highest operating expense ratio was reported by the credit unions/cooperatives at roughly 25%.

Figure 17

Return on Assets and Operating Expense Ratio for 2013 by institutional type (2013 only)

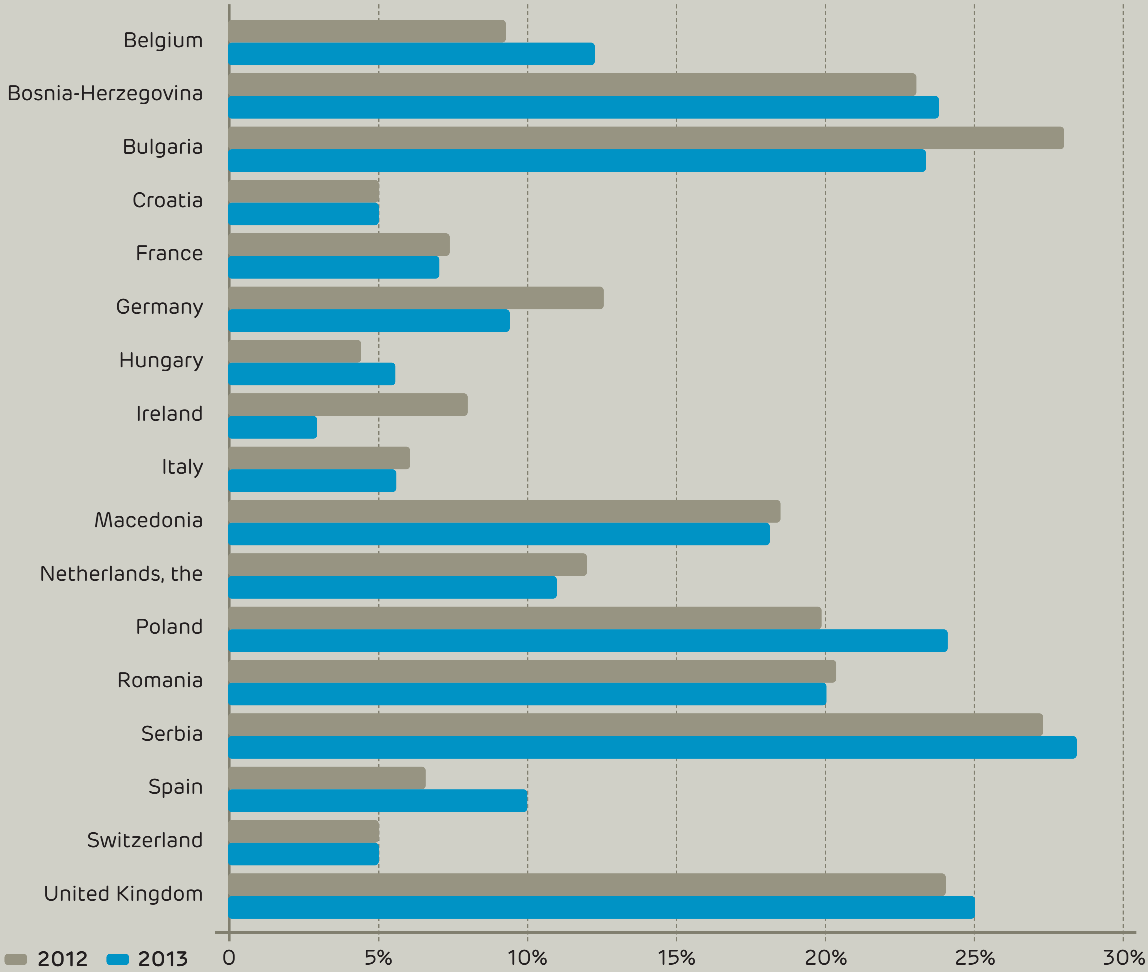


Note: N = 150; n = 56 (Return on assets ratio 2013); n = 66 (Operating expense ratio 2013). No data available for Government body and Religious institution. For the CDFI (= Community Development Financial Institution) there is only data for the operating expense ratio available. That is why that CDFI is not included in the illustration. NBFI = Non-bank financial institution.

For 2013, 48% of the participating MFIs provided information regarding their portfolio yield ratio[36] (Figure 18). The portfolio yield was 15.8% for 2012 and 16.1% across all MFI respondents to the question. The highest portfolio yields are observed in Serbia, the United Kingdom and Poland. The lowest portfolio yields are shown in Switzerland and Ireland, represented by new market entrants. Around 26% of respondents earned income equivalent to between zero and five percent of their gross loan portfolio (2011: 29%). This decrease in the lower earning size class indicates an increase in the higher earning size ranges, which is seen in the rise to 33% of the MFIs covered (2013) in the size range of 16% to 25% of portfolio yield ratio compared to 27% in 2011 (Table 22).

Figure 18

Portfolio Yield Ratio by country (2012, 2013)



Note: N = 150; n = 73 (2012); n = 71 (2013). No data available for Austria, Greece, Latvia, Liechtenstein, Lithuania, Malta, and Portugal.

Table 22

Portfolio Yield Ratio by size classes (2012, 2013)

Portfolio Yield in classes	2012 n	2012 share	2013 n	2013 share
0-5%	19	26.03%	18	25.71%
6-15%	18	24.66%	16	22.86%
16-25%	23	31.51%	23	32.86%
over 25%	13	17.81%	13	18.57%
Total	**73**	**100%**	**70**	**100%**

Note: n = no. of observations. N =150; n = 73 (2012), n = 70 (2013).

36 Portfolio yield was defined as the relationship between earned revenue (from interest earnings and fees) and the average gross outstanding portfolio during the respective period, measured here in percentage.

Given the low response rate for the operational self-sufficiency ratio in the previous iteration, a response rate of 45% in 2013 can be considered a success (Table 23). The average operational self-sufficiency rate among respondents was 101.8% in 2012 and 88.4% in 2013. The highest operational self-sufficiency rate was 143% in Lithuania (one observation) while the lowest was 26% in Ireland (one observation).

Fifty-nine percent, of respondents to the OSS question were operationally sustainable in 2013 (with a 45% response rate). In 2012, 55% of MFIs were operationally sustainable (43% response rate for this indicator). These figures can be compared to the benchmark of 60% OSS in 2009 (with a 30% response rate).

Table 23

Operational Self-Sufficiency Ratio (OSS) by country (2012, 2013)

Country	2012		2013		Country	2012		2013	
	n	OSS (%)	n	OSS (%)		n	OSS (%)	n	OSS (%)
Belgium	3	79.0	2	38.0	Lithuania	1	204.0	1	143.0
Bosnia and Herzegov.	6	98.5	6	105.0	Macedonia	2	103.0	2	107.0
Bulgaria	3	125.3	3	119.0	Poland	8	57.1	8	56.5
France	3	36.0	4	27.3	Romania	17	121.8	17	120.4
Germany	5	73.2	7	51.7	Serbia	3	100.3	3	97.7
Hungary	5	98.0	6	104.1	Spain	2	122.5	2	119.5
Ireland	1	33.0	1	26.0	United Kingdom	1	41.0	1	57.0
Italy	4	90.0	4	95.0	**Total**	**64**	**101.8**	**68**	**88.4**

Note: n = no. of observations. N = 150; No data available for Austria, Croatia, Greece, Latvia, Liechtenstein, Malta, the Netherlands, Portugal, and Switzerland.

7

Funding Structure

In this survey iteration, MFIs were asked for the first time to provide information about the funding structure of their institutions. Overall, the survey indicates that MFIs use a wide range of funding sources. Funding sources range from EU level initiatives (European Social Fund (ESF), e.g. in Italy or Germany; funds from the EC – Progress Microfinance Facility) to national, regional or local resources[37].

Table 24 shows the main funding sources reported by participating MFIs for all countries. In 2013, 30.5% of the funding available to MFIs was in the form of equity, followed by ~26% from other sources (e.g. earnings, collected deposits, donations, etc.). Twenty-five percent was available in the form of grants and another 22% was available as debt financing. Guarantees were indicated to play a minor role as a funding source, although the majority of MFIs reported that the information was not available[38].

The countries with the highest absolute number of responses for this question are Romania, Italy, Poland and Germany. By emphasizing these countries, the high diversity among MFIs funding structure can be highlighted. For instance, the main funding sources for Romania show the maturity of the sector through a high share of debt, equity and other sources, i.e. earnings and collected deposits, which assumes a higher share of market driven sources.

Table 24

Main funding sources by country

Country	n 2012	n 2013	Grants (%) 2012	Grants (%) 2013	Debt financing (%) 2012	Debt financing (%) 2013	Equity (%) 2012	Equity (%) 2013	Guarantees (%) 2012	Guarantees (%) 2013	Other (%) 2012	Other (%) 2013
Belgium	5	5	24.8	28.4	3.8	3.0	68.4	66.2	2.6	2.4	0.5	0.0
Bosnia and Herzegov.	5	5	2.4	2.4	71.0	70.8	24.0	24.8	0.0	0.0	2.6	2.0
Bulgaria	3	3	0.0	0.0	32.3	24.3	43.3	51.7	0.0	0.0	24.3	24.0
Croatia	1	1	100.0	100.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
France	3	3	65.0	65.0	5.0	5.0	16.5	16.5	0.0	0.0	31.0	31.0
Germany	10	10	9.0	9.0	16.3	14.9	52.8	54.5	6.7	6.7	15.2	14.9
Hungary	8	8	31.1	20.8	12.4	11.8	26.3	36.0	0.0	0.0	34.4	35.9
Ireland	2	2	50.0	50.0	50.0	50.0	0.0	0.0	0.0	0.0	0.0	0.0
Italy	13	13	46.5	46.5	4.5	4.5	2.5	2.7	13.6	22.7	43.5	50.8
Lithuania	2	2	0.0	0.0	0.0	0.0	0.0	50.0	0.0	0.0	50.0	100.0
Macedonia	2	2	0.5	0.5	43.0	42.0	39.0	38.0	0.0	0.0	17.5	19.5
Netherlands, the	1	1	0.0	0.0	100.0	100.0	0.0	0.0	0.0	0.0	0.0	0.0
Poland	10	10	31.2	32.4	24.0	24.7	34.6	33.9	0.0	0.0	10.2	9.0
Portugal	2	2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0	100.0
Romania	17	16	0.0	0.0	26.6	28.8	38.1	36.5	0.0	0.0	35.3	34.7
Serbia	3	3	0.0	0.0	42.3	41.3	37.7	36.0	0.0	0.0	20.0	22.7
Spain	6	6	75.0	73.5	10.0	10.6	6.6	6.2	2.0	1.6	9.5	11.2
Switzerland	1	1	100.0	100.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
United Kingdom	3	3	33.3	33.3	27.3	25.0	6.0	38.3	33.3	3.3	0.0	0.0
Total	**97**	**96**	**25.1**	**24.8**	**21.8**	**21.7**	**28.0**	**30.5**	**3.7**	**3.8**	**24.1**	**25.9**

Note: n = no. of observations. N = 150; n = 97 (2012), n = 96 (2013). No data available for Austria, Greece, Latvia, Liechtenstein, and Malta.

37 A recent study by evers & jung commissioned by the European Commission on imperfections in the area of microfinance explored the challenges regarding the funding structure of European MFIs. (to be published on the Commission's website).

38 Since portfolio guarantees function in a different way than the other types of funding, it is difficult to calculate their share in the total funding structure of a MFI. Especially guarantees from European Institutions like the guarantee instrument offered by the Progress Facility feature a first loss component that allows for a high leverage based on comparable low funding volumes. Related to this the importance of guarantees in MFI's funding structures (at least in some countries) might be higher than the results of the survey indicates.

Overall, the reported funding structure of the surveyed microcredit providers is a mix of different, equally weighted sources. Therefore, Table 25 provides interesting insights into the main funding sources for different institutional structures. Banking institutions represented by banks and savings banks have a similar funding structure composed of debt financing, equity and other sources that might be collected deposits and earnings. In contrast, non-profit organizations (NGO or foundation) and microfinance associations rely heavily on grants in 2013 (56% for associations, 41% for NGOs and foundations). Less dominant for microfinance associations are debt financing and equity. For NGOs and foundations, debt financing is the second most important funding source (29% in 2013) after grants. Another insight is the high amount of equity reported by the surveyed credit unions and cooperatives, mainly represented in the survey by credit unions from Romania.

Table 25

Main funding sources by institutional type

Institutional type	n		Grants (%)		Debt financing (%)		Equity (%)		Guarantees (%)		Other (%)	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
Bank	4	4	0.0	0.0	24.0	20.3	32.2	33.6	2.5	2.0	46.6	48.6
Community Development Financial Institution (CDFI)	2	2	50.0	50.0	41.0	37.5	9.0	7.5	0.0	5.0	0.0	0.0
Credit Union / cooperative	9	9	18.0	18.0	10.9	11.9	43.7	54.3	12.2	1.3	15.2	14.7
Government body	3	3	0.0	0.0	0.0	0.0	33.3	66.7	0.0	0.0	33.3	66.7
Microfinance association	9	9	54.1	55.6	11.1	11.1	14.8	13.2	0.3	0.2	22.1	19.9
NGO or Foundation	28	28	40.0	40.8	28.9	28.9	19.9	22.7	2.1	6.3	12.5	12.7
Non-bank financial institution	31	30	2.9	3.1	25.3	25.4	38.5	38.0	2.2	2.2	33.3	32.5
Other	7	7	54.1	54.1	18.3	18.3	17.8	17.2	0.0	0.0	17.3	18.0
Religious institution	3	3	33.3	0.0	0.0	0.0	0.0	0.0	33.3	33.3	33.3	66.7
Savings bank	1	1	0.0	0.0	39.0	38.0	26.0	23.0	0.0	0.0	35.0	39.0
Total	**97**	**96**	**25.1**	**24.8**	**21.8**	**21.7**	**28.0**	**30.5**	**3.7**	**3.8**	**24.1**	**25.9**

Note: n = no. of observations. N = 150; n = 97 (2012), n = 96 (2013).

Thirty percent of the lending institutions surveyed supplied their debt to equity ratio for 2013 (Table 26)[39]. By country, five out of thirteen countries (MFIs reported the ratio) have a debt to equity ratio over 100% in 2013. In 2012, four out of nine countries had a debt to equity ratio over 100%. The same increasing trend on leverage can be observed by the overall debt to equity ratio, which increased to 100.2% in 2013 (90.9% in 2012). Reasons for the increased leverage can be manifold. One important point to have in mind is that the market and sector is steadily growing; this growth might be debt-financed.

Table 26

Debt-to-Equity Ratio by country[40]

Country	2012		2013	
	n	Debt-to-equity (%)	n	Debt-to-equity (%)
Belgium	3	42.7	2	117.0
Bulgaria	3	173.7	3	107.0
Croatia	1	5.0	1	5.0
France	3	143.3	2	193.0
Germany	3	45.3	3	45.3
Hungary	4	299.0	4	340.1
Ireland	1	97.0	NA	NA
Italy	3	175.3	3	183.3
Lithuania	1	58.0	1	56.0
Netherlands, the	1	2.0	1	1.0
Poland	8	41.1	8	44.6
Romania	12	53.3	12	65.8
Spain	2	53.0	2	54.0
United Kingdom	1	5.0	1	4.0
Total	**46**	**90.8**	**43**	**100.2**

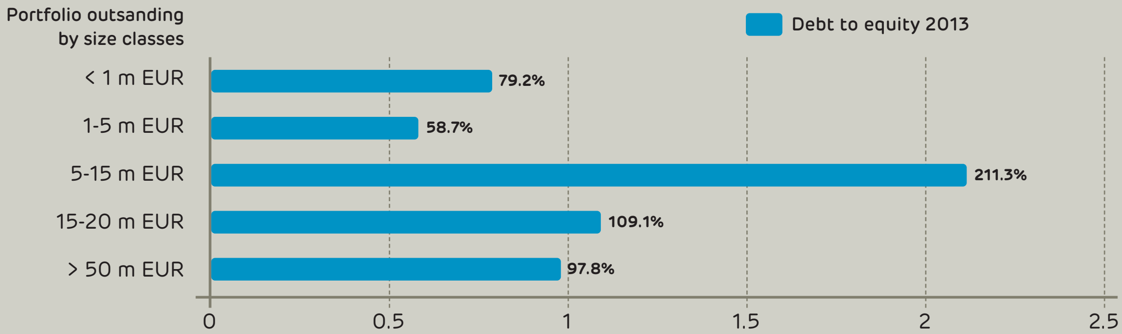
Note: n = no. of observations. N = 150; n = 46 (2012), n = 43 (2013). No data available for the MFIs from Austria, Greece, Latvia, Malta, and Portugal.

39 The debt and equity ratio was defined as the share between total liabilities and total equity (in percentage).
40 The very low ratios reported by individual MFIs in the Netherlands, Croatia and United Kingdom could not be validated at the date of this report. They may originate in different calculations by entering the respective data.

The leverage of the MFIs surveyed is 100.2%, indicating that the value of liabilities of an average MFI surveyed slightly exceeds the value of its equity. Figure 19 shows the debt to equity ratio by cohorts of portfolio outstanding. The institutions in the mid-size classes of portfolio outstanding have the highest leverage of 2.11 (5-15m EUR portfolio outstanding) and 1.09 (15-50m EUR portfolio outstanding).

Figure 19

Average Debt-to-Equity Ratio by size classes of portfolio outstanding (2013)



Note: N = 150; n = 54 (debt to equity ratio: 2013).

8 Future Challenges and Trends

The results of the survey show the ongoing evolution of the European microfinance sector between 2012 and 2013, as the sector is steadily increasing its outreach in terms of numbers and volume of loans disbursed. The growth is driven by an increase of organizations operating on the national level and disbursing an increasing number of microloans. This is a welcoming development to the maturity and consolidation of the sector in Europe.

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

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

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

The growth of microfinance operations also involves closer scrutiny by funders and policy makers on both the EU and national level regarding MFI financial and social performance. A concerted effort by MFIs, funders and policy makers is necessary to produce suitable transparency. Therefore, this iteration of the overview survey report emphasised the issue of greater transparency with regards to data on financial performance and organizational development. The survey aimed to support MFIs in providing more and higher quality performance data.[41] As a result, the survey shows overall higher response rates for specific and important indicators, leading to a broader and

41 Consequently, the size of the questionnaire (related to the questions asked) was significantly reduced and focused on the most important key indicators. This was also ensured by a quality check loop of the questionnaire with a representative of the Mix Market initiative.

more transparent picture of the sector. For example, the response rate for the portfolio quality indicators increased significantly, e.g. around a 50% increase for the write off ratio indicator. The same is true for basic financial performance indicators, e.g. the response rate for portfolio yield increased by 90%.

The advancement to more transparency and standardization is also confirmed by the results about the knowledge and willingness to adhere to the European Code of Good Conduct for Microcredit Provision (Code) (see Table 27). The knowledge of the Code has increased to 83% of the MFIs surveyed (2011: 75%). However, the intention to implement the Code has significantly decreased to 66% (2011: 76%). Further effort is needed to increase the willingness of MFIs to implement the Code. The first step has been taken via the pilot implementation project of the EU Code of Good Conduct, which was introduced by DG Regio after the publication of the previous version of the overview survey report. The vision behind these efforts is to implement a transparent and central tool/platform for the European microfinance sector similar to the MIX Market[42].

Related to the promise of creating jobs and supporting financial inclusion, it is necessary to increase knowledge about the social impact of microfinance activities in Europe. Therefore, additional datasets outside of the overview survey data (i.e. not supply-oriented, but based on microfinance client data) are needed to show the impact microfinance can supply to the objectives of job creation and financial inclusion. The recent study of ILO on the employment impact of microfinance in France and presented during the annual EMN annual conference in Lisbon was an important step in that direction[43].

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

The general public support for microfinance provision is expected to decline in the coming years, due to budget restrictions and high deficits at the national and regional levels. MFIs are preparing for this by developing more efficient and lean processes as well as by reducing costs. The ongoing digital transformation of the economy offers several opportunities, but also presents some challenges to the European microfinance sector. The challenges include new competitors such as crowdfunding and crowdlending platforms, which address similar target groups as existing MFIs. Nevertheless, the opportunities these societal changes can bring are substantial, as the new competitors can also be seen as complementary actors or pioneers for new tools and methods to address the target groups of microfinance. Examples include new providers for mobile payment solutions, providers offering credit scoring via social media data or digital lending clubs among friends, which can be easily scaled up online. The most relevant market and business opportunities for microfinance providers are: new online application tools, scoring measures, repayment solutions and business development measures to support micro-enterprises with digital, low threshold approaches. From our perspective, it is essential that European MFIs and the EMN continue to discuss the opportunities of this development and establish strategic partnerships with actors from this field.

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

42 For more information please see here: http://www.mixmarket.org/.
43 For more information see: http://www.strategie.gouv.fr/blog/2014/06/note-microcredit-professionnel-laccompagnement-creation-dentreprises-en-france/

9 Country Profiles

9.1 Belgium[44]

Key Macroeconomic Data

Key indicator	Data source
Population, total (millions; 2012)	11,094,850
Real GDP growth rate (%-change on previous year; 2012 AND 2013)	-0.1% (2012) 0.2% (2013)
GDP per capita (current EUR; 2012)	29,600
Unemployment rate (in %; 2012)	7.6%
Population below the national poverty line (defined as: 60% or less of the median household level; 2012)[45]	15%
People at risk of poverty or social exclusion (2012; 1000 persons)[46]	21.6%

Legal Framework for Microfinance and policy initiatives

In Belgium, no specific microfinance regulation exists. There is an interest cap, but it applies only to consumer loans. Tax incentives are scarce: private microfinance institutions (MFIs) operating as authorized cooperatives can have private individuals deduct a maximum of 180 EUR per year for all the dividends received by all authorized entities. Also, a tax deduction can be granted to private individuals that donate an amount over 40 EUR to MFIs if the MFI is certified by the Ministry (SPF) of Finance and if the deducted amount is below 10% of taxable net income and/or below 250,000 EUR for the same taxable year.

The only corporate tax reduction is for cooperatives recognized by the National Council for Cooperation and entities (except holding companies, subsidiary companies and companies that do not allocate remuneration to one of its directors) whose taxable income does not exceed 322,500 EUR.

The "Central Database for Loans to Private Individuals" is managed by the National Bank of Belgium and concerns mortgages, consumer loans and overdrafts over 200 EUR except overdraft facilities repayable in one month. Therefore, only MFIs that provide consumer loans are required to inquire about the borrower's credit history and then report these loans to the database.

A Bill adopted in March 2012 obliges banks to report any loans - the previous 25,000 EUR threshold has been cancelled – granted to microenterprises (MCEs) to the "Central Corporate Credit Register".

The present legal system in Belgium does allow organizations to offer micro loans; it does not allow non-bank institutions to capture funds from the general public.

44 Authors: Klaas Molenaar and Julie M. Lehmann, De Haagse Hoogschool.
45 Source: http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=t2020_52&language=en
46 Source: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_peps01&lang=en

Microfinance Market Overview and Outcome in 2012-2013

Five organizations together play a leading role in the micro finance sector in Belgium, all serving specific regions. The newcomer, Micro Start, demonstrates that there is still a need for micro loans in the country. Compared to its neighbouring country (the Netherlands), the sector in Belgium serves a broader range of clients and provides both personal (social) and micro business loans. This is mainly attributable to the model chosen, i.e. aiming to lend smaller amounts with less emphasis on full-fledged business plans as a prerequisite.

With the Participation Fund exiting the sector in 2013, the overall data shows remarkable changes over time. In the previous survey period, the average business loan in Belgium was 19,350 EUR; it has sharply decreased to 8,390 EUR for business Loans and 5,580 EUR for personal loans by the end of 2013. The MFIs report reaching out to a more diverse set of clients (business and personal loans, lending to the unemployed, un-bankable) and focus less on SME lending.

Outreach (incl. target groups and best-selling products)

The MFIs in Belgium each operate in specific geographies and their programmes and working methods reflect the socio-cultural conditions of each region. Similar to microfinance provision in the Netherlands, Belgian MFIs operate mainly in urban areas. They focus on the unemployed and those not attended by banks. Three of the five MFIs service a relatively high percentage of migrants/ minority groups (over 14%[47]).

Business development services are often offered by third parties for entrepreneurs setting up larger enterprises. The MFIs themselves offer training and advice aimed at enhancing the understanding for the implications (and conditions) of borrowing.

Micro Start has established a special programme, Dream Start, reaching out to younger, unemployed people. The pilot phase highlights the need for such a targeted approach.[48]

9.2 Bosnia-Herzegovina[49]

Key Macroeconomic Data

Key indicator	Data source
Population, total (millions; 2012)	3,839,265
Real GDP growth rate (%-change on previous year; 2012 AND 2013)	-0.7% (2012)
GDP per capita (current EUR; 2012)	8,300
Unemployment rate (in %; 2012)	44.1% (2012)
44.6% (2013)	
Population below the national poverty line (defined as: 60% or less of the median household level; 2012)	NA
People at risk of poverty or social exclusion (2012; 1000 persons)	NA

Legal Framework for Microfinance and policy initiatives

The microfinance sector has been regulated by the Law on Microcredit Organizations since 2006 in Bosnia & Herzegovina (B&H). Microcredit organizations (MCO) get the license from the Agency for Banking of Federation of Bosnia & Herzegovina (FB&H) and are registered as microcredit foundations. Although the sector is regulated and functions well, harmonizing regulations in both B&H entities FB&H and Republika Srpska is required to adhere to high international performance standards.

47 Similar to that in the Netherlands (Qredits: 13, %)
48 See also Molenaar: Making dreams come true for youth ....Dreamstart facility (Belgium) , prepared for OECD/ LEED for the Compendium on Policy measures for disadvantaged groups, forthcoming (2015)
49 Author: Milena Gojkovic, MDF Fund.

The legal framework for the work of microcredit organizations in FB&H and Republika Srpska needs to be harmonized. Currently, there are two Entity Laws regulating important issues in different ways. For example, the founding of a microcredit association, business regulations for MCOs and the application of profit tax laws are regulated in different ways. Furthermore, MCOs are not allowed to sell their portfolios or claims; cannot arrange for insurance nor invest its liquid sources. Administration and management of MCOs are more under the control of regulators and controllers, while MCOs remain solely responsible for their work towards clients and the state.

Microfinance Market Overview and Outcome in 2012-2013

Bosnia-Herzegovina is one of the largest micro-finance markets in Eastern and Central Asia. The sector experienced rapid growth from 2006 - 2008, but crashed in 2009 as a result of high client indebtedness and the adverse effects of the global financial crisis. There are 25 microcredit organizations in B&H, sixteen in Federation of B&H (fifteen micro-credit foundations and one microcredit association), and another nine in Republika Srpska (five microcredit foundations and four microcredit associations). As per the fifteen MCOs reporting to the MIX Market in March 2014, a total of 215,467 active borrowers were covered by portfolio of 741.1m USD.

The microcredit sector in B&H is judged to be one of the most successful in the world, confirmed by two studies on the social impact of microcredit services in B&H. In early 2013, two Microfinance foundations: PARTNER and EKI in B&H were awarded with the prestigious Certificate for Client Protection, part of the global "Smart Campaign" project. These two MCOs are among the first five in the world to earn this certificate.

At the end of 2012, microcredit organizations employed 1,783 skilled staff for long-term work, meeting financial and institutional standards prescribed by the law and regulations by banking agencies on both entities of B&H.

There is little correlation between high growth rates and portfolio in B&H. However, when MCOs grow locally (i.e. more borrowers per branch) rather than through geographic diversification (i.e. opening branches in new areas) or where the sector has very high penetration rates (i.e. total borrowers as a percentage of total population exceeds 10%), the portfolio quality can be seen to decrease as MCOs increase their portfolios.

The portfolio quality of MCOs in Bosnia has improved after writing off underperforming loans. Consequently, portfolio at risk has also seen a significant drop. The sector has managed stable growth in loan portfolio levels, however a decline in the borrower base was observed during the final quarter of 2013. Seven Bosnian MCOs cover 52% of the market and are categorized as "giant." These giant MCOs are expecting stronger loan portfolio growth than their peers moving forward.

MCOs in B&H make significant contributions to the overall social and economic recovery of B&H in response to poverty reduction and the increase employment, especially targeting the high and growing unemployment of nearly 44.6% in 2013.

Outreach (incl. target groups and best-selling products)

The existing portfolio supports improvements in living standards - including improvements in targeting social benefits, more effective job-brokerage services, expanded access to primary health care through family medicine, and improved access to basic public services.

The variety of loan products offered to clients include: loans for energy efficiency, agriculture, vehicle registration, solar collectors and energy savers, fixed assets, working capital, consumption and seasonal loans.

From 1996 to end of 2012, the financial and institutional impact of MCOs refers to a portfolio size of BAM 6,527,000,000 that was distributed among 2,235,000 clients with an average loan amount of BAM 3,000. On 31 December 2012, total assets of all MCOs were BAM 664,000,000 with gross portfolio of BAM 546,500,000, total number of active loans was BAM 248,000,000 and total MCO capital was BAM 220,000,000 KM.

Microfinance in B&H has had positive impact on employment. After receiving the first micro loan there is immediate positive impact on employment, as the funds are used for either enterprise start-up, or maintaining/developing a business; especially with multiple loans 2.21 workers are employed on average, including the client, which is significantly higher employment rate then with persons who do not use micro loans (data from a Study on social impact on micro crediting in B&H).

With regards to business registration, microcredit clients register their own business 10 to 14% more often than persons who don't receive micro loans.

Future Market Trends and Challenges

The financial sector is liquid and well-capitalised, but credit growth has stalled and non-performing loans are rising. Non-performing loans have risen to approximately 14% of total loans, while provisioning stands at ~65%. With banks tightening credit standards and demand weakening due to the subdued level of economic activity, private sector credit growth has slumped over the past year, falling below 2% year-on-year in May 2013.

Significant structural reform will be needed if the country is to achieve faster economic growth than what is currently forecasted. Strengthening public finance, improving the business environment and advancing the institutional and labour market reform agenda are among the potential areas where B&H could make notable progress in fostering job creation and growth in the medium term.

Future programs should be designed to improve the business environment and investment climate and support the private sector development in order to stimulate job creation in the country.

The current internal complexity of the country's political structure and poor investment climate are major deterrents for investment growth. Bosnia and Herzegovina needs to implement concrete reforms to improve its investment climate. The country remains one of the most challenging in which to start a business, and the administrative and regulatory burdens on existing businesses are high.

9.3 Bulgaria[50]

Key Macroeconomic Data

Key indicator	Data source
Population, total (millions; 2012)	7,327,224
Real GDP growth rate (%-change on previous year; 2012 AND 2013)	0.6% 0.9%
GDP per capita (current EUR; 2012)	3,700
Unemployment rate (in %; 2012)	12.3%
Population below the national poverty line (defined as: 60% or less of the median household level 2012; 1000 persons)	21.2%
People at risk of poverty or social exclusion (2012; 1000 persons)	49.3%

Legal Framework for Microfinance and policy initiatives[51]

The legal framework of Bulgaria's financial institutions, Credit Institutions Act, requires an official licence from the National Bank of Bulgaria for any type of credit activities including microfinance. Specific microfinance regulation is included in the Cooperative Act and Ordinance 26/2009. In 2013, Bulgaria had licenced 30 commercial banks including 6 branches of foreign banks; 74 companies certified to provide leasing services; 46 factoring firms; and 10 microfinance institutions.

Many of the Non–Bank Financial Institutions possess broader licences allowing them to engage simultaneously in consumer lending, leasing, factoring and other financial services. Credit cooperatives are providing financial services including savings and microcredit for their members. The 2013 and 2014 amendments to the law on consumer credits, as well as amendments to the Credit Institutions Act, aim to adjust the legal framework to EU regulations and have had an overall positive impact on the Bulgarian MF sector due to improvement in the governance and risk management and increased transparency.

The participation of MFIs with portfolio data to the Credit Bureau is compulsory according to ordinance 22/2009 amended in 2012; the regulation allows MFIs to access information for risk assessment analysis of the loan application, and to contribute to the avoidance of over-indebtedness of their clients. There is no interest cap on micro-lending activity but Bulgarian MFIs are not allowed to collect savings, and therefore, the microcredit portfolio is financed from donations, loans and investments provided by specialised social investors and EU funded micro finance programmes.

50 Author: Maria Doiciu, Eurom Consulting.
51 Source: National bank of Bulgaria http://www.bnb.bg/AboutUs/AULegalFramework/AULFSearch/index.htm.

Microfinance Market Overview and Outcome in 2012-2013

Overview	2012	2013
Number of survey participants	3	3
Number of active clients	801	706
Value of loans disbursed (in EUR)	1,757,806	2,647,816
Number/value of loans disbursed in 2013: - To women - To rural clients - To start-up enterprises - youth - To ethnic minorities/immigrants	794 708,982 EUR 703,122 EUR 134,765 EUR 105,468 EUR	629 1,067,952 EUR 1,059,126 EUR 201,999 EUR 158,869 EUR
Number of loans disbursed for entrepreneurial/business purposes:	236 – 37.5% 236 – 37.5%	
Number of loans disbursed for personal/consumption purpose: - To excluded from mainstream financial services	393 – 62.5% 322,264 EUR – 18%	393 – 62.5% 485,433 EUR – 18.3%

Compared with the previous report 2010-2013, less than half of the MFIs participated in the survey, but new MFIs have joined EMN and reported their indicators for the first time.

The level of microcredit/microfinance services provided by MFIs and banks (such as Procredit bank) have been gradually reduced, while the network of microfinance institutions (entities without banking licenses) remains in decline.

The microfinance sector in Bulgaria is currently in a critical phase: despite the growing number of micro-enterprises (3.2% growth in 2013 compared to 2012) and the financial and TA support provided by the EU funded programs Progress and JASMINE, Bulgarian MFIs reduced their lending volumes and focused on personal lending.

During the reporting period, the percentage of the loans extended for personal/consumption purposes (62.5%) exceeded the percentage of loans for entrepreneurial/business purposes (37.5%). Bulgarian MFIs are enjoying high demand for their products, but they do not always have enough funds. Consequently, their operations are often unsustainable, especially if they are funded by programmes or investors in the exit phase. Support by EIF programmes such as Progress or JEREMIE could enhance the role of micro-finance institutions in the Bulgarian market.

Outreach (incl. target groups and best-selling products)

Within the current socio-economic context, Bulgarian MFIs are struggling to maintain their social and inclusive missions: targeting entrepreneurs belonging to vulnerable groups and a focus on the financially excluded rural and peri-urban population.

Microfinance in Bulgaria often refers to amounts under EUR 25,000, including very small loans provided by consumer lending institutions, which have been multiplying in the market due to a decline in the traditional microfinance market. Microfinance in Bulgaria takes the following forms:

- Loans provided mainly for the financing of working capital and investment loans (with short maturity) for machinery and stockpiling; The average business loan amount increased in 2012-2013, reaching 260% GDP per capita or 9,600 EUR.
- Small consumer/social inclusion loans to meet personal financial needs with an average amount of 26% of GDP per capita or 950 EUR in 2013.

Recently, MFIs are engaging in micro-leasing and micro-factoring and associated business development support services.

In 2012/3, 18% of loan value was disbursed to beneficiaries excluded from mainstream finance, 40% of the loans were disbursed to female clients, 40% to rural clients while only 7.6% reached the youth segments.

Future Market Trends and Challenges

For Bulgarian MFIs, areas of concern include: portfolio quality, sustainability of operations and increasing outreach. Therefore, access to technical assistance to comply with the requirements of the European Code of Good Conduct for Microcredit Provision and access to capital are the main challenges in the coming years.

The debt to equity ratio reached 173.7% in 2012 and decreased in 2013 to 117%. This makes the refinancing of portfolios and access to capital other than equity/long term loans difficult. The improvement of portfolio quality to PAR 30 to 7.7% in 2013 through risk management measures was the major achievement of previous years. Maintaining the current portfolio quality while further decreasing PAR 30 remains an important challenge for the MF sector in Bulgaria. Participation as an effective partner for Financial Instruments funded from EU structural funds envisaged for the current programing period aimed to support microfinance for entrepreneurship development, micro-enterprises and social enterprises which cannot obtain loans from the banking system, is among the plans for recovery of the Bulgarian MFIs.

9.4 Croatia[52]

Key Macroeconomic Data

Key indicator	Data source
Population, total (millions; 2012)	4,275,984
Real GDP growth rate (%-change on previous year; 2012 AND 2013)	-1.9% (2012) -1% (2013)
GDP per capita (current EUR; 2012)	8,500
Unemployment rate (in %; 2012)	15.9% (2012) microloans 18.8% (2013)
Population below the national poverty line (defined as: 60% or less of the median household level; 2012)	20.5%
People at risk of poverty or social exclusion (2012; 1000 persons)	32.3%

Legal Framework for Microfinance and policy initiatives

In Croatia, microfinance is regulated by the Croatian National Bank through the Law on Credit Unions. The law on credit unions has geographical limitations: only one union can be present per city, based on principles of reciprocity. Therefore, credit unions were compelled to lobby the relevant government authorities in order to create proper legislation that would enable wider geographical abidance.

The Croatian Association of Credit Unions, "HUKU," assists credit unions to change the current legal framework, primarily for enabling deposit insurance which does not currently exist, but could be extremely important. Furthermore, credit unions are extremely vulnerable as their current accounts and deposits are kept in banks and are not protected in case of bank bankruptcy. Therefore, with the proposed law modifications, credit union money held in bank's current accounts and deposits cannot be the subject of bank liquidation or bankruptcy. Alternatively, a solution could be the opening of accounts in the Croatian National Bank. Finally, extending membership to credit union legal entities could be a solution to extend credit operations to legal entities that banks are not interested in financing.

Microfinance Market Overview and Outcome in 2012-2013

Twenty-six credit unions are currently operating in Croatia. In 2011, HUKU was founded by the initiative of nine credit unions. In addition, 28 commercial banks are registered under the Croatian National Bank, but microfinance clients are frequently exclude from mainstream banking credits.

Financial services are provided based on deposit collection from credit union members and requests for loans by other members of the union.

Characteristics of the credit union activities include: receiving deposits and crediting of union members in local currency, receiving deposits from syndicates and trade off crafts and international grants. Specifically, credit union members are offered services such as: payments, exchange operations, financial assistance and providing collateral for the members' obligations.

Different loan types are offered to clients in order to cover a variety of needs. As per NOA credit union data, 46% of total loans were predominantly agricultural loans to rural counties. Some loan products are specifically designed as loans for cows and sheep. Consumer loans represent 21% of loans, tourist services - 11.27%, tradesman services - 11.18% and production - 10.55%.

Outreach (incl. target groups and best-selling products)

Credit unions in Croatia pay particular attention to supporting the creation of new jobs, the development of existing businesses, registering new businesses and sustaining existing jobs.

The beneficiaries targeted by credit unions in Croatia include: physical persons and legal entities doing production or offering services, family farmers, poor people who cannot access credit at banks, small projects that are out of commercial banks' interests, unemployed, beginners, young people, women, disadvantaged people with special needs, displaced and poor people fighting for their material existence no matter of the race, nationality, gender or religious belongings.

Credit unions provide loans predominantly for the employed, but also extend credit to pensioners for real estate insurance, Lombard loans and mortgage loans. Aside from credit, the unions offer savings services (including children's savings).

52 Author: Milena Gojkovic, MDF Fund..

Future Market Trends and Challenges

Croatia joined the European Union as the twenty-eighth member state on July 1, 2013. Key large-scale privatizations were completed in 2013, but the economy remained in recession. In 2012, GDP declined by 2% and there were no signs of recovery in the first half of 2013. Inflation stood at 1.9% year-over-year in July 2013

Key priorities for 2014 predominantly include:

- Fostering reforms to strengthen the business environment and to boost the economy's competitiveness. Its progress has been limited in recent years, although some concrete measures have been implemented.
- Reforming the labour market to reduce unemployment, especially among the youth. Unemployment rose sharply during the recession and currently stands close to 20% (and more than 40% for those older than 25). Measures to reduce hiring and firing costs are urgently needed.
- Involvement of the private sector for infrastructure development should be enhanced, reducing the role of the state and increasing commercialization in key transport and energy companies.
- Non-bank financial institutions (NBFIs) and private equity are increasing in importance, although from a low starting point. Standard NBFI products are well established in Croatia, including a three-pillar pension system. Competition has also increased in the insurance sector over the past year.

Over the medium term, Croatia's economy could see a boost as a result of its acceptance into the EU, but prospects for growth will depend on the extent to which long-awaited reforms to public administration and the labour market are implemented.

9.5 France[53]

Key Macroeconomic Data

Key indicator	Data source
Population, total (millions; 2012)	65,287,861
Real GDP growth rate (%-change on previous year; 2012 AND 2013)	0% (2012) 0.2% (2013)
GDP per capita (current EUR; 2012)	27,600
Unemployment rate (in %; 2012)	9.8%
Population below the national poverty line (defined as: 60% or less of the median household level; 2012)	14.1%
People at risk of poverty or social exclusion (2012; 1000 persons)	19.1%

Legal Framework for Microfinance and policy initiatives

The first organization to provide microcredit in France was ADIE (est. 1989). At that time, bank regulations were strict and prohibited any non-bank borrowing entity from entering the market for refinancing. For that reason, ADIE made loans with its own funds, which posed significant limitations to its capacity for action. Since this initiative, the Banking laws have undergone three significant changes that have helped to gradually adapt the traditional financial system for new forms of microfinance.

- In 2001: Amendments of the Banking Laws allowed microcredit associations to obtain financing from banks. Today, banks are not the only entities able to deliver microcredit.
- In 2005: Creation of the Social Cohesion Fund (FCS) established a mechanism that guarantees microcredit loans (up to 50%). In 2011, 96.7m EUR guarantee from the FCS helped secure over 200m EUR in loans from banks towards small and micro business projects (Banque de France data, microcredit report 2011). The guarantee offered by the FCS has played a big role in the expansion of the microcredit market in France. In 2009, the state created the NACRE operation (New Support for the Creation and companies' buyout) that permits the development of interest-free loans by banks.
- In 2010: The consumer law governing consumer credit and specifying the legal framework for microfinance was passed. This law allows associations to receive interest-free loans from individuals: they can now participate in the financing of projects through crowdfunding platforms such as Babyloan or Xetic.

Finally, banks should supply an annual report of microloans to the Banque de France and INSEE, which helps them to better understand and measure the activity of the sector.

53 Author: Nils Poussielgues, Chair Banques Populaires of Audencia Group.

Microfinance Market Overview and Outcome in 2012-2013[54]

The microfinance sector in France has traditionally distinguished between two types of microloans:

- "Personal microcredit" or "Consumption loans" (definition specified by Article 23 of the Law of 1 July 2010 on the reform of consumer credit): to finance social and professional integration projects.
- "Professional microcredit" or "Professional loans": to support the creation, improvement or consolidation of small businesses, allowing entrepreneurs to create their own jobs.

In 2013, out of 46,879 loans (totalling 276,069,105 EUR), a significant portion, slightly over 82% of loans were "professional microloans" totalling 256,801,552 EUR. Another 19,267,553 EUR went towards "personal microloans".

The main actors in "professional microcredit" have operating structures that are invested in different segments of the population (recipients of social minima and unemployed for Adie, unemployed and social entrepreneurs to France Active, etc.):

France active:
In 2012, France Active supported 5,134 projects in entrepreneurship and mobilized nearly 165 million EUR, which led to the creation or consolidation of 8,392 jobs.

France Initiative
In 2012, France Initiative financed 16,107 projects, which led to the creation of 37,141 jobs. The sustainability rate of companies after three years was 86%.

Prêt d'honneur (interest-free loans granted to a person, not a company, and associated with assistance by an association during the project.)
France Initiative is the leading distribution network of "Prêt d'honneur", with 14,856 loans granted in 2012 for an amount of 123.9m EUR, which generated 914 million of conventional bank loans.

Prêts Nacre (Loan which must be coupled to a bank loan)
France Initiative granted 49.2% of total Nacre loans in 2012, i.e. 6,160 loans for a total amount of 34.9m EUR, which generated additional bank financing of 89.7m EUR. To better meet the specific difficulties of young entrepreneurs, Adie has launched a fund targeting this population. With this new fund, young people under age of 32 are eligible for a "Prêt d'honneur" in addition to a microcredit, up to 50% of their needs, without interest and a maximum amount of 3,000 EUR. Since the start of the program on October 3rd, 2011, more than 1,000 youths have accessed the offer; 740 were in 2012.

Outreach (incl. target groups and best-selling products)[55]

An important part of microcredit is for unemployed persons (value of loans granted in 2013: 152,225,720 EUR) and more generally to all excluded from the traditional banking system (total value of loans awarded in 2013: 58,216,448 EUR). Women made up a significant part of microcredit in 2013 (value: 84,580,372 EUR).

The study of the socio-economic impact of micro-credit on professionals conducted by Caixa offers some interesting results:

- The impact of professional microcredit on job creation and new business start-up:

75% of the surveyed microentrepreneurs say they could not have started their own business without the help of microcredit and 58% consider this instrument as indispensable to grow their business.

The created microenterprises seem to help create jobs. Thus, nearly 25% of respondents indicated being ready to create a job in the next twelve months.

Finally, with regards to the impact on the activity of microcredit beneficiaries, it appears that the unemployment rate of those people decreases after the granting of microcredit.

- Impact of Microcredit in terms of social integration and improvement of living conditions of borrowers:

The study notes that the provision of microcredit leads to positive effects in terms of the employability of beneficiaries. Thus, 65% of all respondents say they feel more competent after they were granted the loan, especially microentrepreneurs who were previously unemployed. Twenty-two percent of beneficiaries, whose companies closed and subsequently found a job, claim that their experience as entrepreneurs has contributed to their return to work. Sixty percent of microentrepreneurs consider that their quality of life has improved through microcredit, while the share of those who feel that their situation has deteriorated was 7%. Finally, microentrepreneurs mostly feel more socially integrated.

54 Source : Annual report of Banque de France (2012/2013), quantitative Data.
55 Source : Caixa (May 2013).

Future Market Trends and Challenges

The growing interest in microfinance and social performance raises the question of whether to develop it more in France. French operators emphasize that microcredit remains underutilized and that the financing needs of many entrepreneurs excluded from the banking system are not covered.

In this context, two models of microfinance development seem to have emerged in France:

- One based on non-banking institutions and associations: This first strategic choice is to "institutionalize" microcredit subsidized by the government, in terms of its contribution to social inclusion policies and professional as well as economic development.
- One based on traditional banks, and the creation of specific microcredit programs: This second strategic choice considers that the market should push the involvement of banks into the financing and development of microcredit, or internalization. This choice is justified because the existence of microcredit responds to a banking market failure.

9.6 Germany[56]

Key Macroeconomic Data

Key indicator	Data source
Population, total (millions; 2012)	80,327,900
Real GDP growth rate (%-change on previous year; 2012 AND 2013)	0.7% (2012) 0.4% (2013)
GDP per capita (current EUR; 2012)	30,200
Unemployment rate (in %; 2012)	5.5%
Population below the national poverty line (defined as: 60% or less of the median household level; 2012)	16.1%
People at risk of poverty or social exclusion (2012; 1000 persons)	19.6%

Legal Framework for Microfinance and policy initiatives

In Germany, strict banking monopoly applies; no special microcredit legislation or window exists. Three types of organizations provide microloans to entrepreneurs outside of private banks. These are the so-called microfinance institutions (MFIs), the promotional banks (Landesförderinstitute) and the local employment agencies (Job Centres). In total, twelve MFIs, eight promotional banks and one job centre participated to the present EMN survey.

MFIs operate locally, regionally or on a nationwide level under various legal forms. Due to their relatively small size they cannot afford banking status. Since 2004, a sophisticated cooperation model has therefore been developed: while MFIs support the clients through direct contact during the whole duration of the credit, a cooperating bank distributes the microloan; the risk of default is secured partly by the MFIs and partly by a guarantee fund.

So far, two guarantee funds have been raised based upon this cooperation model: from 2006 to 2009 "Mikrofinanzfonds Deutschland" worth 2 million EUR; and since 2010, "Mikrokreditfonds Deutschland" operated by the Federal Ministry of Labour and Social Affairs with 100 million EUR.

In contrast, promotional banks hold banking status. Some have set up specific microloan schemes (partly financed by ESF and ERDF) while others distribute loans below 25,000 EUR in the context of their general business promotion programmes. Federal KfW provides loans below 25,000 EUR in the structure of its larger StartGeld programme.

Differing from region to region, clients apply for the promotional microloan either at their normal bank (so-called "house-bank principle"), with a cooperation partner such as the Chambers of Commerce or directly at the promotional bank.

In addition, the local employment agencies are entitled to distribute small loans to those fresh out of long-term unemployment. The job centre decides whether to fund and to what amount.

56 Author: Stefanie Lämmermann, DMI.

Microfinance Market Overview and Outcome in 2012-2013

By mid-December 2012, despite the success of "Mikrokreditfonds Deutschland", the Federal Ministry of Labour cancelled its agreement (initially foreseen until the end of 2015) with a cooperating GLS bank and all 60 accredited MFIs by 31st of December 2013 due to a change of policy. In the months before, a few MFIs were coping with high defaults and a few insolvencies were imminent. However, as the scheme had been designed as a testing phase from the outset, the sudden stop came very unexpectedly to all MFIs.

Together with the national microfinance network DMI, the MFIs immediately began to plan for an alternative microfinance model using EPMF. By autumn 2013, it became clear that "Mikrokreditfonds" would continue for another year, with a selection of ~35 MFIs. This opened up some leeway for the MFIs to operate.

The situation described above led to a high lack of planning reliability for MFIs and declining activity. In 2012, they provided 5,520 microloans worth 33.7m EUR. In 2013, they distributed 4,520 loans worth 25.6m EUR.

While each MFI has its individual focus and target groups, the following general framework applies: business loans only, with an 8.9% effective rate of interest, a maximum amount of 20,000 EUR and maximum loan duration of 36 months. No additional fees may be charged.

Promotional banks apply interest rates between 3 and 7%. Maximum loan amounts range from 15,000 to 25,000 EUR and loan duration extends to ten years. Moreover, 6 to 24 months of grace period are offered.

In 2012, the 16 regional promotional banks and federal KfW provided in total 7,454 microloans with a volume of 134.8m EUR. In 2013, 7,460 loans with a volume of 136.8m EUR were distributed.

No aggregated data is available for the microloans handed out by the job centres.

Outreach (incl. target groups and best-selling products)

Although there is some overlap, generally speaking, promotional banks reach out to bankable entrepreneurs while MFIs target the non-bankable segment; job centres have clients who are very far from the job market.

Promotional banks work with business plan-based application procedures. The average loan provided in 2012 and 2013 was around 18,000 EUR. As promotional banks often provide their microloans in the frame of larger schemes and do not have specific reporting, it is difficult to compile aggregated outreach data for their microloans.

MFIs focus on specific target groups (business sector, gender, migrant background, etc.) depending on their respective history, mission and expertise. Accordingly, they have developed their products and adapted their lending methods through particularly close contact to the clients and thereby ensuring a high repayment rate.

MFIs' average loan amounts were 5,700 EUR in 2013. Since 2010, 33% of clients have been women and another 35% have been of migrant background. MFIs distributed 50% of their loans to existing entrepreneurs, 32% to starters out of unemployment and 18% to other entrepreneurs.

Future Market Trends and Challenges

The German microfinance sector faces two major future trends. Firstly, the cancellation of "Mikrokreditfonds Deutschland" opened up new opportunities for MFIs in a system previously dominated by one single funder and one single bank. It can be expected that not only GLS bank will continue its microfinance activity in the years to come, but also new actors will engage in the market such as Triodos Bank as well as online banks. German MFIs will possibly have the opportunity to operate under two or three different microfinance schemes from 2015 onwards.

Secondly, new responses to the funding gap of self-employed people and microentrepreneurs such as crowdfunding and social business finance have started to emerge and will further develop in the years to come. This will become a major challenge for the whole German banking sector.

9.7 Hungary

In order to effectively respond to and benefit from these new opportunities, MFIs, job centres and promotional banks should more strictly define what exactly the links and differences are between them in terms of aims, target clients and products (including loan amounts, repayment modalities etc.). This will enable them to better complement each other and completely close the funding gap for small enterprises and self-employed people in GermanyHungary.[57]

Key Macroeconomic Data

Key indicator	Data source
Population, total (millions; 2012)	9,931,925
Real GDP growth rate (%-change on previous year; 2012 AND 2013)	-1.7% (2012) 1.1% (2013)
GDP per capita (current EUR; 2012)	8,800
Unemployment rate (in %; 2012)	10.9%
Population below the national poverty line (defined as: 60% or less of the median household level; 2012)	14%
People at risk of poverty or social exclusion (2012; 1000 persons)	32.4%

Legal Framework for Microfinance and policy initiatives

The bodies proposing microcredit in Hungary are essentially non-banking institutions such as the network of local enterprise agencies (LEA) established in 1992 (launch of the first microcredit programmes). There are also a few profit-orientated financial enterprises participating in the JERMIE programme.

In general, there is no legal framework regarding the micro-lending sector in Hungary. However, there are special rules that regulate the operation of micro-lending institutions. In 1998, the Hungarian Parliament amended Act No. CXII of 1996 on Credit Institutions and Financial Enterprises in such a manner that it removed the crediting activities performed by LEAs that do not fall under the effect of the Act.

Thus, an internal regulation had to be worked out for non-profit agencies; this ensured a professional framework for the continuation of lending activity. This internal regulation was based on the obligations prescribed for financial enterprises by the rules of law in force. Although there is no legal obligation with regard to the creation of lending rules for LEAs, the regulations developed meet all the conditions set for financial enterprises operating under the effect of the Act on Credit Institutions.

Microfinance Market Overview and Outcome in 2012-2013

The most important microfinance player in Hungary is the Hungarian Microfinance Network, comprised of 20 Local Enterprise Agencies (LEAs) throughout the country. The LEAs operate in the form of non-profit foundations or public foundations initiated by local governments, banks and finance associations for the promotion of SMEs. The mission of the network is to contribute to the creation of employment and help sustain economic development in Hungary. Therefore, the network serves Hungarian small and medium-sized enterprises (SMEs) through a variety of financial and non-financial programmes.

The Hungarian microfinance programs established are more oriented towards small and medium-sized enterprises than towards those who are financially excluded. Microcredit was the earliest started financial engineering instrument in Hungary, with the aim to develop microenterprises that have no or insufficient access to commercial bank loans. Since the start, the main characteristics of the programme were changed several times as a reaction to the economic crisis. Due to the crisis, it became practically impossible for SMEs to receive commercial bank loans, even for co-financing investments supported by non-refundable grant schemes of the EU. The microfinance objective was to develop microfinance measures and increase the amount of available resources to SMEs.

According to the available data for 2013, the value of microloans granted amounted to 46,628,964 EUR (EMN, Overview of the Microcredit Sector in the European Union, 2014).

57 Author: Agnes Fiedler, Credinfo.

Outreach (incl. target groups and best-selling products)

Few MFIs have a written strategy for social outreach in Hungary. The Local Enterprise Agencies (LEAs) primarily aim at microenterprise promotion and job creation, followed by women empowerment as an important element in their social mission. They mainly serve existing enterprises but also target start-up businesses and self-entrepreneurs. However, they are less oriented to serve financially excluded people.

According to the available data for 2013, the value of loans disbursed to rural population was nearly equal to the urban population (13,700,000 EUR each). The other target groups were: unemployed (8,230,578 EUR), women (6,570,463 EUR), ethnic minorities (5,477,052 EUR), youth (5,477,052 EUR) and disabled people (2,733,526 EUR).

Future Market Trends and Challenges

The main challenge for the non-profit microfinance institutions is to define their social mission, objectives and main target groups. To date, very few LEAs have formulated plans for social outreach, although it will be a key factor to ensure sustainability.

Currently in Hungary, the legal and regulatory background is not the major obstacle to the growth and strengthening of micro loans for social objectives. Both the profit oriented and non-profit actors' operations are properly regulated. However, obstacles remain in financing, sustainability and the interest of other actors deriving from the economic and social environment.

9.8 Italy[58]

Key Macroeconomic Data

Key indicator	Data source
Population, total (millions; 2012)	59,394,207
Real GDP growth rate (%-change on previous year; 2012 AND 2013)	-2.4% (2012) -1.9% (2013)
GDP per capita (current EUR; 2012)	22,800
Unemployment rate (in %; 2012)	10.7%
Population below the national poverty line (defined as: 60% or less of the median household level; 2012)	19.4%
People at risk of poverty or social exclusion (2012; 1000 persons)	29.9%

Legal Framework for Microfinance and policy initiatives

A comprehensive legal framework introduced in 2010 by the Legislative Decree n. 141/2010 aims to regulate the major aspects of microcredit activity: its definition and distinct features ("entrepreneurial" and "social" microcredit), a register of authorized microlenders (with a special section for non-profit entities), and the role of a supervising authority. Nevertheless, microlending provision detailed for the 2012-2013 time interval was still regulated by the mainstream bank legislation as the implementation of the required operating rules by the Italian Ministry of Economy and Finance, and thus of the new regulation, is still pending. The lack of specific regulation gives way to a complex process of microcredit disbursement involving multiple actors. Only commercial banks, with a few exceptions[59], are allowed to issue credit while non-profit institutions, public entities and other institutional types are mostly restricted to the provision of non-financial services (e.g. tutorship, BDS) and guarantee funds, as well as to the preliminary selection of borrowers. Such a composite microcredit "value chain" may result in possible data overlapping and portfolio overestimates if empirical adjustments are not made for entities engaged in the same process of micro-lending provision.

58 Authors: Fabrizio Botti, Maria Cristina Negro, Fondazione Giordano Dell' Amore and RITMI.
59 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 EUR.

Microfinance Market Overview and Outcome in 2012-2013

The size of participating institutions (23 MFIs) nearly doubled compared to the previous edition of the EMN Survey (although only 8 out of the 13 participants to the previous edition are still observed). The overall volume of loans disbursed in 2012 and 2013 rose to 25,142,356 EUR and 64,600,497 EUR respectively (a sharp increase compared to 4,884,652 EUR reported in 2011[60]). A comparable effect is observed by the total number of loans disbursed in 2012 (14,121) and 2013 (14,144) relatively to data collected in 2011 (894).

The remarkable growth rate is mostly driven by the larger number of observations collected, especially those of two major banks involved with the local industry (Federcasse-BCC and Banca Etica[61]). Furthermore, the significant gap between the amount of loans disbursed in 2012 and 2013 is caused by the availability of Federcasse-BCC corresponding data only for the most recent year.

As explained in the previous section, Italian banking law mainly restricts financial intermediation to commercial banks and therefore forces non-banking institutions to rely on such licensed actors and arrange a formal agreement for credit provision to selected microcredit clients. The share of commercial banks' portfolios explicitly belonging to the standard SMEs credit activity (below 25,000 EUR) has not been included in the data.

To date, public sector involvement has been relatively substantial and mainly focused on the subsidization of short-lived microcredit projects through local authorities (Municipalities and Regions). Especially in the past three years (2011-2013), regional authorities have been increasingly active in promoting micro-credit programmes, predominantly through European Social Fund (ESF) funding, due to the approaching ending of the budgetary period 2007-2013. Micro-credit regional programs are mostly managed by public agencies controlled by regional authorities (in house providing) offering guarantee funds to involved banks or directly disbursing rotating funds. The discontinuous or provisional nature of such programmes (often due to the mechanism of fund allocation based on public invitation to tender, and so far heavily dependent on subsidies), some of their distinctive operational characteristics (e.g. formal maximum amount of loans exceeding the limit of 25,000 EUR for the case of the regional programs of Calabria and Marche), and their weak viability (heavily subsidized interest rates frequently at 1% or below; default rates of 50% in the regional programs of Lazio and Calabria) lead to omission of such initiatives from the group of Italian participants. Nevertheless, part of the reported micro-lending activities may still be funded through such regional channels (e.g. Per Micro partnership with Regione Piemonte).

Outreach

Available social performance analysis of the Italian microcredit industry showed a strong focus on the most disadvantaged target groups (migrants, youth and victims of usury practices) while, at the same time, a poor ability to serve women clients[62]. Local MFIs orientation towards the low-end of the market is also confirmed by other proxies such as average loan size below the EU average and the usual provision of non-financial services.

People excluded from mainstream financial services are the main target group of beneficiaries also in 2012-2013, while women remain underserved (relative to share of the population) on the yearly value of loans disbursed after the peak attained in 2011 (57% of loan amount).

Future Market Trends and Challenges

The Italian microcredit sector appears highly fragmented and inadequate with respect to the emerging financial exclusion indicators in the country (in 2011, 29% of adults had no access to a formal financial institution and only 5% received a loan[63]). The consolidation of sustainable supply side market mostly relies on the actual implementation of the pending microcredit legal framework. A stable and sound microcredit regulatory framework may enable the development of a more professionalized and sustainable provision of financial services for the unbanked through both licenced institutions ("entrepreneurial" microloans when specific requirements are met) and non-profit actors ("social" microloans for a maximum loan amount of 10,000 EUR). The Italian Microfinance Network (RITMI) promoted the discussion of a new law in the Italian Parliament in 2012 for the alleviation of tax and administrative burdens for microfinance actors and beneficiaries, and the exemption from budgetary restrictions due to fiscal consolidation for Regional Authorities investments in microcredit. An ongoing debate currently involves national major actors on the future development of public programs with the intent to build a sustainable microcredit system.

60 Bendig, Mirko, Michael Unterberg and Benjamin Sarpong (2012), "Overview of the Microcredit Sector in the European Union".
61 Banca Etica participated to the past edition of the survey without disclosing its portfolio data (same apply to Micro Progress Onlus and Fondazione Welfare Ambrosiano).
62 Botti, Fabrizio and Marcella Corsi (2010) "A Social Performance Analysis of Italian Microfinance", Centre Emile Bernheim Working Paper n. 10/020.
63 World Bank, Global Findex Database, 2011.

9.9 Lithuania[64]

Key Macroeconomic Data

Key indicator	Data source
Population, total (millions; 2010)	3,003,641
Real GDP growth rate (%-change on previous year; 2010 AND 2011)	3.7% (2012) 3.3% (2013)
GDP per capita (current EUR; 2010)	8,100
Unemployment rate (in %; 2010)	13.4%
Population below the national poverty line (defined as: 60% or less of the median household level; 2010)	18.6%
People at risk of poverty or social exclusion (2010; 1000 persons)	32.5%

Legal Framework for Microfinance and policy initiatives

There are no microfinance institutions that are exclusively engaged in microcredit in Lithuania. Currently, microfinance is carried out only by credit institutions, which are entrusted to manage the credit instruments financed by the EU structural funds. Consequently, the entire regulatory system is associated with the EU regulation. These measures are implemented as financial engineering instrument (when borrower repays the loan, the funds may be provided as new loans again by credit institution).

Currently, there are two microcredit measures (loans up to 25,000 EUR) implemented in Lithuania:
- "Entrepreneurship Promotion", financed by European social funds (ESF) and administrated by UAB "Investicijų ir verslo garantijos" (INVEGA)
- "PROGRESS", financed by European Commission together with European Investment Bank, and administrated by European Investment Fund (EIF).

Both measures provide better access to microcredit for the people with the intention to establish or expand their business.

The "Entrepreneurship Promotion" measure was designed for individual persons, companies of up to one year and social companies that can apply for microcredit in all credit unions of Lithuania. Nevertheless, microloans are combined with trainings of business fundamentals carried out by one of eleven business advisory centres. Also, the beneficiaries of the microloans can apply to several other financial products such as:
- The State guarantee provided by INVEGA that allows to reduce the need of collateral for credit unions;
- "Partial financing of loan interest" that allows recovery of up to 95 per cent of interest paid for the credit union; and,
- "Entrepreneurship Promotion Subsidies", that compensates part of salary costs gained by the beneficiary.

The "PROGRESS" measure provides better access to finance for people with the intention to establish or expand business. There are favourable conditions for women applying for the business loans. The beneficiaries of PROGRESS microloans can also apply for the State guarantee provided by INVEGA, which reduces the need for collateral for the bank. Beneficiaries of the microloans do not pay any administration fees using either measure.

Microfinance Market Overview and Outcome in 2012-2013

The first microcredit measure appeared in 2006. The intervention used a simplified procedure for SMEs by three financial intermediaries and was administered by INVEGA. These micro loans were distributed till mid-2012 as they were not subject to strict EU requirements for SF.

Initially, when two new measures for microcredit (Entrepreneurship Promotion and PROGRESS) appeared in 2010, the demand was not very high due to strict EU regulations for structural instruments. The demand for the microcredit measures increased only after introducing additional products in 2012-2013. In addition, the introduction of a measure, "Entrepreneurship Promotion", created a new opportunity for private persons doing business to access a business loan; this was not possible before because credit institutions only provided consumer loans for this type of client.

There are no official statistics about loans (up to 25,000 EUR) provided in Lithuania.

64 Author: Viktorija Jonusaite, Independent Consultant.

Data provided in 31st of March 2014

Measure	Number of credit institutions	The beneficiaries of the microloans	The number the beneficiaries	The services of the measure	Additional measures can be applied in parallel
Entrepreneurship Promotion	58	Private persons doing	756	Loans and trainings	Partial Financing of Loan
		business; SMEs up to 1 year; social companies			Interest; State guarantee; compensation for the part ofsalary costs gained by the beneficiary
PROGRESS	1	Micro companies	152	Loans	State guarantee

Outreach (incl. target groups and best-selling products)

Data provided in 31st of December 2013

Indicator	Achieved
Number of active borrowers	574
Sum of total value of loans	EUR 9,149,170

Currently, microcredit instruments focus on entrepreneurs starting new businesses so the financial intermediaries must be socially oriented to distribute the external finance provided to appropriate target groups. Financial intermediaries must not only focus on the financial figures provided in the business plan, but also on the entrepreneur's character, his reputation, the business idea and the determination to implement it.

However, implementing these measures is becoming more difficult as the network of credit institutions decreases in Lithuania. Most banks are closing their service centres in the smaller cities of Lithuania, and the availability of microfinance is becoming increasingly complex. Therefore, it will be necessary to look for an alternative to banks, which currently act as financial intermediaries, with the purpose to maintain favourable access to financing in the regions.

Future Market Trends and Challenges

The results of the surveys periodically done in Lithuania show that more people are planning to start-up their own business in the near future. Taking into account the priorities of the 2014-2020 programing period, the focus will be on financial engineering instruments that allow the recycling of funds to support more business entities; this should increase demand for socially orientated microcredit measures. However, the biggest challenge is to ensure a wide network of credit institutions that provide microloans in all regions of Lithuania.

Currently, credit institutions are fully responsible for the funds lent to the business entities using the microcredit measures (Entrepreneurship Promotion and PROGRESS). Therefore, consideration of risk-sharing opportunities for future microfinance measures will be an important next step. Also, financial institutions currently providing microfinance in Lithuania agree that the size of the microcredit is too small, so increasing the upper limit of microloans should also be considered while planning new measures.

9.10 Macedonia[65]

Key Macroeconomic Data

Key indicator	Data source
Population, total (millions; 2012)	2,059,794 (2012) 1,992,690 (2013)
Real GDP growth rate (%-change on previous year; 2012 AND 2013)	-0.4% (2012) 3.1% (2013)
GDP per capita (current EUR; 2012)	27,800 USD (2012)
Unemployment rate(in %; 2012)	12%
Population below the national poverty line (defined as: 60% or less of the median household level; 2012)	NA
People at risk of poverty or social exclusion (2012; 1000 persons)	NA

Legal Framework for Microfinance and policy

The microfinance sector in Macedonia does not have specific regulation after the abolition of Microfinance Law, but is defined within the frames of the Banking Laws.

Currently, four microfinance institutions are present in Macedonia with various legal statuses. "Fulm" and "Moznosti" are registered as credit union/cooperatives, Horizonti" as an NGO, while "Procredit" has bank status. Another 14 banks registered for commercial purposes. Lack of microfinance regulation significantly prevents access to microfinance services to the poor.

Microfinance Market Overview and Outcome in 2012-2013

In Macedonia, three microfinance institutions and one bank are in operation (Horizonti, Moznosti, Fulm and Procredit bank). With a loan portfolio of 28.1m USD some 12,837 active borrowers received loans. Additionally, 7,620 members deposited a total of 215.2m USD.

Microfinance institutions provide small business loans for working capital, inventory, trade, services, retail, manufacturing and other current expenses of business purposes, but MFIs also provide loans the renovation, upgrade, repair or reconstruction of housing. Microfinance institutions also target agricultural clients who form a solidarity group of at least three members and have revenue of at least three crops. If the solidarity group meets the creditworthiness analysis, agro business loans for seeds, fertilizers, raw materials and other ongoing costs are disbursed. In addition to loans, Savings FULM provides savings/various deposit products, trainings and consultancy.

Due to poverty levels of 30.4% (2011) and the fact that 64% of the Roma population is poor, microcredit institutions (especially Horizonti) are contributing to the social and financial inclusion of the poor, paying a special focus on the Roma as a vital social responsibility in domain of self-employment for socially vulnerable ethnic groups.

The overall financial sector in Macedonia remains stable. However, over the past year, credit growth has slowed considerably, falling from over 7% year-on-year in the first half of 2012 to under 4% year-on-year in June 2013. In July 2013, the central bank decided to amend banks' reserve requirements – from 10% to 8% for local currency, and from 13% to 15% for foreign exchange deposits – to provide an incentive to increase lending in domestic currency. However, with little economic growth, weak demand is likely to constrain credit growth. Non-performing loans are just over 10%, and are fully provisioned.

65 Author: Milena Gojkovic, MDF Fund.

Outreach (incl. target groups and best-selling products)

In Macedonia, economic performance worsened considerably in 2012 (GDP declined by 0.3%), with tentative signs of recovery in 2013. However, weakness in the Eurozone continues to weigh heavily on growth prospects. Some progress has been achieved on the privatization front, which has historically lacked investor interest.

Measurement of poverty and social exclusion according to Europe2020 indicators show that the risk of poverty and social exclusion affects almost half of the population in Macedonia. More concretely, 44.5% of the households in the country face at least one of the three risks – material deprivation, poverty or low work intensity. Analysis of these three risks indicates that the most prevalent risk is material deprivation (30.8%) followed by the risk of poverty (22.9%). The risk of low work intensity or joblessness affects 17% of households. Another 7.2% suffer from severe cumulative disadvantage (those exposed to all three risks) and are considered the most poor and excluded group in the society.

The microfinance sector pays an important role targeting the un-bankable clients by offering a variety of loan and savings products.

The government is undertaking initiatives to target the high level of unemployment, especially among young people. In June 2013, the government launched a subsidized lending program for micro and SMEs, aimed to incentivize new employment. Enterprises could receive loans of 3,000 EUR per new employee, up to a maximum of 9,000 EUR. These loans are with a maturity of three years, a grace period of one year and a very favourable interest rate of 1%. The government is also making efforts to reduce the rate of youth unemployment, which, at 54%, is the highest in the south-eastern Europe.

Although available, self-employment funds only utilized 3% of capacity. Lack of information on how to access the funds and insufficient education of the poor population are the main deterrents preventing efficient use.

Future Market Trends and Challenges

Tackling material deprivation requires a combination of measures including:

- Public provision of loans with lower interest rates and grace periods, mainly aimed at those with below average incomes, in-work poor, social assistance recipients, and others;
- Increasing the amount of social (financial) assistance in coordination with improved targeting of vulnerable target groups who lack coverage by the social protection system and preventing access to those working in undeclared jobs.

Additionally, effort should be made to tackle unemployment. The unemployment rate in FYR Macedonia, approximately 30% in 2013, is high by regional standards, and is a major contribution to ongoing poverty. Some researchers have proposed enlarging microfinance as one of the ways to reduce the poverty and facilitate access to the funding sources.

Reducing income poverty, joblessness, poverty and social exclusion among the Roma population through tailor-made programs for employment and education reflecting their socio-economic, cultural and traditional particularities is seen as an important goal. Moreover, effective measures to strengthen the judiciary and the role of law should be implemented. While the government has been successful in removing regulatory barriers on conducting business, judicial independence and tackling corruption remain significant constraints on investment.

9.11 Netherlands, The[66]

Key Macroeconomic Data

Key indicator	Data source
Population, total (millions; 2012)	16,730,348
Real GDP growth rate (%-change on previous year; 2012 AND 2013)	-1.2% (2012) -0.8% (2013)
GDP per capita (current EUR; 2012)	32,700
Unemployment rate (in %; 2012)	5.3%
Population below the national poverty line (defined as: 60% or less of the median household level; 2012)	10.1%
People at risk of poverty or social exclusion (2012; 1000 persons)	15%

66 Authors: Klaas Molenaar and Julie M. Lehmann, De Haagse Hoogschool.

Legal Framework for Microfinance and policy initiatives

The regulatory framework for organizations intending to launch a micro finance (micro credit) programme is rather favourable in the Netherlands. As long as such organizations do not engage in raising money from the general public (no savings mobilization) they can operate without further supervision. They can establish themselves as either a foundation or association (or even cooperative), and after registering with the Chamber of Commerce[67], can start functioning. Registration with the Chambers automatically results in registering with the national fiscal authorities.

Microfinance Market Overview and Outcome in 2012-2013

Over the past years, Qredits has become the leading and omnipresent microfinance institution in the Netherlands. Except for organizations with specific target groups operating on a rather modest scale such as 'Kunstenaar & co' (mainly serving artists), and the national programme to support the unemployed (BBZ) there is no other independent, operational MFI.

Qredits manages a micro lending programme with a loan ceiling of 50,000 EUR[68] and supplementary coaching and mentoring to its clients. It has set up a special platform for this coaching service. Over 500 coaches have been listed, and in 2013, 540 coaching processes (for both borrowers and for those with no need for external funding) have been completed. An e-based information programme for its clients has also been launched; in 2013, over 1,200 e-learning packages were sold. Special efforts have been made to stimulate the unemployed and students at polytechnics and vocational training schools to use e-learning in preparation of enterprise creation or as self-employment.

Outreach (incl. target groups and best-selling products)

Micro loans (up to 31,290 EUR) are made available for the (long term) unemployed under the BBZ and WIA national programmes of Ministry of Social Affairs and Employment[69]. These programmes also offer comprehensive training and business advisory services for those wishing to set up microenterprises.

The average loan size for micro loans in the Netherlands is reported to have increased gradually for all micro lending operations from 16,000 EUR in the previous period[70]. This reflects that the primary focus in the Netherlands is on lending for larger microenterprises and SMEs. The truly socially excluded are attended less and less since the exit of many small, locally operating MFIs and the closure of specific target group focused projects.

The number of clients served with micro loans is still relatively low in the Netherlands: Qredits lends to approximately 1,200 clients per annum. Under the BBZ programme (not included in the aggregate data for the Netherlands), another 900 to 1,200 unemployed establish a micro or small enterprise annually.

Qredits has a clear policy to serve those who are not attended by the banks. Although it has no specific policy to target special groups, the composition of its portfolio shows that Qredits is successful in serving special groups. The composition breakdown includes:

Unemployed/ social welfare beneficiaries:	30% (well above the national percentage of 8)
Under 30 years old	30%
Minority groups[71]	13%
Women	32%

The other two primary programmes focus on specific target groups, e.g. artists and long term unemployed.

Future Market Trends and Challenges

The challenge for the years to come in the Netherland is to develop programmes and/or stimulate the creation of an organization that reaches out to the socially excluded in need of relatively smaller financial support and who do not necessarily wish to set up a full-fledged enterprises but rather an (additional) income generating activity next to part time employment and/or social welfare benefits. Those hybrid entrepreneurs are presently not served and the systems and procedures are not yet geared to the needs and possibilities of that group.[72]

The second challenge will be to ensure that banking sector continues to serve the lower end of the market with its general services. There is a tendency (from Triodos Bank to ING) to move away from smaller clients using the presence of Qredits as an argument that the market is well served already.

67 By law all organizations engaging in economic operation need to register with the Chamber of Commence
68 In addition it offers loans to SMES up to Euro 150,000.
69 See also Molenaar, N , From B to Z for Long term unemployed in the Netherlands , The BBZ Facility, prepared for OECD/ LEED for the Compendium on Policy measures for disadvantaged groups, forthcoming (2015)
70 Mainly attributable to the BBZ lending
71 Based on place of birth criterion
72 In 2014 HHYFI, The Hague Hybrid Financial Initiative was set up for that reason by The Hague University of Applied Sciences.

9.12 Poland[73]

Key Macroeconomic Data

Key indicator	Data source
Population, total (millions; 2012)	38,538,447
Real GDP growth rate (%-change on previous year; 2012 AND 2013)	2% (2012) 1.6% (2013)
GDP per capita (current EUR; 2012)	8,500
Unemployment rate (in %; 2012)	10.1%
Population below the national poverty line (defined as: 60% or less of the median household level; 2012)	17.1%
People at risk of poverty or social exclusion (2012; 1000 persons)	26.7%

Legal Framework for Microfinance and policy initiatives

There is no specific microfinance law in Poland. Loans can be issued by a range of institutions including banks, cooperative banks, credit unions, limited liability or joint stock companies, foundations and associations. These institutions operate under general regulations relevant for a given legal structure, such as commercial code, civil code, labour law, banking regulations, acts concerning the protection of personal data as well as the act on competition and consumer protection, combating unfair commercial practices.

The Act on competition and consumer protection, introduced in 2007, enumerates three examples of practices infringing consumer interests:

- Application of standard contract terms that have been entered in the Register of Prohibited Clauses;
- Distributing inaccurate, false or incomplete information; and,
- Unfair commercial practices or acts of unfair competition.

There is a regulatory cap on the interest rates of 16% (4x the Lombard rate, now at 4%). However, financial institutions can apply various fees and charges that increase the actual cost of credit.

The recent proliferation of consumer finance companies (pay-day lending) has caused much criticism and debate about the fair cost of credit. As a result, the government wants to introduce changes in the law regarding financial sector supervision that would include the registration of non-bank financial institutions and the establishment of a maximum cost of credit.

Deposit taking is restricted to banks and credit unions.

Providing client data to the credit bureau is not obligatory for non-bank financial institutions, but it will be required from those who would like to access information.

The Polish Union of Loan Funds is the only national network.

Microfinance Market Overview and Outcome in 2012-2013

Microenterprises in Poland constitute ca. 95% of all enterprises. The total number in 2012 was 1.8 million (out of which 1.2 million were self-employed)[74]. Over 93% of the microenterprises use simplified accounting that may inhibit their ability to receive a bank credit.

Loans are more or less equally distributed in urban and rural areas although the latter are less saturated with financial services. Loans to women constitute nearly 40% of total loans, reflecting the proportion of women entrepreneurs in the market.

73 Author: Izabela Norek, Futuro Management.
74 Source : 2011-2012 report on the status of SMEs issued by Polish Agency of Enterprise Development.

One can distinguish three main types of institutions active in the microfinance field:
- Microfinance organizations, which provide only loans;
- "Loan funds" such as regional development agencies, local foundations or associations providing loans and other business development services (the loan component may be dominant or may be a small part of overall activities); and,
- Banks specifically targeting MSMEs.

There are approximately 50 institutions providing loans to microenterprises, excluding banks and credit unions.[75]

In recent years, an important source of funds for on-lending has been grants from the European Union (Sectorial and Regional Operational Programmes: "Improvement of the Competitiveness of Enterprises") and funds managed under projects with the BGK[76] bank, primarily the JEREMY Initiative (Joint European Resources for Micro-to-Medium Enterprises). As of March 31, 2014, 83.1% of the JEREMY funds were used by microenterprises.

Microfinance institutions also utilize borrowed funds from social investors and commercial banks. Credit unions are another provider of small loans. The outstanding value of CU credits as of June 30, 2013 was PLN 10.4 billion (ca. 2.6 billion EUR). However, the largest part of the credit portfolio was constituted by consumer credits (ca. 52%) and housing credits (ca. 44.5%).

Microfinance Market Overview and Outcome in 2012-2013

Market Overview

Active borrowers						
Country	n	Total	n	Business	n	Personal
Poland	12	40 445	12	40 445	10	0
No. of loans disbursed in 2013 (in EUR)						
Country	n	Total	n	Business	n	Personal
Poland	12	16 166	12	16 166	10	0
Value of loans disbursed in 2013 (in EUR)						
Country	n	Total	n	Business	n	Personal
Poland	12	198 631 554	12	198 631 554	10	0

Target Group Outreach (value of loans disbursed to target group in EUR, 2013)

	Rural population		Urban population		Unemployed		Women	
Country	n	Total	n	Total	n	Total	n	Total
Poland	11	15 337 576	10	13 988 825	10	970 325	10	11 250 299
	Ethnic minorities		**Youth (18-25 years)**		**Disabled people**		**Excluded from mainstream**	
Country	n	Total	n	Total	n	Total	n	Total
Poland	10	0	10	1 0142 064	12	0	10	0

Outreach (incl. target groups and best-selling products)

Microfinance in Poland strongly focuses on enterprise development and job creation. Loans target registered businesses in early stages of development, including start-ups and the self-employed. In case of loans to the unemployed, business registration may be required prior to loan disbursement. There have also been special programmes supporting youth (self)-employment, while a large part of social inclusion activities (employment of the disabled, social cooperatives etc.) has been addressed with grants.

Typically, the maximum loan size is 120,000 PLN (ca. 25,000 EUR). Based on the survey responses, in 2013, the average disbursed loan size was equivalent to EUR 12,000 but for some MFIs the figure was around EUR 5,000.

Interest rates depend on the provider and programme: the minimum is the reference rate for Poland (currently 3.75%) and the maximum is the regulatory limit (16%).

Loans are usually secured with guarantors or assets. Entrepreneurs can also apply for guarantees from the guarantee funds but it is more common for small business rather than micro- businesses. Additionally, portfolio guarantees are available to MFIs, although they do not seem to be widely used due to complex payment procedure.

75 According to the report by the Polish Union of Loan Funds, at the end of 2012 the total funds for on-lending amounted to nearly 2 billion zloty (ca. 500 m EUR) and they were 20% higher than in 2011. Loan portfolios range from a few hundred thousand EUR to more than 10 m EUR.
76 Poland's only state-owned bank implementing the government's economic programs, as well as local and regional development programs with the use of public funds, including those of the EU.

Future Market Trends and Challenges

Market demand:
In the next 2-3 years, increased demand for microenterprise financing is expected, including working capital needs. Simplification of application procedures and easier access to guarantees is needed to facilitate the process.

Funding:
Based on signals from microfinance institutions, additional funds are needed to meet market demand. As grant sources are very limited, MFIs will have to finance growth with borrowed funds. Some equity investment may also be required to support development.

Regulations:
In case of changes to the regulations for the non-banking financial institutions, it is important to ensure that there will be no negative effect on socially-oriented MFIs.

Consumer finance:
An increasing number of people are employed on short-term work contracts (junk contracts), becoming a new group excluded from the regular bank financing. Solutions should be found to provide them with access to fair price and responsible finance.

Social economy:
Financing will be needed to support the growth of new social economy initiatives (NGOs, social cooperatives). It will require a good understanding of this sector.

9.13 Portugal[77]

Key Macroeconomic Data

Key indicator	Data source
Population, total (millions; 2012)	10,542,398
Real GDP growth rate (%-change on previous year; 2012 AND 2013)	-3.2% (2012) -1.4% (2013)
GDP per capita (current EUR; 2012)	14,300
Unemployment rate (in %; 2012)	15.9%
Population below the national poverty line (defined as: 60% or less of the median household level; 2012)	17.9%
People at risk of poverty or social exclusion (2012; 1000 persons)	25.3%

Legal Framework for Microfinance and policy initiatives

In Portugal, there is no specific microfinance legislation. Only banks are allowed to issue microloans and the Central Bank limits the disbursing of this financial instrument of up to 25,000 EUR per loan.

The State has established a credit line with the banking sector for disbursing microloans at low interest rates and gives a grace period of two years. The State also offers guarantees to these banks.

77 Author: Eloina Gonzalez, Fundación Nantik Lum. As an additional source of information an interview with Helena Mena, from EMN's Board of directors representing Millennium bcp Bank, was done.

Microfinance Market Overview and Outcome in 2012-2013[78]

The microfinance market originated in Portugal during 1998 with the foundation of the National Association for the Right to Credit "Associação Nacional de Direito ao Crédito" (ANDC) in Portuguese, in partnership with Millennium bcp.

ANDC was founded as a private non-profit association by one hundred people in Portugal interested in promoting the development of the experience created by the Grameen Bank, established by Muhammad Yunus in Bangladesh in 1976. A few years after its founding, ANDC was recognized as a public service institution.

The aim of ANDC is to support the business development of individuals who are excluded from the formal banking system. The association has partnerships with various financial institutions for the provision of microloans. ANDC also monitors and closely works with microentrepreneurs from business plan development until the end of the loan repayment.

Regarding access to microloans, ANDC signed its first protocol with Millennium bcp in 2005 when the bank created its own network of microcredit. Afterwards, ANDC signed a protocol with two other banks: Banco Espirito Santo and Caixa Geral de Depositos.

Millennium bcp operates in the microfinance industry through its own network that provides not only microloans to its clients but also a wide range of non-financial services such as advising and coaching and business development services. Since the launch of its own microcredit network, Millennium bcp has created 4,400 jobs through the disbursement of business microloans of approximately 25.7 million EUR.

Outreach (incl. target groups and best-selling products)

In Portugal, microfinance target groups are individuals willing to start up or consolidate a business but are excluded from the formal banking system. Traditionally, microfinance clients were vulnerable groups of people such as immigrants or women with a low social network. Nowadays, in a context of economic and financial crisis, a microfinance client's profile is expanding to other segments of the Portuguese population such as youths, those unable to find a job, or unemployed people who seek self-employment as a solution to their unstable situation.

Helena Mena states that microfinance clients in Millennium bcp's microfinance network are mainly unemployed people and immigrants who are looking to start up their own business. However, there has been a recent increase of demand for microloans from individuals with a university degree.

Regarding microfinance products, financial institutions only offer microloans for business purposes, as shown in the following graph with data reported from two institutions in Portugal: ANDC and Millennium bcp.

Main figures of the Portuguese microfinance sector, 2013

Loans disbursed	Value (in EUR)	Number
Total	2.5 m	215
For business purposes	2.5 m	215
For personal purposes	-	-

Number of active borrowers	
Total	967
Business loans	967
Personal loans	-

Source: Quantitative data EMN Survey 2012-2013

Future Market Trends and Challenges

In Portugal the main challenge for the microfinance industry is that the banks achieve to stabilize in the short run so that they can continue to operate disbursing microloans and reaching the unbankable through this inclusive financial instrument.

Helena Mena states that Millennium bcp, with its own microcredit network, shows the bank's commitment to continue operating on the sector. What is more, Millennium bcp supported, as the main partner, the EMN 11th Annual Conference that was held in Lisbon.

The strengthening of the microfinance sector does not only fall on the banks but also on the government and the interested parties such as NGOs and social institutions, which should make a concerted effort to improve the perception of belonging to a common project: the social and financial inclusion of the Portuguese microentrepreneurs.

78 Source: ANDC Information available at www.microcredito.com.pt.

9.14 Romania[79]

Key Macroeconomic Data

Key indicator	Data source
Population, total (millions; 2012)	20,095,996
Real GDP growth rate (%-change on previous year; 2012 AND 2013)	0.6% (2012) 3.5% (2013)
GDP per capita (current EUR; 2012)	4,600
Unemployment rate (in %; 2012)	7%
Population below the national poverty line (defined as: 60% or less of the median household level; 2012)	22.6%
People at risk of poverty or social exclusion (2012; 1000 persons)	41.7%

Legal Framework for Microfinance and policy initiatives[80]

The microfinance company's law promoted in 2005 was among the first initiatives of the MFIs and Romanian Government to promote an enabling legal framework for MSMEs access to finance and in particular for microfinance provision. As the Non-bank Financial Sector (NB-FS) has evolved and grown, the National (Central) Bank of Romania unified the various legal frameworks promoted by the Non-bank financial institutions (e.g. MFIs, leasing companies, mortgages companies, credit unions, etc.) under a unique law, 93/2009, that regulates all non-bank financial activities and established a department within the NBR for specific regulation, supervision and registration of all NB-FIs. In parallel, the legislation for registration and reporting of individual entrepreneurs, individual traders, family business and professionals improved with the promotion of Law 40/2013 and the new fiscal regulations specifically designed for the income generation activities performed by self-entrepreneurs and legally registered professionals.

The Romanian National Bank[81] is leading initiatives to adjust the financial and banking legislation to the European Commission and Basel III provisions related to facilities aiming to improve MSME access to finance. These improvements include: capital, provisioning and collateral requirements as well as new, innovative solutions for better integration of the pan-European financial markets, access to medium and long term capital through joint–venture instruments, an increase in transparency and standardization of financial product characteristics, the creation of new financial instruments and the revision of the existing financial and banking legislation.

Microfinance Market Overview and Outcome in 2012-2013[82]

Overview	2012	2013
Number of survey participants	17	17
Number of active clients	67,095	74,385
Value of loans disbursed (in EUR)	90,932,570	103,653,142
Number/ value of loans disbursed: - To women - To rural clients - To unemployed - To youth enterprises - To ethnic minorities/immigrants	39,402 90.9 m EUR 34.4 m EUR -38% 32.6 m EUR -36% 3.3 m EUR -3.6% 6.4 m EUR -7% 2.9 m EUR -3%	47,097 103.7 m EUR 39.2 m EUR – 38% 37.2 m EUR -36% NA 7.3 m EUR -7% 3.3 m EUR -3.15%
Number/ value of loans disbursed, for entrepreneurial/business purposes:	7,709 8,722- 18.52%	52.2 m EUR 58.2 m EUR
Number/value of loans disbursed, for personal/consumption purpose: - To excluded from the mainstream financial services	31,693 38.7 m EUR 11.5 m EUR -13%	38,375 – 81.48% 45.5 m EUR 13.1 m EUR -12.6%

79 Author: Maria Doiciu, Eurom Consulting.
80 Source: National Bank Of Romania: legal framework for Non-bank financial institutions in Romania www.bnro.ro.
81 Presentation of Florin Georgescu, RNB's vice- governor to the EU-Ministry of SMEs and Tourism conference on new EU funded Financial instruments, May 2014.
82 Sources: Quantitative Data, Eurom expertise, ICF GKF – Evaluation of JASMINE Technical Assistance pilot phase: final report.

With the economy recovering after the financial crisis and with the improvement in the legal framework and fiscal policy aimed to support entrepreneurship development, the demand for microloans and associated BDS services has increased, reaching 250,000 microloans per year[83]. Apart from MFIs and credit unions, SME banks are increasingly interested in participating in Government funded MSMEs programs, e.g. Kogalniceanu, Start, Young – entrepreneurs, etc. and to the EC/EIF funded SMEs and microfinance programs: JEREMIE, Progress and JASMINE.

The survey participants are the main players in the Romanian microfinance sector; these institutions were established in the early '90s with the financial and technical support of international microfinance networks or are newly established MFIs funded by national investors as the new legal framework for non-bank non-depositary financial institutions evolved. For the first time, the 10 largest credit union members of UNCAR reported their indicators and were included in the survey.

Compared with the previous report (2011), the number of active clients in 2013 reported by the participants to the survey increased by 3.9% and the number of extended microloans increased by 4.3x, The total value of the loans distributed in 2013 exceeded 103m EUR; business loans represent 54% of the loan portfolio and personal loans represent 46%. The average business loan in 2013 was 6,670 EUR representing 145% GDP per capita; the average personal loan amount, with social inclusion impact and disbursed mainly by credit unions was 1,200 EUR, representing just 26% GDP per capita.

The majority of the CUs' portfolio consisted of consumer loans with social inclusion impact on the members/beneficiaries. Recently, the percentage of microloans extended by credit unions to finance income generation activities, considered business loans, reached ~10% as reported by UNCAR, but due to the current CUs' MIS and reporting system, CUs do not record or report data related to the utilization of the loans extended. This issue is going to be addressed within the following years as Romanian CUs are implementing the European Code of Good Conduct for Microcredit Provision.

Therefore, 81% of the distributed loans were reported by the participants to the survey as personal loans and only 19% were reported as business loans. The increasing size of the microcredit portfolio is highlighted by the growth between 2012 and 2013. The number of active borrowers grew by 10.8%, the number of loans disbursed increased by 19.5% and the value of the loan disbursed increased by 14.1%.

Outreach (incl. target groups and best-selling products)

The target beneficiaries of Romanian MFIs are unbanked entrepreneurs, farmers and individual members of the CUs. MFIs are recoding more information on the clients and purpose of the loan than CUs, but all participants are assessing the clients' financial capacity to reimburse the loans and taking active measures to avoid client over-indebtedness while maintaining good portfolio quality.

During 2012-2013, Romanian MFIs and CUs were among the main beneficiaries of the EC funded JASMINE technical assistance programme and the Progress financial and guarantee facility. The recommendation of the evaluation and rating reports were addressed and the know-how received through the training programmes has had a positive impact on the organization by improving performance through revised risk management procedures, establishing new client protection measures, diversifying the financial products offered and sustaining the growth of the microfinance portfolio.

In 2012/3, 13% of the loan value was disbursed to un-bankable clients, 38% of the loans were disbursed to female clients, 36% went to rural clients and only 7% reached youth segments.

Future Market Trends and Challenges

The MF sector is dedicated to the improved access of qualitative financial services for potential and existing entrepreneurs, farmers and microenterprises through diversified financial products, the provision of associated BDS services while the social and economic inclusion of un-bankable individuals remains a primary challenge.

The debt to equity ratio reached 65.8% in 2013 and restricted the access to financial resources, especially for equity/long term loans. Portfolio quality (PAR 30 9% in 2013 2012: 9.6%) remains an important challenge of the MF sector as well.

Accessing cost-effective financial resources and technical assistance to comply with the European Code of Conduct requirements and participating as partner institutions to the implementation of Financial Instruments funded from EU structural funds/government programs to be launched during the current programming period (2014-2020) for the support of microfinance for entrepreneurship development, micro-enterprises and social enterprises, will enable sustainable growth and enhance the MF sector's contribution to the Romanian economy.

83 ICF GKF – Evaluation of JASMINE Technical Assistance pilot phase: final report

9.15 Serbia[84]

Key Macroeconomic Data

Key indicator	Data source
Population, total (millions; 2013)	7,243,007 (2013)
Real GDP growth rate (%-change on previous year; 2012 AND 2013)	-1.7% (2012) 2.5% (2013)
GDP per capita (current EUR; 2012)	3,100
Unemployment rate (in %; 2012)	23.7% (2011) 25.9% (2012) 20.01% (2013)
Population below the national poverty line (defined as: 60% or less of the median household level; 2012)	NA
People at risk of poverty or social exclusion (2012; 1000 persons)	NA

Legal Framework for Microfinance and policy initiatives

In the absence of specific microfinance regulation, microfinance institutions in Serbia are performing microfinance in cooperation with the banks. According to the Bank Law, only banks can disburse loans, therefore, the microfinance sector has been using guaranty deposits or agency models in cooperation with the banks.

As banks' lending ability has been restricted due to stability issues, recent lobby attempts have shown a signal for possible change. Pursuing microcredit sector regulation in Serbia is of essential importance. Due to the government's attitude, the microfinance sector could be exclusively focused on microcredit legislation, not including savings or insurance components.

The microcredit institution legislation is essential in order to ensure access to credit for a wide range of un-bankable clients, simplify client services, enable the design of client-need focused loan products, reduce the cost to the clients due to high mediation fees charged by the partner banks and reduce time consumed by an overcomplicated loan and reconciliation processes.

Microcredit institution legislation would be of key importance to both economic recovery as well as socio-economic inclusion, which are both emphasized as key Government priorities.

The microcredit institutions' regulatory framework allowing non-bank and non-depository microcredit can increase the level of foreign direct investment into the sector significantly. Microcredit sector regulation will create a positive situation for the system: low income borrowers will receive access to finance and banks will gain new clients who graduate from microcredit institutions and increasingly seek more formal banking services.

Microfinance Market Overview and Outcome in 2012-2013

Microfinance was initiated in Serbia sixteen years ago, based on the support of international donors and investors. Donors were predominantly focused on supporting Refugees, IDP-s as well as other clients' needs. Besides micro businesses, the housing segment has been covered along with basic households needs.

In Serbia, three non-banking microcredit institutions that work in close cooperation with the local banks exist: Agroinvest, Micro Development and MicroFins. Microcredit institutions in Serbia offer a variety of services to clients, predominantly in suburban and rural areas. In 2013, there were about 20,500 active borrowers covered by a portfolio of 16m EUR and an average loan size of 1,500 EUR.

The loans were provided through the individual lending methodology, with fixed interest rates, in Serbian dinars with no foreign currency clause and thereby protecting vulnerable clients from currency risk. The microcredit providers in Serbia provide trainings and education to clients, allowing their clients to be more sustainable.

The Serbian banking sector, with a few exceptions, rarely reaches start-up entrepreneurs and the poor population. The reasons stem from high transaction costs coupled with small transaction sizes that make it very difficult for the bank to cover costs. At the same time, many banks are unwilling to provide services, in part because of the perceived high risk of financing poor clients and start-ups, but also because they would need to invest significant resources in changing their business model to serve this type of clientele.

With an unemployment rate of 25.9% in 2012, significantly higher in Serbia than comparable countries, microfinance has been extremely important, especially for start-up micro businesses and especially for self-employments.

84 Author: Milena Gojkovic, MDF Fund.

Outreach (incl. target groups and best-selling products)

It has been evident that micro entrepreneurs have expertise in various micro business activities but lack funding to start up or expand their businesses. Microcredit institutions can provide these capital requirements to fuel development.

Microcredit institutions offer support for a variety of loan products to clients, predominantly in suburban and rural areas. Among the sectors, mostly services and small trade were represented, but a significant part was also represented by consumption, production, agriculture and housing loans. The MCI loans were fixed in local currency in Serbian dinars. The National Bank of Serbia's "dinarisation" strategy increased the proportion of lending in dinars, from 30.5% in 2011 to 36.4% in 2013. However, the proportion of local currency in corporate lending has dropped sharply over the same period, from 34.3% to 22.3%.

Microcredit institutions target socially disadvantaged people, predominantly among refugees, internally displaced people, the unemployed, small entrepreneurs, farmers, the poor and marginalized people with special attention to women.

As per ILO, the employment rate of women is lower than men's (39.1% and 53.7%, in 2012). Policy and measures for employment of vulnerable youth (disadvantaged youth such as the youth with low educational attainment (early drop-outs), young Roma, young women (especially in rural areas), youth with disabilities, etc.) should be further strengthened.

Future Market Trends and Challenges

The most important goal of the Microcredit sector in Serbia is aligned to legislation that would allow independent, more effective and efficient response to client needs.

Additionally, market needs are much higher and more access to funding for the microfinance sector is of high importance. As lacking access to finance has been predominantly related to micro and small companies in Serbia, microfinance could play a much more significant role in covering the market needs.

In 2010, the absolute poverty line in Serbia was high at 9.2% (8,545 RSD/month/consumer unit). As there have been no official data collections on poverty statistics after 2010, it is estimated that one of every ten inhabitants is living in absolute poverty, surviving with a monthly income of 83 EUR per month.

The main cause of poverty has been unemployment that jumped from 14% to 25.9% during the crisis. About 50% of those younger than 25 years are unemployed. Microfinance could significantly support self-employment, job creation and could be important for job sustainability, especially important in times of crises.

Sustaining macroeconomic stability is the key state priority. The government needs a fiscal plan for reducing the level of public debt over the coming years. Advancing the restructuring and privatization of the remaining state-owned enterprises is a priority. Reforms are needed to strengthen the stability of the financial sector. Regulatory measures should be taken to incentivize the resolution of non-performing loans and to strengthen deposit insurance.

Green jobs present yet another opportunity for employment creation.

9.16 Spain[85]

Key Macroeconomic Data

Key indicator	Data source
Population, total (millions; 2012)	46,818,219
Real GDP growth rate (%-change on previous year; 2012 AND 2013)	-1.6% (2012) -1.2% (2013)
GDP per capita (current EUR; 2012)	20,200
Unemployment rate (in %; 2012)	24.8%
Population below the national poverty line (defined as: 60% or less of the median household level; 2012)	22.2%
People at risk of poverty or social exclusion (2012; 1000 persons)	28.2%

Legal Framework for Microfinance and policy initiatives[86]

In Spain, there is no regulatory framework for the microfinance sector. However, during the last four years, lobby groups have been hard at work. In 2010, the Working Group on Microfinance Regulation in Spain was created, gathering a variety of interested stakeholders on microfinance[87]. The aim of the Working Group is to facilitate the implementation of a legal framework in order to develop the micro-finance sector in Spain.

In April 2012, the II National Microfinance Meeting took place under the title "The New Spanish Microfinance Legislation". Experts both from the European Microfinance Network (EMN) and from European Institutions, such as the European Social Fund (ESF) and the European Investment Fund (EIF) attended the meeting. The objective was to introduce the experience of other countries – such as Romania, Italy, Hungary and France - in the field of microfinance in order to understand best practices for the development of microfinance legislation in Spain.

Also relevant for the development of the sector was the constitution on the Spanish Microfinance Association during the III. National Microfinance Meeting in May 2013.

From the work developed in the II. National Meeting, it was decided to try to incorporate microfinance into existing law rather than create an independent framework. Consequently, the experts started consulting different political formations to develop a communication and lobbying strategy.

By the end of 2012/start of 2013, the Working Group developed a document for lobbying the Spanish government which compiled the main points to push forward regulation of the microfinance sector. The main premises of the document include: the recognition of the MFI's figure as part of the market; carrying out the remunerated activity of granting loans; the collection of refundable deposits from the public is not considered, but the collection of resources from external investors to develop the activity is; the legal form for the sector's institutions which are proposed to be non-profit organizations paying special attention to independence regarding external liability of promoters and partners, and of the institutions themselves. Furthermore, the ability for Spanish MFIs to be eligible for the aid programmes of the European Social Fund (ESF) and other institutions such as the European Investment Bank (EIB) under the umbrella of the Spanish Microfinance Association is also encouraged.

In the words of Jaime Durán, the President of the Spanish Microfinance Association, discussions within the government and the Ministry of Labour have been held during the end of 2013 for negotiating a Royal Legislative Decree but its approval is still pending.

Microfinance Market Overview and Outcome in 2012-2013

In Spain, the microfinance model has been traditionally based upon the co-operation and joint work between savings banks, public institutions and Social Microcredit Support Organizations (SMSOs).

Regarding the provision of microloans, savings banks either implemented microcredit programmes with their own resources or linked the programmes to public sector initiatives (the two main programs were the Official Credit Institute's Microcredit Line and the Women Institute's programme, no longer active).

Another important role was played by SMSOs that work directly with microentrepreneurs and establish the liaison between customers and the savings banks. SMSOs are public or private entities that promote self-employment and social and financial inclusion of vulnerable people through the delivery of Business

85 Author: Eloina Gonzalez, Fundación Nantik Lum.
86 Collection of Monographs nº 20: "The importance of a Microfinance legislation for the development of the sector in Spain", March 2013; Interview to Jaime Durán, President of the Spanish Microfinance Association.
87 The Working Group was initiated with around 50 institutions representing a variety of stakeholders: savings banks, ICO Foundation, Eurpean Social Fund, SMSOs, universities, foundations NGOs, associations of beneficiaries, consultants and public institutions (municipalities, ministries, regional governments, etc).

Development Services (BDS). Some SMSOs also have own microcredit funds and programmes.

With the arrival of the international financial crisis, the bursting of the housing bubble in Spain in 2009 and the subsequent restructuring of the Spanish financial system in 2010, many of the savings banks closed down and others merged. The credit crunch in Spain led, therefore, to the closure of most microcredit programmes.[88]

Today, despite the weakening of the microfinance sector in Spain, there are still some institutions that have managed to maintain their microcredit programmes such as Colonya Caixa Pollença (Mallorca) or Fundación Tomillo (Madrid). Likewise, the industry continues to have a big boost since 2007 with the entry of Microbank, La Caixa's social bank.

Microbank plays an important role in the Spanish sector with a large-scale microcredit business model. It provides personal microloans and business microloans for entrepreneurs that can be financial or social loans. Microbank's social microloans are disbursed throughout the Spanish territory in collaboration with the SMSOs. These entities work closely with the entrepreneurs for developing their businesses plans in order to present valid and feasible documents to Microbank.

Main figures of the Spanish microfinance sector, 2013

Loans disbursed	Value (in EUR)	Number
Total	319 mill.	56.590
For business purposes	175 mill.	15.887
For personal purposes	144 mill.	40.703

Number of active borrowers	
Total	57.037
Business loans	16.934
Personal loans	40.103

Source: Quantitative data EMN Survey 2012-2013

Outreach (incl. target groups and best-selling products)

Microfinance target groups in Spain have traditionally been those excluded from the financial and banking system, particularly vulnerable people such as women, immigrants or individuals with a low social network but highly motivated for starting-up their own businesses. However, today's critical economic situation is pushing many individuals to consider entrepreneurship as a necessity for overcoming the crisis effects. This is why the profile of microfinance beneficiaries is expanding to other segments of the Spanish population. Now, the Spanish educated youth unable to find a job or the aged individuals who have lost their employment are contemplating entrepreneurship as a solution.

The main products of the microfinance industry in Spain are microloans and Business Development Services (BDS). Microloans have traditionally been provided by saving banks while BDS are delivered by SMSOs due to the expertise that this kind of organizations have in working with entrepreneurs.

However, an important aspect to be highlighted is the fact that now, even if many social organizations are drifting their actions towards specializing on the increasing Spanish entrepreneurship ecosystem, funds are still not available. Therefore, there is still an important challenge to be faced in regard of the outreach to clients.

Future Market Trends and Challenges[89]

In a context where the economy is marked by austerity and budgetary constraints while the social needs of the population are rising, the adoption of efficient measures in the use of the available resources is becoming a real necessity.

Regarding the economic and social scene that Spain and the European Union as a whole offer us today, it seems clear that inclusive forms of finance such as microfinance are proving to be a successful mechanism to support social and financial excluded people and thus, are susceptible of contributing directly to employment creation.

The main challenges that the microfinance sector in Spain has to overcome are in the first place the approval of the Royal Legislative Decree in order to allow a regulated environment for developing microfinance practices and institutions.

Secondly, once the sector is framed in a legal environment, coordination among the different actors will be crucial in order to negotiate with the European institutions, particularly with the European Social Fund (ESF) and with the European Investment Fund (EIF) to ensure MFI's training and monitoring activities as well as collateral terms for the sector.

Finally, the Spanish microfinance sector will have to face a structural and organizational transition since the SMSOs will have to develop and adjust their structure and activities to become regulated MFIs.

88 Not only the savings bank's microcredit programs were shut down but also most of those from the SMSOs who had to face a problem of self-sustainability. Indeed, this has been a limitation regarding the present survey since the number of participant MFIs has been drastically reduced compared to the previous years.
89 Collection of Monographs nº 20: "The importance of a Microfinance legislation for the development of the sector in Spain", March 2013; Interview to Jaime Durán, President of the Spanish Microfinance Association.

9.17 United Kingdom[90]

Key Macroeconomic Data

Key indicator	Data source
Population, total (millions; 2012)	63,495,303
Real GDP growth rate (%-change on previous year; 2012 AND 2013)	0.3% (2012) 1.7% (2013)
GDP per capita (current EUR; 2012)	30,200
Unemployment rate (in %; 2012)	7.9%
Population below the national poverty line (defined as: 60% or less of the median household level; 2012)	16.2%
People at risk of poverty or social exclusion (2012; 1000 persons)	24.1%

Legal Framework for Microfinance and policy initiatives

Microfinance institutions in the UK have a variety of legal structures, but are predominantly not-for-profit organizations that have social missions to benefit their local communities.

The regulatory framework in the United Kingdom has recently changed. Financial services regulation used to be overseen by multiple government bodies, but in 2013, it was centralized so that the Financial Conduct Authority (FCA) regulates all firms providing consumer credit. This change affects MFIs, as the FCA has proposed a more rigorous regulatory regime, including higher fees, than the previous regulator. While these fees and regulations are potentially challenging for MFIs as they pose barriers to growth and expansion, through its regime the FCA intends to create a more ethical financial services industry in the UK, which is an outcome that MFIs will benefit from. Under current proposals, many MFIs will be eligible for concessions from some of the FCA's fees and regulatory requirements. Larger MFIs, however, will still be subject to fees.

Microfinance Market Overview and Outcome in 2012-2013

There were about 40 MFIs in the United Kingdom between 2012 and 2013. Of those that responded to the survey, MFIs reported nearly 4,000 active borrowers, which included both business and personal borrowers. However, with a target population of nearly 6m, the market for microfinance could grow considerably.

The typical microfinance approach in the United Kingdom is to provide loan finance and support, mentoring, and advice to customers that cannot access finance from mainstream banks.

Both public policy and the banking sector play a large role in the microfinance industry. The government is involved through many mechanisms, including policies such as tax reliefs and guarantee schemes that support greater microfinance lending and private investment into MFIs. Government also provides some sources of funding for MFIs, such as grants targeted for specific market failures or public needs, that MFIs lend as a third party. The banking sector also plays an important role. In the UK Banks and MFIs have a referral partnership, where banks refer their declined customers to MFIs. Finally, banks are also a source of commercial funding for MFIs to on-lend.

Outreach (incl. target groups and best-selling products)

The target outreach group in the UK includes an urban population of nearly 6m. Of these, 2.5m are unemployed, 4m are ethnic minorities, and 2m are excluded from mainstream finance. These are the groups that MFIs target through their work. MFIs seek to provide credit and other financial services to customers who have been excluded from mainstream finance as a result of market failures. MFIs create opportunities for economic participation that were previously unavailable, and thus outcomes such as businesses created and safeguarded, and jobs created and safeguarded, consumer savings, and skills from business support, add great economic value to the local economy.

90 Authors: Theodora Hadjimichael and Ben Hughes, Community Development Financial Association (cdfa).

As mentioned above, there is great potential for MFIs in the UK to make an even bigger social and economic impact through their lending and support work, given the size of populations that demonstrate the greatest need and the demand. There are increasing opportunities for MFIs to scale up their delivery, which include funding programmes that target underserved populations, and partnerships with banks that create the infrastructure to help customers unable to access finance to be matched with MFIs. However, challenges also exist. For example, securing stable and affordable funding is a barrier to growth and entry into this market. Also, the relative lack of information about microenterprise clients and the relationship-based model of microfinance increases operating costs. Together, funding and operating costs, as well credit risk, can make the overall cost of delivering microfinance high, and potentially less affordable for the customers. So a major challenge for the sector is accessing affordable funding and making the delivery model more cost efficient.

Future Market Trends and Challenges

The goals for the microfinance sector in the UK are to continue to grow the sector's loan book and to continue building relationships in order to become fully integrated in the financial services industry.

In order to achieve these goals, the sector faces opportunities and challenges that are both internal and external. First, to grow the sector's loan book, the major challenge is accessing a stable source of funding to on-lend. There are opportunities such as securing funding through the Community Investment Tax Relief, and funding sources such as Start Up Loans Programme and Regional Growth Funds; however, a challenge will be continuing to create funding opportunities that are appropriate for MFIs and have relatively low cost, or alternatively have revenue grants attached that can allow MFIs to cover operating costs without passing the cost onto their borrowers.

In terms of embedding the microfinance sector in the greater financial services industry, challenges include internal factors, such as streamlining systems and processes within the sector so MFIs are more consistent and are able to prove that they are viable alternatives to bank finance. However, there are also incredible opportunities to scale up at this time, as there has recently been recognition of the continue market failure that MFIs seek to address, and increased willingness by government and other stakeholders to support the sector's needs.

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Appendix

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Table 27

Knowledge of Code of Good Conduct and intention to adhere to it

Country	'n' observations	Knowledge of Code	in %	Intention to adhere to Code	in %
Austria	1	1	100.0%	1	100.0%
Belgium	5	5	100.0%	4	80.0%
Bosnia and Herzegov.	7	6	85.7%	4	57.1%
Bulgaria	5	3	60.0%	3	60.0%
Croatia	2	1	50.0%	1	50.0%
France	8	6	75.0%	3	37.5%
Germany	25	22	88.0%	21	84.0%
Greece	1	NA	NA	NA	NA
Hungary	10	9	90.0%	9	90.0%
Ireland	2	2	100.0%	2	100.0%
Italy	23	18	78.3%	11	47.8%
Latvia	1	1	100.0%	1	100.0%
Liechtenstein	1	NA	NA	NA	NA
Lithuania	4	3	75.0%	NA	NA
Macedonia	2	2	100.0%	1	50.0%
Malta	1	NA	NA	NA	NA
Netherlands, the	2	1	50.0%	1	50.0%
Poland	12	11	91.7%	9	75.0%
Portugal	3	3	100.0%	2	66.7%
Romania	17	17	100.0%	16	94.1%
Serbia	3	3	100.0%	2	66.7%
Spain	9	6	66.7%	4	44.4%
Switzerland	1	1	100.0%	1	100.0%
United Kingdom	5	4	80.0%	3	60.0%
Total	**150**	**125**	**83.3%**	**99**	**66.0%**

Note: N = 150, n=150.

Table 28

List of Survey Participants (N=150)

Country	Institution
Austria	Bundesministerium für Arbeit, Soziales und Konsumentenschutz
Belgium	Brusoc Crédal Hefboom Microstart Sowalfin
Bosnia and Herzegov.	Eki Lok Mikro MI-BOSBO Tuzla MIKRA Mikrofin Partner Mikrokreditna Organizacija Sunrise
Bulgaria	DGRV Cooperatives Doveriye- Bulgaria Popular Kasa-Kystendil SIS Credit Ustoi JSC
Croatia	Demos NOA
France	Adie Airdie Babyloan Caisse solidaire CREA-SOL Credit Cooperatif Groupe Caisse d'Epargne Initiative FR
Germany	BB Regio eG Bremer Aufbaubank Bremer Aufbau-Bank GmbH (BAB) garage mikrofinanz GmbH Gründungsmanager GmbH Investitions- und Förderbank Niedersachsen – NBank Investitionsbank Berlin Investitionsbank des Landes Brandenburg Investitionsbank Schleswig-Holstein Jobcenter Stadt Kassel Kapitalinstitut Deutschland KfW Bankengruppe KIZ Finanzkontor GmbH & Co. KG kreativ finanz mecklenburg Mikrofinanzinstitut Sachsen GmbH mikrofinanzwerk GbR Mikrokredit Schleswig-Holstein Mikrofinanzinstitut GmbH NA (UM) NRW.Bank pro-Unicus Financial Consulting AG REGIOS eG Sächsische Aufbaubank smart Mikrokredit GmbH VS Finance GmbH Wirtschafts- und Infrastrukturbank Hessen
Greece	KEPA
Hungary	Baranya Megyei Vállalkozói KA Békés Megyei Vállalkozásfejlesztési KK Komárom-Esztergom MRVA Nógrád Megyei Regionális VA Pannon 2005 Zrt PRIMOM Szabolcs-Szatmár-Bereg megyei VA RVA Somogy Megyei Vállalkozói Központ Közalapítvány Tolna Megyei Vállalkozásfejlesztési Alapítvány Zala Megyei VA (ZMVA)
Ireland	First Step Microfinance Microfinance Ireland
Italy	ABI/CEI prestito della speranza ASS.IS.TE Onlus (Teramo) Banca Popolare Etica BCC di Bellegra BCC Mediocrati Caritas Faenza Caritas Arezzo Caritas Diocesana di Reggio Emilia e Guastall Caritas La Spezia Caritas Mantova EMILBANCA Credito Cooperativo

Country	Institution
	Essere - Fondo di Aiuto Sociale FEDERCASSE - Banche di Credito Cooperativo Fondazione "Un Raggio di Luce" Fondazione Don Mario Operti ONLUS Fondazione Risorsa Donna Fondazione San Carlo ONLUS Fondazione Welfare Ambrosiano Mag Soc. Mutua per L'Autogestione (Verona) Micro Progress Onlus Microcredito Siena Di Solidarietà Spa PerMicro SanPatrignano
Latvia	Mortgage and Land Bank State JSC
Liechtenstein	Microfinance Initiative Liechtenstein e.V.
Lithuania	AB Šiaulių bankas Vytautas Sinius INVEGA Ministry of Economy Ministry of Social Security and Labour
Macedonia	Horizonti Moznosti
Malta	Malta Microfinance
Netherlands, the	Bbz-regeling Qredits
Poland	Agencja Rozwoju Regionalnego MARR S.A. Fiktiv als Ersatz für Orginal FM Bank Foundation for the Devel.of Polish Agriculture Fundacja Rozwoju Gminy Zelów Fundacja Rozwoju Regionu Łukta Inicjatywa Mikro Kujawsko-Pomorski Fundusz Pożyczkowy Sp. z o.o. Mazowiecki Regionalny Fundusz P Rural Development Foundation (RDF) Stowarzyszenie Samorządowe Centrum PiR TISE SA
Portugal	MillenniumBCP Cases Microcredito
Romania	Aurora Credit Union Hateg Credit Union Inavatamant Falticeni Credit Union Unirea Deva Credit Union CFR Rm. Valcea Credit Union RATB Credit Union Sanantatea Tg. Mures Credit Union Sanitar Brasov Credit Union Sanitar Rm. Valcea Credit Union Soliddaritatea Buhusi Credit Union Tractorul Brasov FAER LAM IFN SA Opportunity Microcredit Romania Patriacredit Rocredit Romcom
Serbia	
	Biserka Kljaic Micro Development LLC OBS
Spain	ACAF Caja Sol Colonya Caixa Pollença CP'AC Fundación Gaztempresa Fundación Tomillo Instituto Municipal Ayuntamiento Malaga Microbank La Caixa MITA ONG
Switzerland	Microcrédit Solidaire Suisse
United Kingdom	Business Finance Solutions Community Finance Solutions University of Salford Fair Finance London Community Finance Northern Pinetree Trust

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