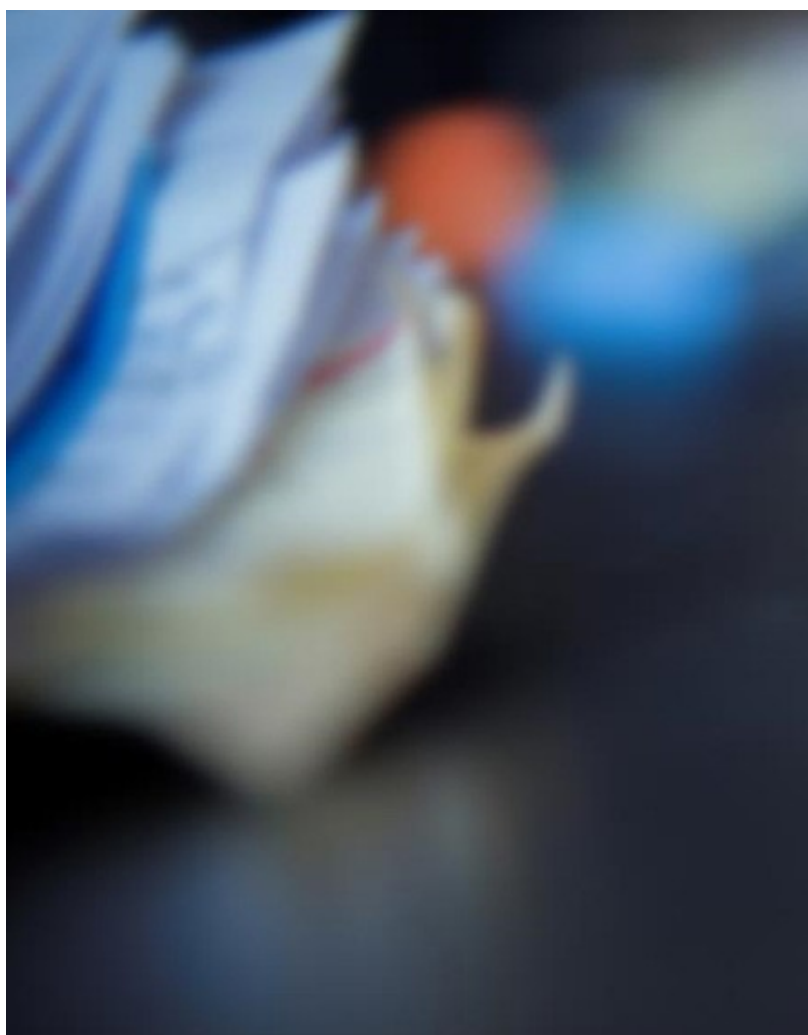


Assessing the European market potential of business microcredit and the associated funding needs of non-bank MFIs

A study for the European Microfinance Network (EMN) and the Microfinance Centre (MFC)

Michael Unterberg

December 2017



With the financial support from the



This publication has received financial support from the European Union Programme for Employment and Social Innovation "EaSI" (2014-2020). For further information please consult:

<http://ec.europa.eu/social/easi>

The information contained in this publication does not necessarily reflect the official position of the European Commission.

Content

1.	Introduction and key research questions	4
2.	The European MF sector – definitions and demarcations	6
2.1.	Definitions	6
2.2.	Market structure	7
2.2.1.	Market segments and target groups of microcredit provision	8
2.2.2.	Market segments in the market for microfinance funding	9
2.3.	Microcredit Providers as financial intermediaries	11
3.	Assessing market potential of microcredit in Europe	14
3.1.	Existing approaches for demand assessments	14
3.1.1.	Top-down approaches at EU-level	14
3.1.2.	Bottom-up approaches at national level	19
3.2.	Proposal for an integrated approach	24
3.2.1.	Top-down assessments	24
3.2.1.1.	Main target groups for business microcredit	24
3.2.1.2.	Total market potential within target groups	26
3.2.2.	Bottom-Up Analysis	29
3.2.2.1.	Accessible market segments for MFIs	29
3.2.2.2.	Total market value of market segments	31
4.	Assessing non-financial service provision for business microcredit clients	33
4.1.	The role of non-financial services in the European microcredit market	33
4.2.	A typology of non-financial services in European microfinance	33
4.3.	Available data on the supply of non-financial services by European MFIs	34
4.4.	Costs of non-financial service provision	35
5.	Assessing the funding needs of European non-bank MFIs	38
5.1.	Existing assessments of funding needs for microcredit provision	38
5.2.	Proposal for estimating MFI’s funding needs	40
6.	Pilot calculation and projection towards 2020	42
7.	Outlook and policy implications	46
8.	Bibliography	47
9.	Annex	51
9.1.	Interviewed MFIs/stakeholder organisations	51
9.2.	Detailed tables of pilot calculations at country level	52

1. Introduction and key research questions

Policy makers, stakeholders, investors and practitioners in the European microfinance sector need robust market data to develop the sector and improve framework and funding conditions for microcredit provision throughout the EU. In particular, the preparation of the next generation of centrally managed EU instruments in the field of microcredit (post-EaSI) calls for comparable market information on the potential demand of business microcredit and the funding needs of the non-bank MFIs that provide these products.

Market information and funding needs are not yet covered by the joined survey activity of the European Microfinance Network (EMN) and the Microfinance Centre (MFC). Therefore, in 2017, these networks commissioned evers & jung to produce this initial study on a) the options for an approach to produce such market information at EU level on a regular basis and b) a first calculation of the estimated market potential and funding needs by 2020. The report addresses the following key research questions:

- How to assess the total market size and potential for business microcredit in Europe?
- How to assess the role of non-financial service provision for business microcredit clients?
- How to link the funding needs of the European non-bank microfinance sector to the assessed market situation for business microcredit?
- How to project the development of the market situation and the related funding needs to 2020 and beyond?

1) Assessment of market size and potential

Existing research on the potential demand for business microcredit in Europe regularly falls short in terms of transparency and robustness. This is due to an imprecise demarcation of target groups and a limited availability of reliable and comparable data on the different target populations, especially regarding their use and access to financial services. In addition, the heterogeneous landscape of financial service provision throughout EU member states limits the significance of the results of purely top-down approaches trying to capture the market situations in various EU member states. This study offers a critique of the most relevant existing approaches toward market size assessment at EU and national level and proposes a new, synthesized approach for ongoing market monitoring at EU level. It also provides a pilot calculation using the proposed approach.

2) Role of non-financial services

The importance of non-financial services to deliver microcredit to enterprising individuals and, to some extent, existing microenterprises is well established. Yet, it is still unclear how big the demand/need is for BDS in microcredit provision. In addition, no model is yet available to calculate the average cost of BDS provision to microcredit clients. Similarly, it is also unclear how much of these costs can be covered by fees and MFI resources. A better understanding of these issues will help to assess how BDS costs transfer into the external funding needs of microcredit providers that are not currently addressed by financing institutions active in the microcredit sector.

3) Estimation of the sector's funding needs

Available estimations of the funding needs of non-bank MFIs in the EU have mostly been based on unstructured ad-hoc surveys with limited relevance and robustness. The distribution of funding needs over different funding types and instruments as well as their specific linkage to the market for microcredit provision have yet to be explored in detail. This study looks at possible ways to link the estimation of non-bank MFI funding needs across different funding types to create a detailed assessment of potential market demand for business microcredit. It also develops an approach to estimate the level of external funding needed to cover the costs of providing non-financial services to microcredit clients.

4) Projection towards 2020

Robust projections of the future development of potential demand for business microcredit and the associated funding needs are challenging because the demarcation of annual numbers and volumes is difficult and changes in the client base are often not foreseeable in the long term. As a proxy solution, this study provides a very simple way to extrapolate the results of the pilot calculation for 2016 towards 2020.

2. The European MF sector – definitions and demarcations

2.1. Definitions

The current EU definition of **microcredit** (or micro-credit and, often used synonymously, microloans) focuses on the 25k EUR cut-off limit for the provided loan volume and only includes loans to start-ups, self-employed persons and businesses. It was first introduced in 2001 as a maximum limit in the SME Guarantee Facility in the “Multiannual Programme for Enterprises and Entrepreneurship” (MAP 2001-2005).¹ The definition was further developed in a DG Enterprise Working Group report in 2003² and in following EU documents leading up to the communication on the European initiative in 2007.³

Following international definitions (e.g. from CGAP), the wider term **micro-finance** was used to include the provision of other basic financial services (such as personal loans, insurance, leasing etc.) for financially excluded people, although no specific EU support schemes or policies were developed to foster the provision of these products.

For the ongoing funding period, the definition of microcredit used by the Commission and EIF for the EaSi programmes still focuses on the amount and objective of the loans provided: “Micro-credit is defined by the European Commission as a loan or lease under EUR 25,000 to support the development of self-employment and micro-enterprises. It has a double impact (sometimes also referred to as ‘the two sides of the microfinance coin’): an economic impact as it allows the creation of income generating activities and a social impact as it contributes to financial inclusion and therefore to the social inclusion of individuals.” (EIF 2015).

Both European microfinance networks, EMN and MFC, are advocating for a revision of this core definition, as after more than ten years, it does not reflect the realities in the sector and the capital market.⁴ The networks therefore propose to define **microfinance** as all those activities oriented to provide access to financial services to people that are excluded from the traditional financial markets, and respecting the following characteristics:

- **Target clients:** socially or financially excluded people (generally without collateral nor credit history or previous/tracked experience) lacking access to mainstream sources of finance (e.g. current and potential micro-entrepreneurs and the self-employed);
- **Objective of the operation:** social and financial inclusion (not for profit maximization, nor for profit distribution);
- **A tailor-made delivery system** that:
 - analyses the repayment/financial capacity of a business or individual and ensures the prevention of over-indebtedness as well as the adequacy of offered products and terms;
 - offers access to well-tailored measures accompanying finance that may involve training, mentoring, coaching, business sup-

¹ COM (2001)

² COM (2003)

³ COM (2007)

⁴ EMN/MFC (2016a)

port and other accompanying measures (**Business Development Services -BDS**);

- **Products:**
 - microcredit: business microloan for the creation or expansion of income-generating and job-creating activities or micro-enterprises, i.e. the financing of investment and/or working capital,
 - other: personal inclusion microloans, micro-insurance, micro-saving facilities, etc. (for business or personal purpose) targeted at protecting/building personal/household/enterprise assets;
- **A small amount** of the individual transaction with – as a rule - a maximum equal to the EU per capita GDP.

This study focuses on the assessment of the market size and potential demand for **business microcredit** and **non-financial services** in Europe and the estimation of the funding needs that arise for organisations that provide these products and services i.e. non-bank MFIs. Throughout the study, the following general definitions of these products and services apply:

- **Microcredit:** loan of a small amount (normally smaller than the EU per capita GDP), proposed for the creation or expansion of income-generating and job-creating activities or micro-enterprises, i.e. the financing of investment and/or working capital, offered to socially or financially excluded people (generally without collateral or credit history) lacking access to mainstream sources of finance, with a social and not-for-profit objective, on terms adapted to the analysed repayment capacity (to prevent over-indebtedness), and coupled with access to high quality non-financial services.
- Since a concise definition of **non-financial services** in European micro-finance is not yet established, this paper uses a general demarcation of the term as a continuum, which includes a variety of services that are targeted at microfinance clients. EMN lists the following sub-groups of services as relevant for the European microfinance sector⁵: general information and orientation, client development services, entrepreneurship development services, and actual (existing) business development services. Under this broad demarcation approach, non-financial services are defined as “services that improve the performance of the enterprise, its access to markets and its ability to compete. This includes a wide array of business services, both strategic and operational, aimed at individual enterprises.”⁶ An important part of the research is the further fine-tuning of the different categories of non-financial services offered by European MFIs to create a more concise definition.

2.2. Market structure

This study follows the understanding of a **twofold market structure in European microfinance** that was established in the ex-ante assessment of the financial instruments for microfinance in the EaSI programme:⁷

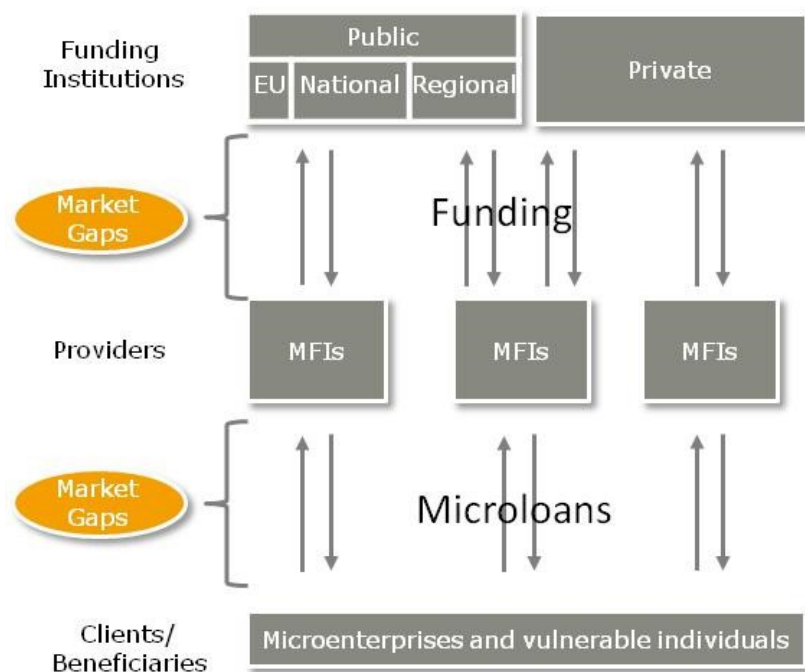
⁵ EMN (2011)

⁶ Ibid., p. 7.

⁷ COM (2012)

- 1) The primary market is the **market of microcredit provision**. In this marketplace, the demand of **potential clients/beneficiaries** for accessible finance to back their entrepreneurial activity meets the supply of financial and non-financial products and services offered by **micro-credit providers (MCPs) or microfinance institutions (MFIs)**.
- 2) Since European MFIs are not normally allowed to take deposits from their clients, they rely on external funding to back their supply of products and services. The interaction of **MFI** demand for funding with the supply of funding instruments by **public and private funding institutions** forms the secondary marketplace, the **market of micro-finance funding**.

Figure 1: Overview of the twofold market structure of European microfinance



For a comprehensive market analysis that can serve as a rationale for EU level policy interventions, the demand and supply relationships between the three actors in this market structure – clients/beneficiaries, providers and funding institutions - need to be taken into consideration. This study only focuses on the demand side of both the microloan and the funding market. Since it only considers business microcredit, the market for microloans is understood as a market on which the provision non-financial services is an integral part of the provision of financial microcredit products.

2.2.1. Market segments and target groups of microcredit provision

Potential demand for business microcredit products and associated non-financial services is constituted by two main factors: (1) the **number of potential clients** and the **number of potential loan applications** and (2) the **volume of the external finance needed**.

Existing research shows that microcredit markets in European countries are very heterogeneous in terms of size and segmentation. Most differences in the sizes of target populations and their financial needs are connected to the development of the general economy and the financial service sector. Nonetheless, a rough general segmentation of the typical market segments that are addressed by European MFIs has been established over the past years.

In their Working Paper Series, the EIF's Research & Market Analysis unit differentiates two main microfinance target groups: **potentially new business founders** and **established microenterprises**.⁸ This follows the understanding established by EMN⁹ and others that in European microfinance, two main types of lending activities can be observed:

- 1) **(Social) inclusion lending** - the provision of microcredit products to **enterprising or self-employed individuals** that are excluded from banking services, due to their socioeconomic status of being socially excluded or (long term) unemployed and/or belonging to financially excluded population groups like ethnic minorities or young people. The average loan sizes are relatively low and meant to support basic income creating activities.
- 2) **Microenterprise lending** - the provision of microcredit products to **existing microenterprises**. Organisations that implement the lending model of microenterprise lending tend to focus on the upper end market of microfinance, providing loans to bankable or nearly bankable microenterprises that have difficulties accessing loans up to 25,000 EUR from commercial banks due to risk aversion or lacking liabilities. The average volume of the provided loans is markedly higher than in the model of (social) inclusion lending, meant to support the start or stabilization of microenterprises. The maximum loan sizes go up to 25,000 EUR (or even higher in some cases). This lending type also includes **lending to small, agricultural businesses**, a practice that represents the main part of microfinance activities in developing countries and is also an important part of microcredit provision in Europe, especially in underdeveloped parts of Eastern European countries.

The role of non-financial services to microcredit clients depends on the type of lending activities and the main target groups of the lending institution. Many MFIs engaged in (social) inclusion lending offer non-financial services as an integral part of their client support package while MFIs that are mainly involved in microenterprise lending see it as an optional add-on service to their financial products.

2.2.2. Market segments in the market for microfinance funding

Microcredit providers in Europe are mainly non-bank MFIs that are not allowed to take deposits to finance their lending operations. Therefore, the supply of microcredit products in the market for microcredit provision is linked to the availability of external funding for microcredit providers.

⁸ See for example the chapter on microcredit in the regularly published "European Small Business Finance Outlook," e.g. Kraemer-Eis et al (2016).

⁹ EMN (2012)

Funding requirements to build up and sustain microcredit portfolios tend to increase over time due to an actual or projected increase in the demand for microcredits and/or the upscaling (higher average loan volumes) and widening the MFI client base. Since non-bank MFIs in Europe serve relatively risky client groups, they also look for risk-sharing instruments, mostly in the form of public guarantees. Based on their lifecycle stage, MFIs also use external funds for institutional development. Most MFIs start out as NGOs with a social vision. Donor grants and “soft loans” are the main sources of funding in the formative stages of the organisation. As the MFI matures, private debt capital becomes available but the debt structures have restrictive covenants and/or guarantees. In the last stage of MFI evolution, traditional equity financing becomes available, because mature MFIs can qualify as a profitable investment.¹⁰ There is also a demand for external funding to finance MFIs’ non-financial services to microcredit clients, but this part of the funding market is not yet well developed in Europe.

In Europe, funding is supplied both by public and private actors. Especially in Western Europe, public funding is still important for many providers. The main public funding institutions are the EIF and EIB at EU level, ministries and EFSI managing authorities or EFSI financial intermediaries at national and regional level. Private funders act mainly in the framework of their corporate social responsibility (CSR) activities or in cooperation with public funders. The picture in Central and Eastern Europe is different due to the maturity of the sector and the prevalence of more commercial models of microcredit provision. Here, international donor organisations and investment funds are more active than public funders. In South-East Europe, the public-private EFSE (European Fund for Southeast Europe) is very active.

Table 1 aligns the funding needs of MFIs with the financing actors.

Table 1: Funding available to European non-bank MFIs

Funding Needs	Sources of funding	Types of funding offers
Start-up costs/ institutional development	Private: Donors	Donations
	Public: National/regional governments,	Grants, subsidies for TA
Long term investment / patient capital	Private: Social investors, Commercial banks	Equity and quasi-equity investments
	Private/Public: International Micro-finance Investment Vehicles	Equity and quasi-equity investments
	Public: Revolving funds at European/National/ Regional level, set up by public actors	Equity and quasi-equity investments, interest free loans

¹⁰ Bogan (2008)

Refinancing loan capital	Private: Commercial banks, Private Investment Funds	Senior loans
	Private/Public: International Micro-finance Investment Vehicles	Senior loans, junior debt instruments
	Public: Revolving funds at European/National/Regional level, set up by public actors	Senior loans,
Operational costs of lending operations	Private/Public: International Micro-finance Investment Vehicles	Guarantees
	Public: European/National/Regional Guarantee schemes	Guarantees
Operational costs of non-financial services provided	Public: National/regional Structural funds programmes	Grants, Subsidies

2.3. Microcredit Providers as financial intermediaries

In the microfinance sector, MFIs act as financial intermediaries that connect microcredit provision and microfinance funding. In their role as financial intermediaries, these organisations transform capital resources into financial products that can be “consumed” by final beneficiaries, i.e. enterprising persons, start-ups and microenterprises. They also offer additional services to support their clients. The level of their institutional capacity as financial intermediary determines if they act as efficient transmission belts or as bottlenecks in connecting the available funding to satisfy the demand of final recipients. Multiple studies and surveys of the past years¹¹ argue that European MFIs, especially smaller organisations from Western Europe, are characterized by low capacity levels in the following key areas:

- **Lack of institutional capacity in building and maintaining adequate funding models to grow microfinance operations.** Additionally, there is a clear need for sustained funding to cover start-up and operating costs and funding for on-lending to high risk target groups.
- **Underdeveloped systems for performance measurement and analysis.** A culture of transparency and reporting is often missing in non-bank MFIs, especially in Western Europe. In Eastern Europe, capacity levels in this regard are higher, but are too often limited to fulfilling reporting requirements of funding/donor organisations.
- **Average capacity levels regarding human resource management.** Although recruiting experienced senior management staff does not seem to be a problem, finding trained middle management and experienced loan officers is difficult for most organi-

¹¹ E.g. Jung et al (2009), Kraemer-Eis/Conforti (2009), EMN (2012).

sations/programmes. Training courses need to be tailor-made for these employees to be of use for non-bank MFIs.

- **Lack of capacity by non-bank MFIs for networking and co-operation.** More coordination efforts between the actors in the national microcredit sectors are needed to allow peer exchange, joint marketing activities and lobbying for more favourable legal and policy frameworks.

Taken together, these issues contribute to a lack of “investment readiness” that limits the use of more advanced funding instruments for microfinance. In particular, underdeveloped performance measurement can be perceived as a serious barrier to more extensive funding opportunities in the market. Qualitative research reveals that many MFIs are trapped in a vicious circle: no funding without proper performance measurement and no proper performance measurement without funding.

To improve the institutional capacity of European MFIs, the European Commission has developed the **European Code of Good Conduct of Microcredit Provision**. The Code is primarily addressed to non-bank microcredit providers and has been intensively piloted since its conception in 2009. Under EaSI, signing-up to/endorsing the Code has become a pre-condition for accessing assistance from EaSI Technical Assistance and EaSI Financial Instruments. The Code has five indexed sections comprising several clauses:

1. **Customer and Investor Relations:** This section covers the obligations of microcredit providers towards customers and investors, and rights of customers and investors;
2. **Governance:** This section covers standards for both management and the board of microcredit providers;
3. **Risk management:** This section details common approaches and procedures for managing risk;
4. **Reporting Standards:** This section details which indicators, including those on social aspects, microcredit providers must collect, report and disclose; and,
5. **Management Information Systems:** This section details common standards for management information systems.

It is expected that the ongoing implementation of the Code will enhance the institutional capacities of European non-bank MFIs and act as the future quality benchmark for the provision of microcredit in Europe. It not yet clear how much impact this will have on the overall performance of the sector since the capacity of MFIs to absorb funding streams and provide a growing number of microcredits can also be limited by the **regulatory frameworks** under which they operate. The implications of these national frameworks have been explored in multiple publications in recent years.¹² The most relevant implications are:

- Restrictive banking laws that prohibit non-bank MFIs to provide microcredit products directly to their clients;
- Microfinance laws with reporting and risk management requirements that are too demanding for non-bank MFIs;

¹² COM (2007a), TrustLaw (2011)

- Usury laws that limit the interest rate flexibility of MFIs serving very cost-intensive client groups; and,
- The lack of access of non-bank MFIs to debt registers.

Currently, the legal frameworks for microcredit provision differ substantially between European countries, ranging from dedicated legal acts for micro-finance provision to specific provisions on microlending in acts regulating the banking or NGO sector. Since this is a matter of national policy, the role of the European Commission is limited to initiatives aimed at capturing lessons learned in some countries and extrapolating them to support the development of microcredit provision in other countries.

3. Assessing market potential of microcredit in Europe

3.1. Existing approaches for demand assessments

3.1.1. Top-down approaches at EU-level

Top-down approaches for demand assessment in European microfinance rely on publicly available statistical data at the national level and assumptions about the size and shares of the target groups for microcredit (see chapter 2.2.1) to produce an approximation of the potential demand at the EU level. For this study, two existing top-down approaches were analysed in more detail. The first method was initiated by the European Investment Funds in the framework of JEREMIE¹³ evaluations and further developed by evers & jung as part of the ex-ante assessment of the financial instruments for microcredit provision under the EaSI programme; the second method was developed by ICF GHK in the framework of the evaluation of the JASMINE TA pilot.

Top down approach by EIF and evers & jung

As part of the preparation of the EaSI programme, evers & jung was commissioned by the European commission (DG Employment) to produce an ex-ante assessment of the planned financial instruments for microfinance in the "Microfinance and Social Business axis." This study included a market analysis of the European MF sector to identify market imperfections and failures, as well as to assess investment needs in the area of microfinance. The results of the analysis were used to develop and validate financial engineering options for the new microfinance facility under EaSI. The analysis explored the demand and supply side for microcredit provision and funding for microfinance in five country clusters, including EU member States and EFTA countries.

To assess the demand for microcredit products, evers & jung looked at existing approaches and identified the **existing top-down estimation by the European Investment Fund** as the most promising starting point. This estimation is based on Eurostat data of the working population in the EU at risk of poverty.¹⁴ The number of potential entrepreneurs in this population is calculated by multiplying the working population at risk of poverty with the share of people that told the EU-wide Eurobarometer survey¹⁵ that they are willing to start an enterprise. Based on the number of potential entrepreneurs at the risk of poverty, the potential client group of microcredit provision is estimated by calculating the number of people that actually start a business. Following a study by ILO,¹⁶ this group amounts to at most 4% of all potential entrepreneurs. The total demand volume can then be calculated by multiplying the number of potential microcredit clients with the average loan volume of microcredit in Europe. In 2007, this calculation estimated the demand for micro-

¹³ Joint European Resources for Micro to Medium Enterprises.

¹⁴ Group in relative income poverty, i.e. individuals living in households where equalised income is below the threshold of 60% of the national equalised median income (see definition of Eurostat).

¹⁵ Based and using the results of Eurobarometer Nr.354, COM (2012b).

¹⁶ ILO (2002)

loans in the European Union (EU27) at around **700,000 loans a year with a total volume of EUR 6.2 bn.**¹⁷

In the ex-ante assessment, evers & jung argued that this estimation model is adaptable at the European and country levels due to the broad availability of the base data used in the model (working population at risk of poverty, results of Eurobarometer Flash survey). The disadvantage of this approach is that the data used only allows an estimation of the potential demand for microloans in one, although, important market segment of microfinance (start-ups by people at the risk of poverty). It does not include the potential demand in other market segments and target groups (especially existing micro businesses and self-employed) and therefore underestimates the total potential demand for microcredit products.

Evers & jung updated the estimation from 2007 to generate a proxy for the demand in 2012. The calculation produced **a potential annual demand of 1,214,000 microloans worth EUR 8.66 bn.** Table 2 shows the steps in the calculation:

Table 2: Calculation steps in general top down approach by evers & jung

<p><i>Population EU28 (2012): 506,820,764</i></p> <p>→ 66.9% working population (aged 16-64): 339,063,091</p> <p>→ 24.2% at risk of poverty:¹⁸ 82,053,268</p> <p>→ 37% potential entrepreneurs:¹⁹ 30,359,709</p> <p>→ 4% target group: 1,214,388 potential loans</p> <p>* Average loan size:²⁰ 7,129 EUR/loan</p> <p>→ Potential loan volume: 8,657,374,669 EUR</p>
--

This calculation does not account for the differences between the individual EU countries regarding the size of the population at risk of poverty, the share of potential entrepreneurs and the average microloan size. Evers & jung therefore provided a **more detailed assessment based on actual national data** regarding the size of the population at the risk of poverty, the shares of entrepreneurial persons and the average volume of microloans provided between 2010 and 2011. The results for each country were then aggregated in country clusters, and finally at EU level (including Norway, Iceland & Switzerland), which is shown in Table 3.

¹⁷ European Commission (2007b)

¹⁸ The share of population at risk of poverty has increased compared to the estimation in 2007 due to the impact of the financial and economic crisis in the EU.

¹⁹ Potential entrepreneurs are the group of people of productive age (16-64) facing the risk of poverty; it is assumed that on average only 37% of this group would be willing to set up micro-enterprises (see COM (2012b), i.e. the share of potential entrepreneurs has decreased compared to the number used in the previous estimation.

²⁰ EMN (2012)

Table 3: Estimated demand and supply for microloans in the EU

Country cluster	Potential demand for micro-credit (2012) ²¹
Central and Eastern Europe	1.2 bn EUR
Western Europe	2.1 bn EUR
UK and Ireland	379.6 m EUR
Southern Europe	1.2 bn EUR
Scandinavia	231.5 m EUR
Total EU 28	5.1 bn EUR

Based on this calculation, the **total annual demand** in the EU28 countries was **5.1bn EUR** in 2012. As additional controls, evers & jung compared individual country results with available market studies at the national level e.g. France or Germany. This indicated that this top-down calculation underestimated the potential demand identified in these national studies, although not by a wide margin.

Top down approach by ICF GHK

The ICF-GHK report, “**Evaluation of the JASMINE Technical Assistance Pilot Phase,**” for the European Commission analysed the performance and impact of JASMINE initiative on the European microcredit sector from 2008 to 2013.²² The JASMINE Technical Assistance Facility is a pilot initiative that provides two types of services: technical assistance to selected microcredit providers and business development tools and services for the entire European microcredit sector.

ICF-GHK criticizes the restricted target group perspective of the top down approach by evers & jung. They argue that a robust demand assessment should also include other potential entrepreneurs as well as established self-employed and micro enterprises that are excluded from traditional banking services. Therefore, they developed a methodology to calculate demand for microcredit that provides a more comprehensive view of all microcredit target groups. This framework is based on data from a literature review as well as Eurostat and ECB surveys on SME finance (SAFE). The methodology splits **four target group populations** into sub-groups, which depict the share of the relevant targeted groups.

- The first target group population depicts the **employed**. 7% of this group represent the unemployed seeking to become self-employed, while 34% of this sub-group are described as unbankable.
- The second target group population are **start-up entrepreneurs seeking finance**. 4% of this group are taking steps to start a business. 20% seek external finance under EUR 25,000. An unknown ratio of this sub-group is already funded by friends and family. 4% of the

²¹ The estimation of the demand for microloans per country cluster is the sum of the demand per country using the formula described for the EU on Page 14ff, which is based on European Parliament (2010).

²² COM (2013)

group’s funding needs are partially met through commercial sources, while 41% of this target group are unsuccessful in obtaining loans.

- The third target group population represents **self-employed individuals**. 15% of this group is seeking external finance under EUR 25,000. 17% are funded by family and friends, while an unknown share is partially able to meet demand through commercial sources, and 40% are unsuccessful in obtaining commercial loans.
- The last target group population are **established micro enterprises**, which targets the business population that employs less than 10 employees. 9% of these businesses are seeking external finance under EUR 25,000. 6% are already funded by family and friends, while 18% are partially able to meet demand through commercial sources, and 16% are unsuccessful in obtaining external finance.

The relevant market size for each country is then calculated by multiplying the expected number of borrowers with the average loan size from the EMN Overview Survey 2011-2012. The EU-wide estimation is then formed by the aggregation of the results.

Table 4 depicts the key aspects of the two approaches used by evers & jung and ICF-GHK.

Table 4: Overview of methodologies used by evers & jung (2013) and ICF GHK (2014).

	Evers & Jung	ICF GHK
Reference Year	2010-2012	2012
Target groups/ Market segments covered	Socially excluded persons starting a business	Potential start-ups (unemployed and total) without access to finance Existing microenterprises and solo entrepreneurs without access to finance
Variables included	<p>Country specific variables:</p> <ul style="list-style-type: none"> • Active population (15-64) at risk of poverty/social exclusion • Proportion of people that are interested in becoming self-employed, based on national results in Eurobarometer 2012 • Average microcredit volume in EMN/MFC Overview Survey <p>Non-country specific variables:</p> <ul style="list-style-type: none"> • Proportion of people interested in becoming self-employed that ac- 	<p>Country specific variables:</p> <ul style="list-style-type: none"> • Total active population (15-64) • Number of unemployed persons • Number of self-employed individuals • Population of micro businesses (<10 employees) • Average microcredit volume in EMN/MFC Overview Survey <p>Non-country specific variables:</p> <ul style="list-style-type: none"> • Proportion of unemployed that wishes to become self-employed

	<p>tually set up a business and need a microcredit based on ILO study (3%)</p>	<p>(7%)</p> <ul style="list-style-type: none"> • Proportion of these that are unbankable (34%) • Proportion of population that takes steps to start a business (4%) • Proportion of start-ups, solo entrepreneurs and microbusinesses, that <ol style="list-style-type: none"> a. seek external finance <25k EUR (20%/17%/18%) b. are funded by friends and family (45%/17%/6%) c. are able to meet their financing needs partially by commercial sources (4%/12%/18%) d. are unsuccessful in obtaining bank loans (40%/16%)
<p>Calculation of demand</p>	<p>Number of socially excluded individuals that are interested in becoming self-employed, actually set up a business and need a microcredit multiplied with the average volume of provided microcredit</p>	<p>Potential start-ups:</p> <p>a) Number of <i>unemployed</i> that wishes to become self-employed and are unbankable multiplied with average volume of provided microcredit</p> <p>b) Total number of <i>individuals that take steps to start a business</i> and seek external finance <25k EUR multiplied with average volume of provided microcredit</p> <p>Existing business and the self-employed</p> <p>a) Number of <i>established self-employed</i> that seek external finance <25k EUR multiplied with average volume of provided microcredit</p> <p>b) Number of <i>established micro enterprises that seek external finance</i> <25k EUR multiplied with average volume of provided microcredit</p>
<p>Estimated demand</p>	<p>- EU-wide (including Norway, Iceland & Switzerland): 667,000 loans amounting to a total loan volume of 5,1 bn</p>	<p>- EU-wide: roughly 5,1 million loans approximating to 41,6 bn EUR.</p>

	EUR	
--	-----	--

Both approaches have merits in providing a structured methodology for using public available statistical data to assess the potential demand for business microcredit in the EU. The approach of evers & jung considers only the demand from one target group (potential start-ups out of social exclusion) while ICF GHK’s approach also includes for existing businesses. ICF-GHK’s approach uses more variables to derive the estimation of potential demand, although most of these are non-country specific and therefore might distort the overall result. Neither approach elaborates on how to identify the annual number of potential loan applications from their results and how to assess the future development of the estimated demand. Comparing the results of the calculations from 2012 that were based on these two approaches, it seems safe to say that the approach of evers & jung tends to underestimate the total potential demand for business microcredit in the EU, while ICK-GHK’s approach tend to overestimate it.

In this study, we propose to use the best parts of both top-down approaches (using public statistical data sources, including multiple target groups, using country specific variables) and combine it with a bottom-up perspective that allows for a more detailed breakdown of the market structures in the different EU countries. This should allow for a more robust estimation of the potential demand and market size in the EU and extrapolation of future developments.

3.1.2. Bottom-up approaches at national level

Contrary to top-down approaches that rely on aggregated statistical data and multi-country survey results to calculate proxy values for the number of potential microcredit clients at EU level, **bottom-up approaches** focus on building up general market information from **country-specific analysis**. The main data sources for such calculations are **surveys at the national level, estimations from practitioners and market information from MFIs**.

An example of a bottom-up approach is an exercise from 2010, in which representatives from a sample of European MFIs estimated the potential microcredit demand in their countries over three years. In total, a potential of 2,935,000 microcredit clients were identified in these countries (see Table 5). The highest demand was expected from unemployed people wishing to start a business (20%), followed by people who are long-term unemployed or living on social welfare (12%) or people who are excluded both from the market and welfare support (4%) and other disadvantaged groups such as single parents, the young, and migrants (4%).²³

Table 5: Practitioner-based evaluation of microloan demand in 10 EU member states

Selective Member States	Average evaluation of potential demand (numbers of users, 2007-2010)
Poland	675,000
Bulgaria	110,000

²³ European Parliament (2010)

Latvia	30,000
Spain	500,000
Romania	230,000
Italy	475,000
France	375,000
United Kingdom	325,000
Germany	210,000
Netherlands, the	5,000
Total	2,935,000

Due to missing documentation regarding the methodology used for producing this estimation,²⁴ these results cannot be extrapolated for all EU member states. For a bottom-up approach that produces a robust approximation of the potential demand for microcredit in the EU, we would need a transparent overview of the methodologies used for gathering the microdata of each EU country in order to assess the size and development path of the core market segments/target groups for microcredit.

In the search for a suitable bottom-up approach in a transparent and comparable manner, this study looked at different market analysis exercises that were conducted over the past years in European countries. The examples of Romania, the Netherlands and Poland were identified as the most helpful for deriving the key aspects of such an approach.

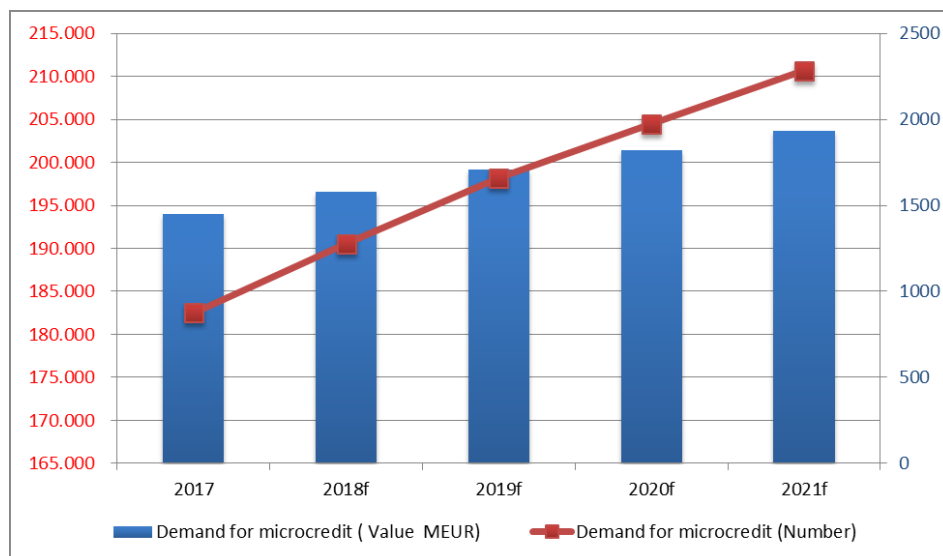
The most recent report related to the microcredit market failure in **Romania** was drafted by Eurom Consultancy and Studies SRL for European Investment Bank. The summary report presentation was made public at the Ministry of European Funds meeting with Romanian Financial Institutions in July 2016.

In the report, Eurom uses the EU 28 variables established by ICF-GHK (see previous chapter) to estimate the potential annual demand for microcredit in Romania. Adjustments were made for two variables: percentage of unemployed seeking to become self-employed, from 7% (in EU28) to 2% (for the purpose of this analysis in Romania) and percentage of start-up entrepreneurs seeking finance from the active population, from 4% to 2%. These adjustments were made based on the assumption of lower entrepreneurship skills among the unemployed and the active population and of lacking incentives for start-ups in Romania.

The calculation results in an annual demand for microcredit around 180.000 loans representing a total market value of 1.5 bn EUR. The report extrapolates this results toward 2021 (see Figure 2).

²⁴ The difference between the countries, e.g. the Netherlands and Poland suggest that very different approaches were chosen.

Figure 2: Projection of microcredit demand in Romania



Eurom’s report does not present country specific research data for Romania and is therefore more like a top down assessment than a bottom-up analysis. The indicators from the ICF-GHK assessment are not country specific and likely result in an overestimation of the actual demand potential for business microcredit in Romania. Nevertheless, this report makes a case for a combination of standardized top-down assessments including all target groups of business microcredit and a more detailed bottom-up analysis using country specific data and indicators on these target groups.

In 2008, SEON Foundation presented a report on the demand for business microcredit in the **Netherlands**.²⁵ This report was produced shortly after the creation of a high level “National Advisory Council on Microfinance” in 2007. The Council advised the Dutch government to develop a comprehensive microcredit programme to include coaching, mentoring and a guarantee scheme. This programme ultimately became Qredits, an organisation that is now delivering a range of microcredit and small SME loan products throughout the Netherlands.

To estimate the total demand for business microcredit in the Netherlands, the report looks at the main target group of business microcredit (low-income people who aspire to set up a business and are excluded by banks) and calculates the potential demand using average loan volumes. Following this approach, the report identifies 7,3% of the Dutch population as low-income, and therefore, 7,3% of annual startups as target group for microcredit products. Based on this figure, the total potential demand for microloans is 43.508 persons, with an average loan size of 17.000 EUR, which corresponds to a total value of about 740m EUR.

²⁵ SEON Foundation (2008)

In an additional step, the report differentiates between non-bankable demand (below 15.000 EUR) and bankable demand (over 15.000 EUR, but under 25.000 EUR). The total potential non-bankable demand is 26.105 persons, with an average loan size of 8.000 EUR, which corresponds to 209m EUR. The total potential bankable demand is calculated at 17.403 persons with an average loan size of 22.000 EUR, which corresponds to 383m EUR.

The report also argues that much of the estimated demand will not result in successful loan applications, if the potential entrepreneurs are not provided with coaching and mentoring services. Only a well-designed process for the assistance of micro entrepreneurs in the Netherlands will result in a rise in applications for microcredit, improved preparation of the prospective entrepreneurs and less rejections from the MFIs.

The report by SEON uses a mixture of a top-down methodology and bottom-up analysis to provide a useful picture of the actual market realities for business microcredit in the Netherlands. This example shows the importance of looking at the various segments of the market in a given country, which includes potential clients that cannot or will not use products offered by MFIs.

The so-called **"frontiers of access" methodology** could be a suitable bottom-up research framework to build up such market information on national market structures. David Porteus established the method in 2005²⁶ as an analysis tool to understand how markets work over time, and in particular, how they work to increase access by poor people.

The access frontier approach segments the market for a particular product into five groups: those who use it currently, those who could have it but don't want it, those who are within reach of the market and in the foreseeable future, and those outside the reach of the market because of their low income.

The approach focuses on how to increase the proportion of the eligible population who can access a product. This requires understanding the reasons for non-usage and defining effective access carefully. In particular, the approach seeks to identify potential users in the "supra-market zone" who are not able to use the product because of insufficient income and are therefore beyond the reach of direct market solutions in the medium term.

Based on the segmentation of current users and non-users, three market policy zones are identified: (1) the market enablement zone - between the current usage level and current access frontier; (2) the market development zone - between the current and future access frontier; and (3) redistribution zone of people in the supra-market group. This distinction enables policies for state intervention to promote or accelerate usage and match it with the state of market development, and in particular, not to crowd it out. Private providers should also adjust their long-term strategies based on the market development trajectory.

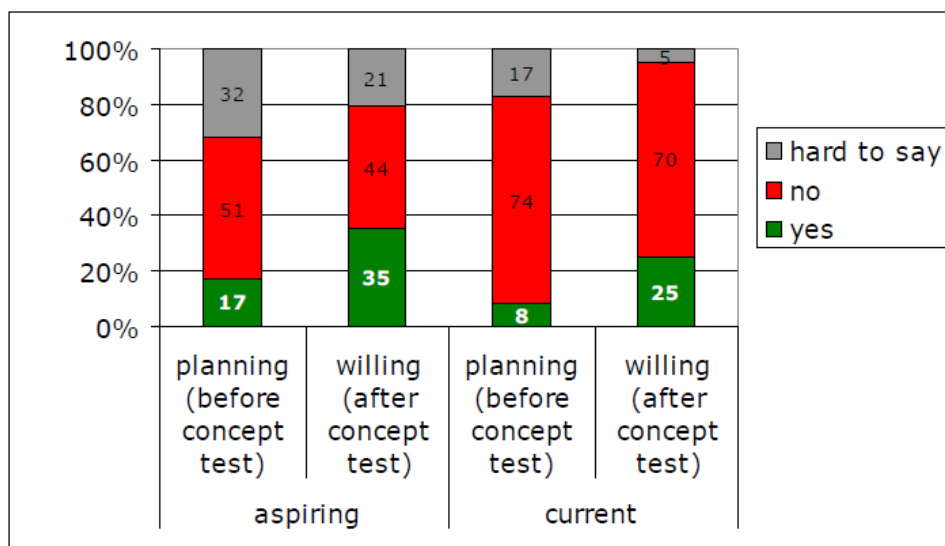
In **Poland**, the "frontiers of access" methodology was applied in 2006 by MFC to assess the national demand and supply for microcredit in the framework of the JEREMIE initiative.²⁷ The analysis of the demand study was based on six focus groups and two nationally representative surveys (1.020 low-income households and an additional sample of 203 microentrepreneurs from low-

²⁶ Porteus (2005)

²⁷ MFC (2006)

income households).²⁸ In the surveys, the need for finance and the eligibility for microcredit were analyzed. The results showed that there were not many potential or current microentrepreneurs that considered external financing from a formal source in the next 3 years as an option. However, when the research team showed participants the concept of microcredit, the interest in enterprise financing was three times higher than previously declared plans (see Figure 3).

Figure 3: Results survey on external finance use of polish entrepreneurs



The study stated that in 2006 the Polish microcredit market accounted for 29% of low-income households, totaling 1,98 million low-income microenterprises. 17% of the market was existing microenterprises and 83% was potential start-ups (low-income households aspiring for self-employment). The rest of the low-income population were households that were either not eligible for microcredit or they objectively do not need microcredit. The total value of the market, estimated on the basis of the average loan size of current micro entrepreneurs using credit (18.250 zloty), was 36.08 bn zloty.

Since only 3% of the identified target group used microcredit in 2006, the study made recommendations to develop the different market sectors ("zones") that were identified via the access frontier methodology: the so-called market enablement zone (within access to frontier limit) and the market development zone (within growing access to frontier limits, especially if enabling policies for inclusive entrepreneurship are in place).

The example of the study by MFC shows that the frontier of access methodology can be applied for a bottom-up analysis that produces detailed insights into the national market structure for microcredit. It also shows that extensive fieldwork is required, e.g. surveys in populations of microcredit target groups. In the following proposal for an integrated approach to assess demand for business microcredit in the EU, this approach is reflected in the proposed tools for analysis at the national level.

²⁸ Low-income household in Poland has been defined as the one living below a median equalised income (per capita) – 850 zloty (1 euro = 3.9 PLN), close to the social minimum poverty rate.

3.2. Proposal for an integrated approach

Based on the review of available methodological frameworks for top-down and bottom-up assessments of market potential for business microcredit in Europe, a **proposal for an integrated approach** was developed. It strives for a combination of **a) standardized top-down assessments** of the total market potential in general microcredit client groups throughout Europe and a toolbox for **b) bottom-up analysis at the national level** to quantify the specific market segments that are accessible for MFIs operating in each legal and economic framework for self-employment, entrepreneurship and micro-lending in the various EU countries.

During the writing of this study, the proposed approach was discussed with EMN and MFC as well as with representatives of national microfinance networks and MFIs from different EU countries (see Table 16 in the annex).

As part of this research, the top-down part of the proposed approach (quantification of main target groups and total market potential) was piloted with the most recent available statistical data for EU-28 countries. The results of this pilot calculation can be found in the next chapter. We propose to update this data regularly (see also chapter 4.3.) and to use it as a starting point for the bottom-up part of the exercise, which needs to be organized at national level in the coming years.

3.2.1. Top-down assessments

3.2.1.1. Main target groups for business microcredit

For the standardized top-down assessments of the total client potential in core microcredit markets throughout Europe, a general distinction between **two main client groups for business microcredit** is chosen, which is also used by EIF Research & Market Analysis in their Guidelines for SME Access to Finance Market Assessments (GAFMA):²⁹

- a) Client group 1: (Potentially) new business founders**
- b) Client group 2: Existing microenterprises**

Within these two broad groups of potential clients for business microcredit, more specific **target groups** can be delimited (see also Figure 4):

Client group 1:

- a) **Potential new business founders** out of social exclusion
- b) **New business founders** in the process of setting up a business

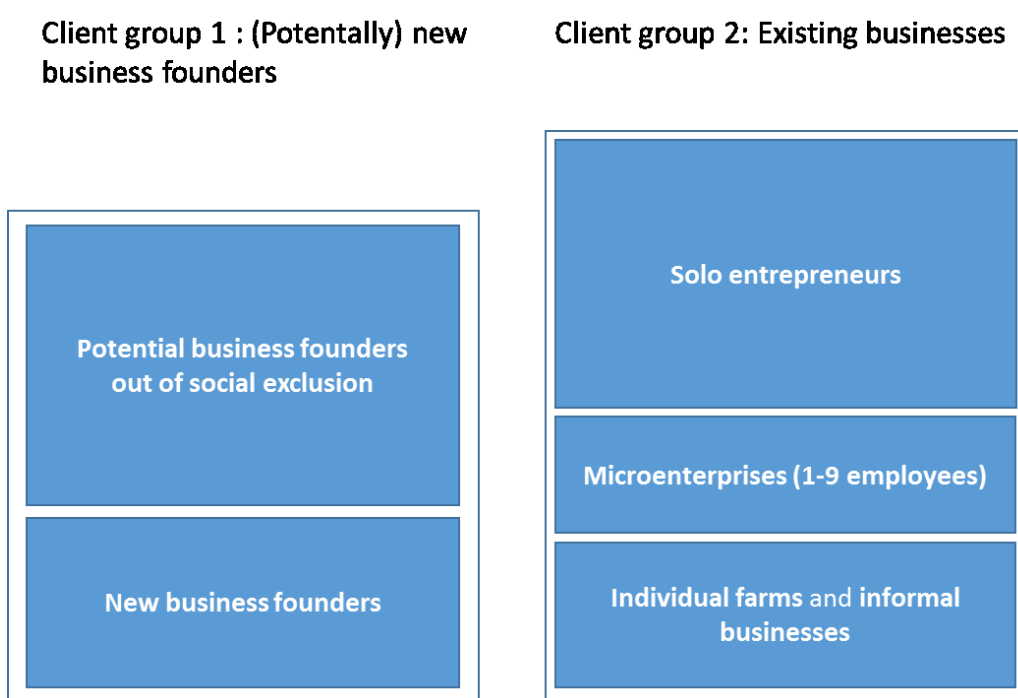
Client group 2:

- a) **Existing solo entrepreneurs** older than one year
- b) **Existing microenterprises** with 1 to 9 employees, older than one year
- c) **Existing individual farms** without a legal form in Eastern European countries and **existing informal businesses**

²⁹ Kramer-Eis/Lang (2014).

Please note that this typology is based on existing insights on market differentiations in European microfinance and an initial qualitative survey on the market perspectives of 15 MFIs from 8 European countries, conducted at the annual conferences of MFC and EMN this year (see Table 16 in the annex).

Figure 4: Overview of main client groups and specific target groups for business microcredit



The size of these target groups can be approximated using publicly available data from Eurostat, national data and the results of the Global Entrepreneurship Monitor (GEM), which surveys the level of entrepreneurial activity in a number of countries including most EU member states.³⁰ Table 6 provides an overview of the target groups and data samples.

Table 6: Data used for calculating total size of target groups

Target group	Data used for total size of target group
Potential new business founders out of social exclusion	Most recent Eurostat data on working age population at risk of poverty (Eurostat)

³⁰ For countries that are not covered by GEM, we propose to use average GEM results for the relevant country group within the European cluster (Efficiency-driven and Innovation-driven).

	Most recent GEM data on share of population with entrepreneurial intention
New business founders	Most recent Eurostat data on working age Population (Eurostat) Most recent GEM data on share of nascent entrepreneurs
Existing Solo entrepreneurs	Most recent Eurostat data on population of enterprises active (zero employees, older than 1 year)
Existing Microenterprises	Most recent Eurostat data on population of enterprises active (1-9 employees, older than 1 year)
Existing individual farms and informal businesses	<i>Individual farms:</i> Most recent Eurostat data on number of very small farms above subsistence level ³¹ <i>Informal businesses:</i> Most recent European Social Survey data on number of informally self-employed persons ³²

Since the approximation of potential new business founders and actual new business founders are based on survey results that ask for “intention to set up a business in the coming three years” (entrepreneurial intention) or “being in the process of starting a business” (nascent entrepreneurs), we propose to produce annual numbers by taking the GEM based calculated numbers as three-year sums.³³

3.2.1.2. Total market potential within target groups

The share of individuals and/or enterprises in these target groups that see access to finance as their main problem and/or have no access to bank loans or other formal forms of external funding³⁴ represent the **market potential** for business microcredit products (see Figure 5).

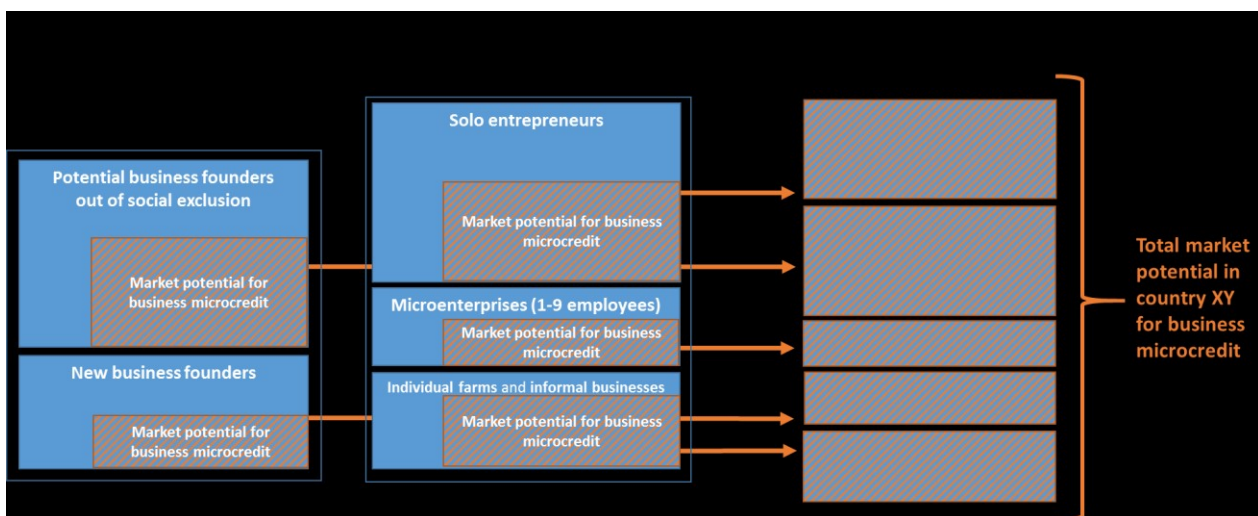
³¹ Family farms (held by natural person) with standard output below 2.000 EUR, whose household consumes less than 50% of the final production.

³² Based on calculations done by Hazans (2011). Employers with more than five employees, as well as the self-employed without workers who work as professionals are considered *formally self-employed*. Other self-employed persons (i.e. all non-professional self-employed operating alone, as well as employers with 5 or fewer workers) are considered *informally self-employed*.

³³ By dividing the calculated number by three, the annual number is approximated.

³⁴ For a more robust approximation, the share of individuals/enterprises within the target groups that have financial needs under a certain volume threshold (e.g. 25k EUR) should be taken into account as well. Unfortunately, no comparable survey data on the financial needs of new business founders and existing microenterprises is available for EU-28 countries. Instead, this issue is addressed in the step for calculating total market value at national level.

Figure 5: Overview of target groups and total market potential



To approximate the market potential for each target group, different top-down assessment methodologies are proposed and were chosen based on the following basic principles:

- Simplicity;
- Updatability;
- Comparability; and,
- Working with publicly available data.

For the target groups in Client group 1, we propose to use data from the national results of the GEM Report on Entrepreneurial Finance, published in 2015. In this report, the GEM consortium covers issues regarding the use of finance by early stage entrepreneurs in GEM countries. To approximate the number of **potential new business founders out of social exclusion** that could be looking for a business microcredit, we propose to use the survey results of non-excluded early stage entrepreneurs using bank finance as a proxy. Since access to bank finance is very limited for the group of aspiring entrepreneurs out of exclusion, we expect that this figure indicates the minimum market potential for business microcredit for this target group. For the target group of **new business founders**, we propose to use the GEM survey results of early stage entrepreneurs using friends as a source of business as proxy for the market potential of business microcredit.

For **existing microenterprises**, we propose to use data from the ECB SAFE (survey on the access to finance of enterprises), using the share of businesses that see access to finance as their most pressing problem. Since this data covers businesses with at least one employee, a proxy is needed **for existing**

solo entrepreneurs. Based on available (although mostly anecdotal) evidence regarding the financial needs of solo entrepreneurs,³⁵ we propose to double the share indicated by the ECB SAFE survey for microenterprises. Solo entrepreneurs not only face less supply of accessible financial products compared to microenterprises and SMEs, they also regularly encounter more severe fluctuations in income liquidity crises.

Also, a proxy for the annual frequency of financial requests for these two target groups needs to be established. We argue that every business (solo entrepreneurs and microenterprises) that sees access to finance as its most pressing problem is looking for some kind of external finance over the next three years.

For **individual farms and informal businesses**, no comparable survey results can be used. Therefore, we propose a proxy based on the experience of MFI practitioners with these target groups. Regarding individual farms, we expect that at least 60% are looking for external finance on an annual basis. Of these, 80% are financially excluded, i.e. have no access to formal bank finance. For informal businesses, we expect that 10% of all informal businesses actively look for external finance each year. Of these, 80% can be considered financially excluded. Table 7 summarizes the methods for target group construction.

Table 7: Methodology to approximate business microcredit market potential for client groups

Target group	Approximation methodology
Potential new business founders out of social exclusion	National results in GEM Report on Entrepreneurial Finance (Share of TEA using banks as source of funding)
New business founders	National results in GEM Report on Entrepreneurial Finance (Share of TEA using friends as source of funding)
Existing solo entrepreneurs	Proxy based on results of ECB/SAFE for existing microenterprises (see below) ³⁶
Existing microenterprises	Most recent ECB/SAFE data on microenterprises voicing access to finance as their most pressing problem
Existing individual farms and informal businesses	Proxies based on experiences of MFI practitioners with this target groups

³⁵ E.g. from a regional crisis intervention hotline for solo entrepreneurs, run by evers & jung in Hamburg.

³⁶ We propose to multiply the share of potential clients by the factor two compared to microenterprises.

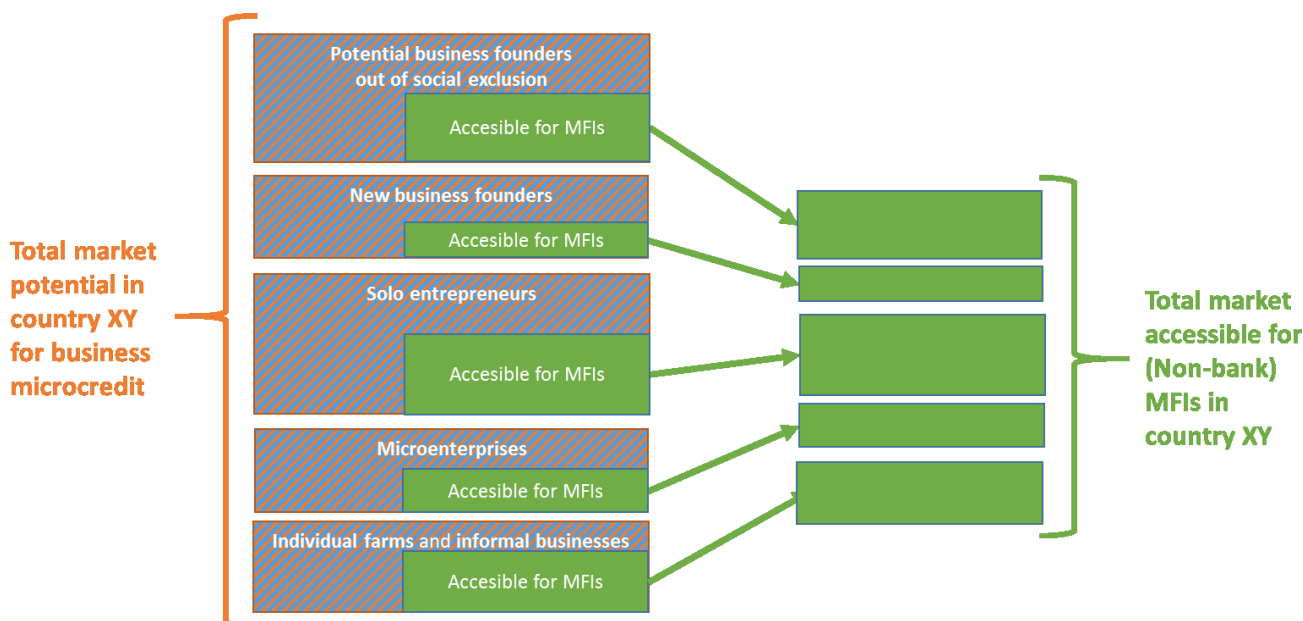
3.2.2. Bottom-Up Analysis

3.2.2.1. Accessible market segments for MFIs

The dimensions of the **market segments that are accessible to non-bank MFIs** are determined by different structural factors at the national level (e.g. legal framework for non-bank lending, support structures for inclusive entrepreneurship, development of banking sector and alternative finance, etc.) and market penetration issues. Therefore, this has to be assessed **bottom-up** and separately for each country. In practice, this step should be implemented by practitioners (MFIs) or their respective national networks and/or associations since these actors have the best insights into the scope of their market outreach.

These MFI market assessments should be based on the numbers produced by the top-down assessment regarding the potential market size of the main target groups in a given country (see **Error! Reference source not found.** in the annex for first pilot results). Accessible market segments consist of **the number of individuals/businesses in the different potential markets that can be reached by MFIs in a given time period** (e.g. the next three years). They might be segregated into sub-groups within the main target groups (e.g. young new business founders, female solo entrepreneurs or informal businesses run by migrants). See Figure 6 for a visual representation.

Figure 6: Overview of market potential in target groups and total market accessible by MFIs



For the country specific assessments, no standardized methodology can be formulated at this point, as the most feasible approach depends highly on the framework conditions in each country (e.g. access to existing market information of MFIs, availability of survey budgets, additional statistics and survey data at national level, etc.). As mentioned previously, the assessments need to take into account relevant legal and regulative framework conditions at national level.

Therefore, we advocate the development of a **methodological toolbox** for these analytical activities, out of which MFIs and national networks and associations can build their country specific approach. Based on our desk research,

we suggest following the general logic of the **frontiers of access methodology** (see chapter 3.1.2) to assess national market segments, based on the results of the top-down calculation of total potential market size.

Practically, this method breaks down the total potential market into “**market outreach zones**” of **business microcredit** that develop over time depending on changes in market and framework conditions. The information needed at the national level can be broken down into the following areas:

- 1) Total potential market for the different target groups;
- 2) Current usage of business microcredit in the different target groups (in %, and the recent trend);
- 3) Current product features and framework conditions related to access to business microcredit products; likely product and framework condition development in the next 3-5 years; and,
- 4) A profile of current non-users of business microcredit, including reasons for non-usage, sufficient to distinguish:
 - a) Those who choose not to use a product even though they are able to;
 - b) Those who would use the product but are denied access by certain product features and framework conditions (awareness, product availability, documentation requirements, cost of products, etc.); and,
 - c) Those who would use the product but are denied access primarily because of their income.

Information on (1) is available via the **results of the proposed top-down calculation of total market potential** over different key target groups. From the national viewpoint, it is important to elaborate which target groups are in the focus of national providers of business microcredit and which are not. As part of this, sub-groups may be identified (and quantified!). For information on (2) the most recent **EMN/MFC Overview survey data** can be used. For (3) **insights from national MFIs and national networks** can be used. Information on (4) requires access to **accurate survey data** of non-users. In the absence of such data, estimates could be made based on **sector discussions and projections**, taking into account historical usage trends. Table 8 provides a first overview of the analytical steps to be taken at the national level for such activities.

Table 8: Toolbox for bottom-up analysis

Analytical step	Information required	Analytical tools	Provided by
Assessing total market size in focus of national microcredit sector	Total potential market size in target groups for business microcredit	Updated top-down calculation	EMN/MFC
	Specific target groups in focus of national microcredit providers	Interviews with providers	National networks/MFIs
Assessing share of current users in national target group markets	Current usage of business microcredit in target groups (n/%)	EMN/MFC Overview survey results	EMN/MFC
	Trend in usage of business microcredit in target groups	Interviews with practitioners	National networks/MFIs

Assessing national market and framework conditions for using business microcredit	Current product features and framework conditions related to using business microcredit products in the national sector/market	Interviews with providers and stakeholders	National networks/MFIs
	Development of product features and framework conditions	Interviews with providers and stakeholders	National networks/MFIs
Assessing market segments of non-users (current and in the future)	Profile of current non-users of business microcredit	Surveys, panel discussions of providers and stakeholders	National networks/MFIs

3.2.2.2. Total market value of market segments

The benefits of calculating the **total market value**, based on the identified market segments (i.e. the **total volume of the expected demand for business microcredit**), was discussed controversially by practitioners and experts during the study exercise. Many MFIs see such an assessment of potential total loan volumes at the national or European level as counterproductive since these numbers are not connected to their experiences “in the field” and tend to overestimate the actual size of the lending market that can be realized in a short to mid-term perspective. Others emphasize the importance of presenting a quantification of the total value of the addressed lending market for policy advocacy and interaction with possible funders.

To find common ground, we propose addressing the issue of total market value **at the national level** and identify the market segments that are accessible for MFIs in a country **after** the results of the top-down market size calculation are broken down via bottom-up analysis. Based on the size of the identified market segments, the total value, in terms of potential annual loan volume, can be extrapolated.

In the past, the total volume of microloan demand in Europe was calculated using the **average loan volumes in the EMN/MFC Overview survey**. This does not take into account that the average funding needs of potential clients in different target groups might be higher (or lower) than the actual microloans provided in the past. Also, the different types of credit that are demanded by different target groups for business microcredit are not taken into account. Therefore, we propose the following approach to calculate the annual market value of the market segments identified at national level (Table 9).

Table 9: Approaches to calculate total volume of loan demanded

Target group	Type of credit demanded	Frequency of financing request	Assessment of average financial needs
Potential new business founders out of social exclusion	Startup Loans	Once (in the year of founding)	Per country calculation based on GEM Report on Entrepreneurial Finance (average amount of funding needed by TEA)
New business founders	Startup Loans	Once (in the year of founding)	Per country calculation based on GEM Report on Entrepreneurial Finance (average amount of funding needed by TEA)
Existing solo entrepreneurs	Liquidity Loans	Every 3 years	Set amount (Proposal: 20k EUR)
Existing micro-enterprises	Liquidity and Investment Loans	Every 3 years	Set amount based on ECB/SAFE data on average size of last bank loan request (Proposal: 50k EUR)
Existing individual farms and informal businesses	Bridge Loans ³⁷ (farms) and Liquidity Loans (informal businesses)	Every year	Set amount (Proposal: 10k EUR)

³⁷ The farms and young farmers are assisted financially by EU Structural Funds programmes and are applying for bridge loans from MFIs – SMEs/Micro credit Banks or credit cooperatives.

4. Assessing non-financial service provision for business microcredit clients

4.1. The role of non-financial services in the European microcredit market

In the European microcredit market, especially in Western Europe, the interplay between the demand and supply of business microcredit products is heavily influenced by **(potential) clients' use of non-financial support**. Since (potential) microcredit clients generally lack both resources and/or the skills/knowledge to access formal bank credit, they often need additional support to make productive use of the financial products offered by MFIs and other alternative financial service providers and ultimately repay the loans. Therefore, non-financial services have a value for both the microcredit client and the microcredit provider. They are also an important part of the social mission of MFIs that aim to empower their clients in a more holistic way.

Regarding the **demand and supply of such services** throughout Europe, one has to keep in mind that the observable supply is **only partially market driven**. The available services are in most cases not fully monetised offers but rather "secondary" offers that MFIs provide at zero or very limited costs to the client. Such offers are only possible due to intensive cross-financing or subsidies to cover the full costs of service provision, which are not linked to the level of active demand for these services in the market.³⁸ Therefore, we propose to look only at the **actual supply of these services** in the European microcredit sector and the **funding needs** that arise from the cost structure to provide this supply of non-financial services.

As a starting point, a **robust typology** for these kind of services should be established. On this basis, a transparent empirical assessment of the scope of available supply in the sector can be organised. The results of the last EMN/MFC Overview survey (see chapter 5.1.2.) fall short in this regard. As an improvement, we propose a basic typology of service categories that focuses on the status and group of the clients that are addressed by the different services. This typology can be used in future surveys and analytical endeavors.

4.2. A typology of non-financial services in European microfinance

Non-financial support services for microcredit clients are offered in many ways for a number of purposes. As mentioned in chapter 2, this paper only looks at services that target clients for business microcredit products, excluding non-financial services for clients of personal microcredit products.

Based on work done by EMN,³⁹ three broad categories of business-oriented services can be distinguished in European microfinance:

- Client development services;
- Entrepreneurship development services; and,
- Business development services

³⁸ This is especially true if the provision of non-financial services is mandatory for assessing public funding instruments, as in the EaSI programme.

³⁹ EMN (2011)

These categories differentiate between services that address potential microcredit clients before they apply for a business microcredit (**client development services**), services that address business microcredit clients from the client group of new business founders (**entrepreneurship development services**) and services that address existing businesses (**business development services**). More specifically:

- **Client development services** are support services that address people with no or low levels of financial management skills. They aim to prevent harmful situations (e.g. over-indebtedness) and are deployed **before a microcredit product is used**, since the target group does not yet have the necessary skills to manage a loan product.
- **Entrepreneurship development services** include services that focus on developing the business skills and know-how of individuals. They help raise awareness on entrepreneurship as a conscious career choice and provide basic business skills training. They are normally deployed **in combination with microcredit products**.
- **Business development services** target already existing micro and small businesses to improve their operations, with services ranging from business advice to technical skills training and linking entrepreneurs to markets. They also are deployed **in combination with a microcredit products**.

Non-financial services of all three categories can be realized as the following:

- **Direct personal support formats**, both one-on-one (coaching, consulting) or in groups (workshops, seminars); or,
- **Indirect online support formats** (e.g. e-learning, etc).

Non-financial services do not necessarily need to be provided by the same organization that is providing the microcredit product, but can also be offered in co-operation with an **external non-financial service provider**.

4.3. Available data on the supply of non-financial services by European MFIs

There is no detailed data available on the supply of specific non-financial services to (potential) business microcredit clients. Nevertheless, studies on the usage of general business support schemes show that these services are underutilized by micro enterprises, which are even less inclined to seek general support services than small enterprises. This may be because sole entrepreneurs in particular find it difficult to identify or express their actual needs for external support. A second reason could be that these entrepreneurs simply are not aware of the existence and availability of general support services in their region or at national level.

In 2002, a survey by DG Enterprise⁴⁰ found that 76% of European micro-, small and sole proprietor businesses lacked information on the availability of support services. Since then, the situation has clearly improved due to more information that is available online. Nevertheless, there is still a "lack of visibility" for support services on the supply side, which results in a mismatch between how enterprises want to be informed and how providers actually

⁴⁰ COM (2002)

promote and organize the services they offer. The study from 2002 also presented evidence that the manner in which external support services are provided does not necessarily match the needs of micro enterprises.

Microenterprises tend to prefer a personalized approach and want to access information through direct contact (mailing, telephone) or personal visits by service providers. Moreover, the majority of surveyed small and sole proprietor businesses (70%) asked for support services that are specifically tailored to their respective enterprise size. However, the majority of support services don't have target group orientation in terms of size class, sector, or phase of enterprise development. Nearly all support services offered by MFIs address SMEs in general without differentiating between sub-groups. For MFIs, this means that most existing microenterprises with access to microcredit have not yet used dedicated support services or even know about their existence.

As a result, European MFIs have to develop the provision of support services to their (potential) clients by themselves. The **EMN/MFC Overview Survey on the Microfinance Sector** regularly asks participants which kind of non-financial services they offer and how many clients use the non-financial services on an annual basis. The results of the last survey showed that in 2014 and 2015, 58% of the participating MFIs offered some kind of non-financial service. Additionally, the survey asks MFIs that offer non-financial services to specify their offer based on a multiple choice list that unfortunately mixes service categories and formats that are not clearly demarcated. The categories/formats of non-financial services that are mentioned most often include business development services (32%), financial education (31%), and mentoring (30%). MFIs mostly internalise the provision of non-financial products and services (88%) and mainly deliver them "in person" to their clients (56%) or combine personal and online methods (40%).

Regarding the total number of clients served, the surveyed MFIs reported, that in 2015 around 206.000 clients received some sort of non-financial service. Compared to the number of active borrowers reported by these MFIs for the same year (228.000), the results show that around 90% of all microcredit clients (including private microcredit) received some form of non-financial support.

To better monitor the supply of non-financial services by European MFIs in the future, the EMN/MFC Overview Survey should revise its data collection on this issue, taking into account the typology proposed here. This is already underway for the next iteration of the survey in 2018.

4.4. Costs of non-financial service provision

The provision of non-financial services is cost intensive. In particular, one-on-one support requires a high amount of personal resources and is difficult to standardize for improved cost efficiency. Another challenge is that the provision of high quality non-financial services has different organizational demands compared to microcredit provision with regard to management, quality control, human resources and training. Even if non-financial services are provided by the same organization, the unit in charge of the microcredit products will usually operate independently from the unit providing the non-financial services. This produces additional costs for the organization. The consensus is that the costs of providing financial products and services should be separated from the costs of non-financial service provision.

Since non-financial services are not normally offered at market prices to clients, many MFIs do not have a detailed overview of the individual cost of

providing a specific service. The average costs of providing non-financial services to (potential) microcredit clients depend on many factors, such as the specific service formats the MFI is providing to its target groups as well as the intensity of the offered support; others factors are linked to (national) framework conditions, such as labor cost levels or the availability of volunteers. The average cost per client is also dependent on the number of clients that are served by the individual MFI, as standardization and deployment of more cost efficient formats such as group support schemes or online-based services can only be used effectively by MFIs with a larger client base.

This heterogeneity shows is illustrated in an internal pilot survey of six MFIs by EMN in preparation for an upcoming EU pilot programme for non-financial services for migrants. It calculated annual costs per client that range between 150 and 2.000 EUR. The survey also shows that MFIs from Eastern Europe provide their clients fewer non-financial services at a lower annual cost level than their Western European peers.

Based on the experiences of the European networks in exchanging best practice in non-financial service provision by European MFIs, it can be argued that the average intensity of non-financial service provision differs by the target groups of business microcredit. **Potential new business founders out of social exclusion and informal businesses** demand the highest intensity of non-financial services, which encompass the categories of client development services and entrepreneurship development services. This target group is also more relevant for MFIs from Western Europe than for Eastern Europe, which results in the highest average cost per (potential) client. **New business founders** and **solo entrepreneurs** also need intensive non-financial services (entrepreneurship development services and business development services) but these are usually at a lower average cost since this target group is also a key target group of Eastern European MFIs, which can offer these services through a lower cost structure than Western European MFIs.

Existing microbusinesses and individual farms are the target groups with the lowest need of intensive non-financial service provision (both mainly business development services). Since business development services for existing microenterprises need to be of higher quality than in the other target groups, the average cost is estimated to be on the level of services for new business founders and solo entrepreneurs. In the case of individual farms, the business development services are mainly provided by Eastern European MFIs, which results in lower estimated average cost.

Table 10 shows the estimated average costs in EU-28 countries to provide non-financial services to (potential) clients across the different target groups of business microcredit. These estimates can be used to assess the total funding needs of European MFIs in offering non-financial services to their (potential) client base (see chapter 6.2).

Table 10: Cost estimation model for non-financial service provision

Target group	Estimated average cost per client (EUR)
Potential new business founders out of social exclusion	800
Informal businesses	800
New business founders	400
Solo entrepreneurs	400
Microenterprises (1-9 employees)	400
Individual farms	200

5. Assessing the funding needs of European non-bank MFIs

5.1. Existing assessments of funding needs for microcredit provision

The ex-ante assessment for the microfinance instruments under EaSI analysed the funding needs of European MFIs following through three steps:

- Analysis of general funding needs of MFIs in Europe;
- Estimation of funding needs based on current use of funding; and,
- Outlook on future developments in funding demands of MFIs.

The general funding needs were analysed based on a desk research including the main literature sources on MFI funding. The results of this desk research were used as the basis for the further steps in the analysis, e.g. to develop proxies for the actual funding needs of microcredit providers in Europe based on their current use of funding. Finally, the findings were complemented by a qualitative survey of future funding demand among MFIs in Europe that was based on a series of interviews with MFIs. The interviews included MFIs that have already benefited from EPMF, MFIs that are interested in applying for it in the future and MFIs that have applied in the past but did not receive EPMF funds. The results show that MFIs in Europe use several types of funding to finance their operations and growth. The most common include: debt finance, guarantees, equity and grants (see chapter 2.2.2).

The analysis also finds that no standard methodology is available to calculate how the assessed demand for microcredit products in a country translates into **actual funding needs** for MFIs, especially concerning funding for organisational growth and institutional capacity building. The interviews show that even MFIs themselves have no clear picture of how their external funding needs regarding operational costs and institutional development is connected to the estimated client demand. The situation is more clear for the **refinancing of loan capital**. Most non-bank MFIs in Europe refinance their loan portfolio completely via external debt. The ex-ante study therefore argued, that the estimated demand for microcredit products in a country can be translated 1:1 into funding needs for on-lending.

Based on the desk research of studies on the institutional capacity of non-bank MFIs in Europe,⁴¹ the ex-ante study assumed that **risk costs** are in most cases not covered by operational income, and therefore need to be refinanced by external funding. This can take the form of guarantees or equity investments. In most cases, microfinance portfolios need to cover a default rate of around 5% in Europe. For MFIs with high-risk target groups, the rate can go up to 15-20%. This means that MFIs need to cover up to 20% of each EUR of loan volume provided in the form of risk costs.

For the development of an MFI, the amount of funding required is only loosely linked to the volume of loans provided, as the operational income increases with larger portfolios while efficiency gains also kick in. It can be argued that smaller and younger MFIs need higher amounts of funding to develop their business than more established MFIs looking to scale up their portfolio.

⁴¹ Jung et al (2009)

The ex-ante study provided an **estimation of the total volume of funding used** to produce the supply of microcredit products (business and personal loans) identified for the time period of 2010 to 2012.⁴² **To refinance loan capital** for 2010-2012, the volume of the estimated supply of loans was used, as the leverage of the refinancing volume is around a factor of one. For the **funding used for covering default risk in microloan provision** for 2010-2012, the study used the total volume of estimated microloan supply in a country and multiplied this by 0,2. This served as a proxy for the typical cap rate for first lost coverage of guarantee instruments in microfinance, e.g. the microcredit guarantee instrument of the Progress Microfinance Facility.

These general estimations were complemented by:

a) An **analysis of different data sources** for funding levels of European MFIs (e.g. MixMarket database, information from national and European networks, annual reports by larger MFIs and allocation reports in EU programmes such as the European Progress Microfinance Facility). The information that could be gathered through these channels was unreliable and only useful for some countries. Additionally, an estimation of the total volume of funds used for building up the equity base and/or for capacity building was not possible.

b) A **qualitative survey**, conducted through **face-to-face interviews with representatives of MFIs** from nine European countries. The interviews covered the expectations of MFIs regarding volume, type, design and conditions of external funding offers. The MFIs were also asked about their difficulties to access available funding. During the survey, it became apparent that most MFIs in Europe are looking for long-term funding options at prices that reflect their limited ability to charge their clients high interest rates and additional lending costs. Furthermore, the MFIs stated preferences for flexible external funding conditions to reach alignment with their funding instruments already in use. External funders should also take into account the MFIs' developmental stage as an institution and its business activities. The interviewees clearly stated that the funding needs for start-up MFIs are very different from those of established MFIs, and that a general problem is the lack of available funds for BDS and coaching to clients. The interviews also show a great demand for accessing direct Technical Assistance (TA), which is now offered via the EaSI TA instrument. Some of the MFIs mentioned that offers for direct TA should be linked to suitable funding options to finance the implementation of the ideas and strategies developed with consultants.

The biannual **EMN/MFC Overview surveys** cover the issue of funding by asking participants about their mix of funding sources in the reported year. The questionnaire distinguishes between grants, debt financing, equity, and guarantees. In terms of the share of funding collected, debt financing is, on average, the most widespread source of funding (30,3% in 2015 and 28,9% in 2014). Nevertheless, grants still play a major role, especially for Western providers (38,7% in 2015 and 40,6% in 2014).

The survey also identified funding patterns for different countries and institutional types. In 2015, 44,7% of commercial banks funding came from debt financing. Equity was the main source of funds for cooperatives/credit unions (45,8%). The funding structures of NGOs are more diverse (although nearly one-third of funds come from grants). NBFIs (non bank financial institutions)

⁴² COM (2014)

also show differentiation in terms of funding structure (although debt financing is the most important funding source at 35,3%). Grants are particularly crucial in the funding structure of respondents in France, Ireland, and Italy, while MFIs in Albania, Bosnia-Herzegovina, Bulgaria, Finland, Macedonia, and Moldova showed a higher incidence of debt financing. Equity represents the main source of funds for MFIs in Kosovo, Montenegro, the Netherlands, and Serbia. In Hungary and Romania, the main funding sources are local micro-credit funds and social funds.

In past iterations, the EMN/MFC Overview Survey did not ask participating MFIs for total volume of funding used and the volume of funding needed in the future. We argue that this would be an important addition to inform the discussion about public funding instruments at EU and national level. In the following chapter we describe an approach to approximate future funding needs of the sector based on the results of the top-down assessment of business microcredit market potential and market outreach of MFIs in EU-28 countries. This approach could be used as a starting point to further develop data collection on the funding needs of European microcredit providers.

5.2. Proposal for estimating MFI funding needs

We propose to follow the general approach of the EasI ex-ante assessment to estimate the **annual funding needs of the non-bank MFI sector** in relation to the assessed size of the **annual MFI market**:

- For **debt funding**, the total volume of the annual MFI market needs to be refinanced.
- To estimate the **funding needed for external risk-sharing**, we assume that 10% of the total volume of the annual MFI market is in very risky target groups (new business founders out of social exclusion, solo entrepreneurs and individual farms) and 5% is in other target groups that need to be secured via guarantees to allow for on-lending from commercial funders.

An estimation of the amount of **equity/grant funding needed for organizational development** of non-bank MFIs is difficult, as this is not directly connected to the actual size of the market for business microcredit. Since European MFIs are still relatively small organisations, the absorption capacity of larger equity investments is limited. An analysis of the experiences from the delivery of the equity portion of the EaSI financial instruments, which was introduced this year, will be helpful to better assess the needs of MFIs in this regard. It is already clear that investments in ICT-infrastructure are underdeveloped in the sector and will be a big challenge over the coming years.

Since the provision of business loans to the different target groups is closely connected to the **provision of non-financial services** at zero or very limited costs to the client, additional funding needs exist to cover the full cost of non-financial service provision. To estimate the total funding needed, we propose to use the cost model established in the previous chapter on non-financial service provision, and based on the assumptions of the share of non-financial service users in the various target groups (see Table 11).

Table 11: Share of non-financial service users in different target groups for business microcredit

Target group	Share of potential clients that receive non-financial services
Potential new business founders out of social exclusion	80%
Informal businesses	80%
New business founders	50%
Solo entrepreneurs	50%
Microenterprises (1-9 employees)	20%
Individual farms	20%

6. Pilot calculation and projection towards 2020

The key results of the top-down assessment of total market potential for business microcredit in EU-28 are synthesized here. They are complemented by an approximation of the total volume of potential annual demand based on the results of the last EMN/MFC Overview survey. We also provide an estimation of the market outreach of non-bank MFIs across the different target groups and the sector’s annual funding needs by 2020. It is important to acknowledge that, lacking detailed analysis at the national level, some of these calculations are based on very broad assumptions. Therefore, the results need to be seen as preliminary and subject to future revision.

The top-down assessment of **total market potential for business microcredit** in EU-28 for 2016 showed a total annual potential of **2.7m loan applications** over all target groups (excluding informal businesses⁴³ and only including Eastern Europe for individual farms⁴⁴). Country specific results of the calculation can be found in the annex of this study.

Table 12: Target group population and total EU-28 market potential for business microcredit in 2016

Target group	Target group population (n, EU28, 2016)	Annual market potential (n, EU28, 2016)
Potential new business founders out of social exclusion	8.385.669	824.963
New business founders	4.329.822	447.711
Solo entrepreneurs	13.343.520	889.568
Microenterprises (1-9 employees)	9.316.987	310.566
Individual farms	1.032.880	257.789 (only Eastern Europe)
(Informal businesses)	(38.627.457)	(3.090.197)
Total (with informal businesses)	75.036.335	5.820.794
Total (without informal businesses)	36.408.878	2.730.597

⁴³ As the statistical data available on this target group is somewhat sketchy and the results based on data from the European Social Survey show over proportioned numbers, it is included here for informational purposes but excluded from the following calculation steps to reduce distortions.

⁴⁴ This reflects that the interviews with MFIs showed that Individual farms are a relevant target group mainly for Eastern European MFIs.

This outcome falls in-between the estimates of an ex-ante assessment for the EaSI financial instruments based on 2012 data (1,2m potential loans, not including existing businesses) and the evaluation of JASMINE TA (5,1m potential loans). The **projections of potential demand towards 2020** take into account the anticipated growth of target group populations (i.e. increase of the socially excluded population, entrepreneurship activity, number of solo entrepreneurs and microenterprises as well as individual farms) and the development of external finance needs and financial exclusion levels for the target groups. Since this involves a set of complex assumptions, it was decided to focus on the development of the non-bank MFI market size toward 2020, based on the annual growth rates in business loan provision reported in the EMN/MFC Overview surveys (see below).

For an estimation of the **total value of potential demand**, the numbers of potential loan applications were multiplied with each target group’s average loan amount as approximated by the results of the last EMN/MFC overview survey.⁴⁵ We chose to use different loan averages for Eastern and Western Europe with the exception of the target group for individual farms, which only includes Eastern Europe. Based on this approach, the assessment results in a total volume of potential demand of **17,4 bn EUR** annually.

Table 13: Estimation of total volume of annual potential demand in EU-28

Target group	Average loan amount (EUR)	Volume of annual potential demand (EU-28, 2016, EUR)
Potential new business founders out of social exclusion	West Europe: 5.000 East Europe: 3.000	3.520.387.050
New business founders	West Europe: 10.000 East Europe : 8.000	4.206.729.555
Solo entrepreneurs	West Europe: 5.000 East Europe: 3.000	4.037.031.333
Microenterprises (1-9 employees)	West Europe: 15.000 East Europe : 10.000	4.366.496.000
Individual farms (only Eastern Europe)	5.000	1.288.944.000
Total		17.419.587.938

⁴⁵ The data collected by the EMN/MFC Overview Survey does not allow for a break down of average business loan volumes into discrete target groups. The average volume of reported business loans in the EU-28 countries over all target groups was 5.325 EUR in 2015. Taking into account the different levels of market outreach for the different target groups (see below), the average loan volume in the calculation of the annual non-bank MFI market amounts to 5.201 EUR.

This estimate represents the total potential demand for accessible small business loans from actors in the banking *and* non-banking sector (including alternative finance providers like peer-to-peer platforms or grey market lenders). To estimate the **annual non-bank MFI market size** for different target groups, proxy shares of market outreach levels of non-bank MFIs were established, taking into account the number of business loans reported in the last EMN/MFC Overview Survey (139.102 loans reported for 2015 in EU-28 countries) and estimations on the relative target group outreach of non-bank MFIs (see Table 14).

Table 14: Estimated market outreach of non-bank MFIs and EU-28 market size for 2016

	Market outreach of non-bank MFIs	EU-28 annual MFI Market 2016	
		n	EUR
Potential new business founders out of social exclusion	10%	82.496	352.038.705
New business founders	5%	22.386	210.336.478
Solo entrepreneurs	5%	44.478	201.851.567
Microenterprises (1-9 employees)	1%	3.106	43.664.960
Individual farms (only Eastern Europe)	10%	25.779	128.894.400
Total		178.245	936.786.110

The results for 2016 were then projected out to 2020 with an annual growth rate of 10% for the number of loans provided, which was also taken from the results of the EMN/MFC Overview survey and showed a growth rate of 9.6% in number of business loans in EU-28 between 2014 and 2015 and similar growth rates for the prior years. The annual growth rate of the total loan volume was set at 5%, which is based on the annual growth between 2014 and 2015 reported in the last Overview Survey for MFIs from EU-28 countries (5,3%). The results show an estimated non-bank MFI market size of around **260.000 business loans per year** in 2020 representing a total market value of **nearly 1,15 bn EUR**.⁴⁶

⁴⁶Please notice that UK is still included in the 2020 projection.

Table 15: Projection of annual MFI market for 2020

	Projection EU-28 annual MFI Market 2020	
	n	EUR
Potential new business founders out of social exclusion	120.783	427.905.246
New business founders	32.775	255.665.303
Solo entrepreneurs	65.121	245.351.841
Microenterprises (1-9 employees)	4.547	53.075.032
Individual farms (only Eastern Europe)	37.743	156.671.949
Total	260.968	1.138.669.371

Based on this projection of annual market size for business microcredit in 2020, the total **annual funding needs of the non-bank MFI sector from 2020 forward** can be estimated using the proposed methodology described in the previous chapter. This produces the following results:

- **Debt funding:** 1,15 bn EUR in senior loans is needed for onlending.
- **Funding external risk-sharing:** an annual need of around 100m EUR in portfolio guarantees.
- **Provision of non-financial services:** an annual need of around 100m EUR in grants/subsidies to provide at zero cost to the client.

7. Outlook and policy implications

This study offers a starting point to organize a **structured market monitoring activity**, managed by the European networks of the sector (EMN and MFC) and integrate both top-down assessments and bottom-up analysis at the national level. The results of this activity will complement the results of the bi-annual EMN/MFC Overview Survey, which covers the sector's performance. The results also support a closer link between the surveyed funding needs of non-bank MFIs and the market situation for business microcredit, helping the networks and other MFI stakeholders to make the case for support instruments and public funding budgets.

Facilitated by the European networks, the sector should discuss the proposed approach for an EU wide market assessment and work toward a shared understanding of the key definitions and indicators presented in this study. It is important to strive for feasibility rather than completeness and scientific rigidity, especially in the case of the top-down assessment of potential demand.

The first draft of the toolbox for the national bottom-up analysis, featured in chapter 3.2.2., should be revised and enlarged by EMN and MFC to provide their member organizations ongoing guidance in developing tailor-made toolsets for national market studies. We also suggest organizing a **follow up pilot study** facilitated by EMN/MFC with member organisations to produce detailed market studies for a set of EU countries. The lessons from the pilot study could then be used to establish an **ongoing European market information hub** organized by the research committee of EMN/MFC, providing market overviews and outlooks for stakeholder and funding actors online such as EU-level policy makers. If such a pilot activity is rolled out in 2018, the results could be used to inform a more in depth ex-ante assessment of the financial instruments for the sector in the upcoming EU funding period, starting in 2021. Regularly updated data on potential demand and actual market sizes in different EU and candidate countries could also be disseminated via the next iteration of the MicPro Website to guide policy makers and investors.

To organize ongoing monitoring activities, we propose the following **steps**:

- Produce an update of the top-down assessment, taking into account the results of the next EMN/MFC Overview Survey;
- Initiate a pilot study in at least six EU and candidate countries to fine-tune the proposed toolbox for bottom-up analysis on market potential and non-bank MFI market sizes;
- Identify national partner organisations in each EU and candidate country for producing regular country overviews and updates; and,
- Disseminate the results of both the top-down assessment and the country specific market overviews via the networks.

8. Bibliography

Adie/EMN (2008): Microfinance Market Study in France, by Audrey Raabe and Vincent Lagalaye, Paris, 2008. <http://www.european-microfinance.org/data/file/Microfinance%20Market%20Study%20in%20France%20EIF.pdf>

Adie (2008): 20 years of microcredit in France, the knowledge gained through Adie's experience, Paris, 2008. <http://www.european-microfinance.org/data/file/Librairy/adie-fiche-anglais.pdf>.

Bogan, V. (2008). Microfinance Institutions: Does Capital Structure Matter? May 2008.

Bruhn-Leon, B., Eriksson, P.-E. and Kraemer-Eis, H. (2012). Progress for Microfinance in Europe. EIF Working Paper 2012/13. EIF Research & Market Analysis. January 2012. http://www.eif.org/news_centre/publications/eif_wp_2012_13_microfinance.pdf

COM (2001). European Commission (2001). Opinion of the European Economic and Social Committee on the Proposal for a Decision of the European Parliament and of the Council amending Council Decision 2000/819/EC on a multiannual programme for enterprise and entrepreneurship, and in particular for small and medium-sized enterprises (SMEs) (2001-2005). 781 final.

COM (2002). European Commission (2002). Support Services for Micro, Small and Sole Proprietor's Businesses of the EC, DG Enterprise, April 2002.

COM (2003). European Commission (2003). Microcredit for small businesses and business creation: bridging a market gap. Brussels, 2003). http://ec.europa.eu/growth/content/microcredit-small-businesses-and-business-creation-bridging-market-gap-0_en

COM (2007a). European Commission (2007). Expert Group Report: The Regulation of Microcredit in Europe, April 2007. <http://ec.europa.eu/DocsRoom/documents/3669/attachments/1/translations/en/renditions/pdf>

COM (2007b). European Commission (2007). Communication from the Commission on the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions. A European initiative for the development of micro-credit in support of growth and employment, November 2007. 708 final. http://www.european-microfinance.org/docs/microfinance_in_europe/microfinance_eu/communcation-jasmine-initiative.pdf

COM (2012a). European Commission (2012). Report from the Commission to the European Parliament and the Council on the application of Directive 2006/48/EC to microcredit. 769 final. 18.12.2012.

COM (2012b). TNS Opinion & Social (2012). Entrepreneurship in the EU and Beyond. Flash Eurobarometer 354. Analytical Report, 2012. http://ec.europa.eu/commfrontoffice/publicopinion/flash/fl_354_en.pdf

COM (2013). ICF GHK (2013). Evaluation of the JASMINE TECHNICAL ASSISTANCE Pilot phase, November 2013.

http://ec.europa.eu/regional_policy/thefunds/doc/instruments/jasmine/jasmine_evaluation_final_report.pdf

COM (2014). Unterberg, M., Bendig, M. and Sarpong, B. (2014): Study on imperfections in the area of microfinance and options how to address them through an EU financial instrument. Final Progress Report.

ECB (2017). Survey on the access to finance of enterprises in the Euro Area. October 2016 to March 2017. <https://www.ecb.europa.eu/pub/pdf/other/ecb.accesstofinancesmallmediumsizedenterprises201705.en.pdf?17da4ff2a730b7ababea4037e4ce8cae>

EMN (2011). Lämmermann, S, Ribbink, G. (2011). Microfinance and Business Development Services in Europe. What can we learn from the South? EMN Research Paper, June 2011. http://www.european-microfinance.org/docs/emn_publications/emn_research_papers/4.af-bds-handbook-lowres2.pdf

EMN (2012). Bendig, M., Unterberg, M., and Sarpong, B. (2012). Overview of the Microcredit Sector in the European Union 2010 - 2011. European Microfinance Network (EMN). December 2012. http://www.mikrofinanz.net/fileadmin/user_upload/dateien/pdf/overview2010-2011-final.pdf

EMN (2014). Bendig, M., Unterberg, M., and Sarpong, B. (2014). Overview of the Microcredit Sector in the European Union 2012-2013. European Microfinance Network. September 2014. http://www.europeanmicrofinance.org/docs/emn_publications/emn_overview/Overview2012-2013_Nov2014.pdf

EMN-MFC (2016a): EMN/MFC proposal for a revised EU definition of microfinance and microcredit, Draft Version April 2017. http://www.european-microfinance.org/docs/emn_publications/other_emn_publications/1.%20Proposal%20for%20a%20new%20EU%20Microfinance%20definition_May%202017.pdf.

EMN-MFC (2016b). Microfinance in Europe: A Survey of EMN-MFC Members. Report 2014-2015. 2016. http://www.europeanmicrofinance.org/index.php?rub=publications&pg=microfinance-overview-surveys&spg=survey_report_2014_2015

EUROM (2014). Analysis of market failures with respect to provision of microfinance services in Romania. Bucharest, 2014.

EUROM (2016). Analysis of the demand for financial and business development services of potential entrepreneurs, sole traders, start-ups and micro-enterprises. Bucharest, 2016.

European Parliament (2010). Directorate-General for internal policies, Microcredit networks and existing national legislations with a view to the implementation of the microfinance instrument, November 2010.

FACET, evers & jung and nef (2004). Policy Measures to Promote the Use of Micro-Credit for Social Inclusion, on behalf of the European Commission DG Employment, Social Affairs and Equal Opportunities, 2004.

Hazans, M. (2011). Informal Workers Across Europe: Evidence from 30 Countries. IZA Discussion Paper No. 5871, July 2011. <http://ftp.iza.org/dp5871.pdf>

ILO (2002). Micro-finance in industrialized countries: helping the unemployed to start a business,

Jung, Martin, Stefanie Lahn und Michael Unterberg (2009). EMN-Studie: EIF Market studies on Micro Lending in the European Union - Capacity Building and Policy Recommendations, Hamburg, May 2009. <http://www.emnconference.org/archives/data/file/EIF%20MF%20Studies%20-%20Capacity%20Building%20final.pdf>

Kraemer-Eis, H., Conforti, A. (2009). Microfinance in Europe. A Market Overview. EIF Research & Market Analysis, Working Paper 2009/001, November 2009. http://www.eif.org/news_centre/publications/EIF_WP_2009_001_Microfinance.pdf

Kraemer-Eis, H., Lang, F., and Gvetadze, S. (2013). Bottlenecks in SME financing. In: Kolev, A., Tanayama, T., and Wagenvoort, R. (ec. eds.) (2013). Investment and Investment Finance in Europe. EIB Economics Department. Pp. 277ff. http://www.eif.org/news_centre/publications/Bottlenecks-in_SME-financing.htm

Kraemer-Eis, H, Lang, F. (2014). Guidelines for SME Access to Finance Market Assessments (GAFMA). EIF Working Paper 22/2014. EIF Research & Market Analysis, April 2014. http://www.eif.org/news_centre/publications/eif_wp_22_gafma_april14_fv.pdf

Kraemer-Eis, H., Lang, F., Torfs, W., and Gvetadze, S. (2015). European Small Business Finance Outlook. EIF Working Paper 2015/32. EIF Research & Market Analysis. December 2015. http://www.eif.org/news_centre/research/index.htm

Kraemer-Eis, H., Lang, F., Torfs, W., and Gvetadze, S. (2016). European Small Business Finance Outlook. EIF Working Paper 2016/37. EIF Research & Market Analysis. December 2016. http://www.eif.org/news_centre/research/index.htm

Kraemer-Eis, H, Lang, F, Wouter T. and Gvetadze, S. (2017): European Small Business Finance Outlook. EIF Research & Market Analysis Working, Paper 2017/43. June 2017. http://www.eif.org/news_centre/publications/eif_wp_43.pdf

Lopriore, M., Diana Pati, D. (2012). Microcredit and EU Cohesion Policy, EIPA Maastricht, 2012. http://www.eipa.eu/files/repository/eipascope/20120710144134_MLO_Eipascope2012.pdf

Meißner et al. (2009): Mikrofinanzierung und Mezzanine-Kapital für Gründungen und KMU. Studie für das Bundesministerium für Arbeit und Soziales.

MFC (2006). Matul, M., Pytkowska, J., and Rataj, M. (2006). Developing Microcredit Market in Poland, 2006.

Molenaar, N. (2011). Microfinance, evolutions and challenges....are we still in touch with the real client?.... Microfinance & Small Business Development Research Group. The Hague: Inholland, 2011.

Molenaar, N., Lehmann, J.-M. (2016). Microfinance, what is it all about? The Hague University of Applied Sciences, 2016.

OECD (2013). SME and Entrepreneurship Financing: The Role of Credit Guarantee Schemes and Mutual Guarantee Societies in supporting finance for small and medium-sized enterprises. Final Report. CFE/SME(2012)1/FINAL. Unclassified. 30.01.2013.

OECD (2014a). Entrepreneurship at a Glance 2014. http://www.oecd-ilibrary.org/industry-and-services/entrepreneurship-at-a-glance-2014_entrepreneur_aag-2014-en.

OECD (2014b). Financing SMEs and Entrepreneurs 2014. An OECD Scoreboard, OECD Publishing, Paris.

OECD/The European Commission (2014). The Missing Entrepreneurs: Policies for inclusive entrepreneurship in Europe. 2014.

OECD (2015a). Financing SMEs and Entrepreneurs 2015. An OECD Scoreboard, OECD Publishing, Paris.

OECD (2016a). Entrepreneurship at a Glance 2016, OECD Publishing, Paris. 28.09.2016.

OECD (2016b). Financing SMEs and Entrepreneurs 2016. An OECD Scoreboard. April 2016. <http://www.oecd.org/cfe/smes/financing-smes-and-entrepreneurs-23065265.htm>

Porteus, D. (2005). The Access Frontier as an Approach and Tool in Making Markets Work for the Poor. May 2005. <http://www.eldis.org/vfile/upload/1/document/0708/DOC20970.pdf>

SEON Foundation (2008). Microfinance market study in The Netherlands. Executive Summary. Zeist 2008.

TrustLaw (2011). Creating Jobs in Europe: Legal and Regulatory Frameworks of Microenterprises and Microcredit in Europe. A TrustLaw publication by the Thomson Reuters Foundation for Adie, September 2011. https://www.adie.org/sites/default/files/links/AdieTrustlaw_2011.pdf

9. Annex

9.1. Interviewed MFIs/stakeholder organisations

Table 16: List of interviewed MFIs / stakeholder organisations

Country	Organisation
BE	microStart
BG	Nachala
ES	MicroBank
FR	ADIE
HU	Hungarian Microfinance Network
IT	RITMI
MD	Smart Credit
ME	Alter Modus
NL	Qredits
PL	MFC
RO	EUROM
RO	goodbee.credit
RO	Patria Credit /Patria Bank
RO	RoCredit
RS	Agroinvest
UK	Responsible Finance

9.2. Detailed tables of pilot calculations at country level

Table 17: Size of target groups in EU28 member states (n, 2016)

	Potential new business founders	New business founders	Solo entrepreneurs	Micro-enterprises	Individual farms	Informal businesses
Austria	34.805	116.794	189.301	156.479	13.150	578.131
Belgium	53.991	109.903	421.381	149.177	300	615.457
Bulgaria	40.423	40.680	126.829	146.047	71.490	314.484
Croatia	45.864	56.411	33.234	88.549	10.810	0
Cyprus	9.575	14.707	17.804	26.573	4.290	84.178
Czech Republic	29.900	121.294	722.891	180.625	870	748.756
Denmark	16.330	37.950	70.000	100.590	700	275.442
Estonia	9.348	33.313	27.044	40.412	1.460	53.813
Finland	20.384	49.711	141.149	111.228	0	350.286
France	373.084	432.671	2.289.048	929.381	24.500	2.972.871
Germany	221.774	521.946	1.174.302	1.074.993	900	5.453.432
Greece	70.497	73.964	335.369	367.149	99.390	1.816.743
Hungary	93.318	105.751	151.072	293.277	53.780	409.786
Ireland	32.121	44.929	128.904	81.621	14.820	410.490
Italy	381.814	299.107	2.229.805	1.155.730	78.450	7.490.676
Latvia	21.294	41.455	41.191	41.664	3.250	46.156
Lithuania	32.045	38.964	84.110	51.262	27.220	80.484
Luxembourg	2.578	8.521	10.303	14.217	20	n.a.
Malta	1.833	5.023	18.500	9.700	2.880	n.a.

Annex

Netherlands	48.840	210.787	781.654	165.291	30	1.009.558
Poland	412.741	401.716	1.157.091	556.861	158.890	4.349.014
Portugal	78.514	105.588	402.693	247.604	70.900	930.075
Romania	439.447	269.598	294.479	270.456	161.450	782.275
Slovakia	16.853	81.286	322.961	98.841	1.530	419.130
Slovenia	9.614	23.421	62.695	56.166	700	99.194
Spain	156.060	235.524	1.469.553	1.114.459	214.460	4.270.154
Sweden	30.716	119.609	427.662	220.965	3.270	439.252
UK	272.090	729.201	212.495	1.567.670	13.370	4.627.619
Total	2.955.855	4.329.822	13.343.520	9.316.987	1.032.880	38.627.457

Annex

Table 18: Annual potential demand for business microcredit in EU 28 countries (n, 2016)

	Potential new business founders	New business founders	Solo entrepreneurs	Micro-enterprises	Individual farms	Informal businesses
Austria	10.616	12.964	12.620	5.216	6.312	46.250
Belgium	16.467	12.199	28.092	4.973	144	49.237
Bulgaria	6.831	12.631	8.455	4.868	34.315	25.159
Croatia	14.539	13.708	2.216	2.952	5.189	No data
Cyprus	2.920	1.632	1.187	886	2.059	6.734
Czech Republic	9.120	13.464	48.193	6.021	418	59.900
Denmark	4.981	4.212	4.667	3.353	336	22.035
Estonia	2.599	6.196	1.803	1.347	701	4.305
Finland	9.703	5.369	9.410	3.708	No data	28.023
France	113.791	48.027	152.603	30.979	11.760	237.830
Germany	59.435	55.587	78.287	35.833	432	436.275
Greece	21.431	12.870	22.358	12.238	47.707	145.339
Hungary	16.144	11.104	10.071	9.776	25.814	32.783
Ireland	11.531	5.257	8.594	2.721	7.114	32.839
Italy	145.089	41.725	148.654	38.524	37.656	599.254
Latvia	4.536	4.975	2.746	1.389	1.560	3.692
Lithuania	7.787	6.429	5.607	1.709	13.066	6.439
Luxembourg	998	1.035	687	474	10	No data
Malta	559	558	1.233	323	1.382	No data
Netherlands	10.305	19.603	52.110	5.510	14	80.765

Annex

Poland	118.044	27.718	77.139	18.562	76.267	347.921
Portugal	18.137	14.888	26.846	8.253	34.032	74.406
Romania	116.893	33.565	19.632	9.015	77.496	62.582
Slovakia	5.477	14.753	21.531	3.295	734	33.530
Slovenia	1.788	1.511	4.180	1.872	336	7.936
Spain	39.951	12.718	97.970	37.149	102.941	341.612
Sweden	9.307	13.635	28.511	7.366	1.570	35.140
UK	45.983	39.377	14.166	52.256	6.418	370.210
Total EU-28	824.963	447.711	889.568	310.566	495.782	3.090.197