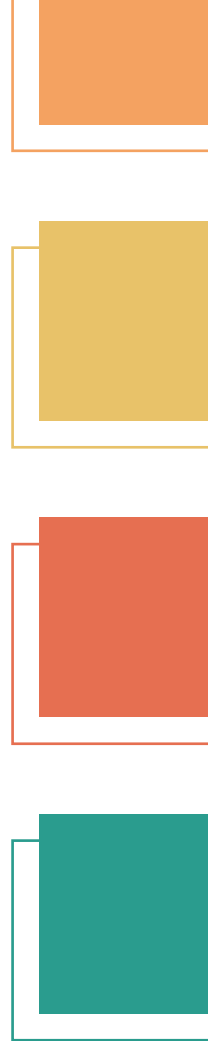


MANPOWER IN EUROPE ANALYSIS

IN EUROPE



SURVEY REPORT *Executive Summary* 2023 EDITION

With contribution
by EIF



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EXECUTIVE SUMMARY

This report provides a snapshot of the microfinance sector in Europe, marking the 11th edition for the European Microfinance Network (EMN). Conducted in collaboration with the Microfinance Centre (MFC), the partnership enables coverage of the lion's share of the European microfinance sector and produces the most comprehensive dataset currently available. In this edition, three crucial topics receive additional attention: (1) the provision of dedicated services to underserved groups, (2) fostering a fair green transition, and (3) promoting inclusive digitalization.

SECTOR COVERAGE

The report captures data on 169 microfinance institutions (MFIs) from 29 countries, providing a comprehensive overview of the sector landscape for 2022.

By institutional type, non-bank financial institutions (NBFIs) make up the largest segment of the same (41% of surveyed MFIs). NGOs represent 29% of the surveyed MFIs while both banks and credit unions each account for 15% of survey responses.

Breaking down the regional distribution, Eastern Europe emerges as the predominant host for MFIs within the sample, accounting for 41%. The Balkans follow closely behind at 30%, while North-western Europe and Southern Europe are represented by 17% and 11% of the surveyed MFIs, respectively.

SCALE & OUTREACH

MFIs predominantly consist of **small-sized enterprises**, with 71% of the surveyed organizations having fewer than 50 paid staff.

The total workforce reached 11,945 people, who contribute to microfinance delivery through paid and voluntary work. The backbone of the MFI industry's workforce is comprised of women (60% of paid employees). Volunteers make up 12% of the total workforce and are engaged by one-fifth of surveyed MFIs

The total **gross loan portfolio** reached EUR 5.3 billion by the end of 2022, serving a total of 1.3 million active borrowers that are underserved by the traditional financial sector (average loan size of EUR 8,015). Excluding an outlier from the data (a large bank), the business microloan portfolio constituted 74% of the total portfolio volume while personal microloans made up 26% of total portfolio volume.

Due to the differing nature of business and personal loans, business microloans are larger on average (EUR 10,273) compared to personal loans (EUR 2,699). The average depth of outreach (an indicator that weights average loan balances by gross national income per capita to proxy and compare for outreach to low-income populations across different countries) varies significantly across the sub-regions, especially for business microloans.

Retail trade businesses are the predominant type of enterprise supported by MFIs with **business microloans**. 71% of MFIs serve this sector, which constitutes their primary clientele.

MFIs provide support to entrepreneurs at various stages of the business lifecycle. More than half of the MFIs (64%) cater to pre-startup businesses. Furthermore, a large majority of MFIs (88%) extend services to businesses in the startup phase (less than 2 years old). Nearly all MFIs (96%) offer support to businesses older than 2 years.

Regarding **personal microloans**, mobility needs emerge as the most common purpose, with 97% of MFIs offering such loans. However, their volume in the loan portfolio is not very high. Although mentioned by a smaller number of MFIs (61% and 71% respectively), personal loans to satisfy housing other family needs make up the largest share of the loan portfolio.

The provision of **non-financial services** complements the offer of microloans. 76% of MFIs provide non-financial services, which primarily focus on developing the business skills and know-how of individuals (45% of MFIs) or the ongoing operational improvement of existing micro and small enterprises (44% of MFIs). One-third of surveyed MFIs offer support services to help people with no or low levels of financial management to prevent over-indebtedness.

FINANCIAL PERFORMANCE & FUNDING

The average **portfolio at risk** over 30 days (PAR 30) stands at 11%, with an average write-off ratio of 2.9%. When disaggregating by loan type, personal microloans appear riskier compared to business loans.

Most institutions exhibit operational self-sustainability, with an average **operational self-sufficiency** (OSS) of 108%. However, one-fifth of the MFIs fall short of the 100% OSS threshold. Notably, OSS is closely correlated with the size of the organizations, with smaller entities tending to exhibit lower levels of sustainability.

81% of MFIs use **borrowed funds** for client on-lending. The average cost of borrowing is notably higher for MFIs in Eastern Europe (6%) and the Balkans (5%) compared to Southern and Northwestern Europe (2% and 3%, respectively). The primary sources of borrowed funds include loans from commercial banks (37% of MFIs) and EU resources, such as ESF, ERDF, and other funds managed by EIF, CEB, or EBRD (25% of MFIs).

Additionally, half of the surveyed MFIs utilize **portfolio guarantees**, with the most common being EU guarantees like EaSI or InvestEU guarantees (28% of MFIs) and national guarantees (17%).

With respect to **funding needs**, more than one-third of MFIs seek to borrow funds exceeding EUR 10 million. In terms of equity (31% of the responding MFIs), the prevailing ticket size ranges from EUR 1 to 5 million.

EXECUTIVE SUMMARY

SUPPORT FOR UNDERSERVED POPULATION

MFIs play a vital role in supporting a diverse range of underserved groups through their microloan offerings. Universally served by all MFIs, women make up 42% of clients. 64% of MFIs cater to rural clients, which represent 40% of active borrowers. Additionally, 29% of MFIs serve migrants (who constitute 26% of their clients).

While some MFIs offer standard products to underserved groups, others have developed **dedicated financial and non-financial products** or conducted outreach campaigns tailored to specific demographics.

The most popular dedicated financial products are for rural clients (45%) and young people (44%). Furthermore, a substantial number of MFIs provide dedicated non-financial services to women (22%), youth (20%), and rural inhabitants (19%). To expand their outreach, 35% of MFIs organize **campaigns** targeting rural clients, while 31% focus on young people and 29% on women. When it comes to migrants, approximately 20% of MFIs have developed dedicated approaches via financial and non-financial services (12%) and outreach campaigns (11%).

Challenges to provide microfinance vary across underserved groups and are presented in detail in the report.

Overall, 84% of MFIs require **support to initiate or sustain services for underserved**

groups. Among these MFIs, 66% expressed a need to support women, youth, and rural populations.

A significant number of MFIs (64%) seek grants to facilitate services to underserved groups, and 55% are actively searching for portfolio guarantees to mitigate the risk associated with lending to these demographics.

GREEN MICROFINANCE

MFIs actively participate in the green transition, dedicating efforts to enhance their environmental performance and the resilience of their clients.

More than half of responding MFIs (55%) offer **green microloans** through dedicated or standard products.

Of the 15 MFIs supplying information, the outstanding green microloan portfolio collectively amounted to EUR 29 million in 2022 with a total of 11,000 active borrowers (average loan size of EUR 11,000). Looking ahead, sector engagement is expected to grow as 24 MFIs that do not currently offer green microloans expressed their intentions to enter this market by the end of 2025.

Renewable energy (77%) and energy efficiency (75%) loans are the most common type of green loans offered by MFIs. Mobility loans and loans for sustainable agriculture/farming are also widespread as they are offered by half of the organizations.

Alongside financial products, 38% of the MFIs providing green loans established **dedicated initiatives** to facilitate the green transition of their clients. Raising awareness among clients (23%) and establishing connections with providers of green technologies (21%) were the predominant focus of MFIs in this regard.

MFIs report several **challenges** to provide green loans to clients. The main problems stem from weak demand due to clients' limited awareness of climate change/sustainability issues (46%) and the hesitancy to adopting new and potentially more expensive green technologies (42%).

To initiate or expand the provision of microloans, MFIs need a comprehensive **support** package through a blend of funding, risk coverage technical assistance (to develop new products, elaborate environmental strategies and train staff) and grants (for non-financial services and outreach campaigns).

22 MFIs provided data on their **funding needs**. With access to EUR 165 million in funding and EUR 184 million in guarantee coverage, they could potentially reach 31,000 clients by the end of 2025.

DIGITAL TRANSFORMATION

Digital transformation is a **strategic** cornerstone for almost all MFIs: 95% deem digital transformation as important or very

important and integrate it into their 3–5-year strategic plans.

For European MFIs, digital transformation primarily revolves around optimizing existing services, with a focus on streamlining internal processes and delivering competitive services to clients.

MFIs seek a range of **solutions** across marketing, loan automation, and data management. High-priority solutions pivot upon client interaction, specifically the development of customer apps and digital onboarding.

Investments in digital transformation exhibit substantial variations among MFIs, both in their present and future trajectories.

Overall, the major **challenges** for MFIs include high investment costs (66%) and associated expenses for IT experts (34%). The digital skills of clients and MFI staff are highlighted as challenges by one-quarter of responding MFIs.

Reflecting the primary challenge faced by MFIs, funding **support** emerged as important (54%). Additionally, the exchange of best practices (48%) and the formulation of a digital strategy (41%) are deemed crucial for making informed decisions in a dynamic environment.

MICROFINANCE IN EUROPE

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