Microfinance in Europe: Survey Report

2022 edition

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Executive Summary

The 2022 edition of the Microfinance Survey in Europe offers a snapshot of the microfinance sector from 2020-2021, during and after the most severe phase of the COVID-19 pandemic.

This is the 10th edition of the Overview Survey for the European Microfinance Network (EMN), and the fourth time it was carried out in collaboration with the Microfinance Centre (MFC). The collaboration between these two networks allows the survey to cover the lion's share of the European microfinance sector, delivering the most complete dataset available at this time.

The study covered 156 institutions from 30 countries and captures data for 2020-2021.

Key findings

In terms of **institutional characteristics**, the majority of microfinance providers are non-bank MFIs (94%), which operate as non-governmental organizations (NGOs), non-bank financial institutions (NBFIs), governmental bodies and cooperatives. In Eastern Europe, microfinance is mainly provided by cooperatives and NBFIs while the Western European microfinance sector is dominated by banks and NGOs. Western European MFIs are typically younger, less numerous and employ fewer staff but engage larger numbers of volunteers who support the delivery of financial and non-financial services to vulnerable groups.

Women constitute 63% of paid staff in European MFIs, with relatively more women employed in Eastern Europe (68%) than in Western Europe (53%).

76% of MFIs provide **non-financial services**, particularly in Western Europe. In Western Europe, client development services are the least popular service, as most MFIs engage in business development or entrepreneurship development services. In Eastern Europe, comparable numbers of MFIs engage in each type of non-financial service with a tendency to provide client development services more often than the other types, as they more often provide personal and housing loans and support their clients in household budget management through client development services.

Although one-on-one support delivered in person is the most common way of providing non-financial services, 50% of MFIs already use digital channels to deliver non-financial services.

After the pandemic year of 2020, the microfinance sector has bounced back to its pre-pandemic **scale** with a total of 1.4 million active borrowers and a gross loan portfolio of EUR 4.3 billion in 2021.

In terms of **social objectives**, financial inclusion remains the main priority of MFIs, illustrating a stable vision for the sector. Women and rural populations are the two main target groups. A quarter of MFIs also prioritize ethnic minorities/migrants/refugees with several MFIs planning to start or increase their engagement towards migrant/refugee populations in the next two years. MFIs that already engage migrants/refugees are mainly NGOs located in Western Europe. NBFIs and cooperatives in both Eastern and Western Europe are the primary institutional type considering increasing their exposure to migrant/refugees in the future. Guarantees appear to be the most desired form of support for MFIs wishing to increase their engagement in migrant support, followed by grants to support the provision of non-financial services. 28% of MFIs do not need any additional funding to serve migrants/refugees.

On average, the surveyed MFIs serve a relatively broad target market. The average depth of outreach expressed as the average loan balance to GNI per capita was 56% in 2021.

While many MFIs measure the impact of microloans on their clients' development, there is a substantial number of MFIs (38%) that do not track changes at the client level. Most often, MFIs track the number of created jobs as a result of business investment (44%), the number of businesses created (32%) or the number of jobs sustained (30%).

Depending on loan type or the type of a client, MFIs may ask clients for various types of guarantees to secure their loans. Most MFIs require loans to be guaranteed by another person, who becomes an individual guarantor (67% of MFIs) or co-signer (41% of MFIs). Asset collateral is also not uncommon and is requested from some clients by 34% of MFIs. However, a substantial number of MFIs (35%) provide uncollateralized loans to some of their clients.

In 2021, the average PAR30 value was 9.9%.[1] By institutional type, banks reported the healthiest portfolios while cooperatives had the worst **portfolio quality**. There were some regional differences; more MFIs reported healthy portfolios in Eastern Europe (PAR30 below 5%) than in Western Europe, where one-third of MFIs reported PAR30 to be in excess of 10%.

71% of surveyed MFIs were **self-sufficient**: that is, they generated enough revenue to cover their expenses. Similar to the other profitability indicators, OSS values varied by institutional type. NGOs were most often unable to be operationally self-sufficient. There were more operationally self-sufficient MFIs in Eastern Europe compared to Western Europe.

Long-term borrowed funds are the main **source of funding**, reaching a value of EUR 1.1 billion in 2021. The largest volume of borrowings (60%) is managed by NBFIs. Long-term client deposits (EUR 0.4 billion), attracted by cooperatives, are the second principal source of funding. In total, surveyed MFIs need EUR 1.3 billion to realize their goals in the next two years. Half of MFIs need less than EUR 4 million while the largest MFIs are seeking up to EUR 300-400 million of funds.

Digitalization and green sustainable microfinance continue to be two major trends in the European microfinance market.

84% of MFIs have digital solutions that support clients in applying for, managing or repaying a loan. More than half of MFIs currently have an online loan application. The possibility to upload documents that support the loan application is the second most common solution, which is offered by 51% of MFIs. 16% of MFIs do not currently have any digital solutions for clients. Over half (58%) of the institutions help their clients learn how to use digital solutions to access their financial products. Such support is most commonly provided in branches but one-third of MFIs developed virtual communication channels to provide assistance.

Many MFIs in Europe are already engaged in the green transition and are fully or partially compliant with green sustainable and climate smart financing. Environmental responsibility, goals or processes are part of the institutional strategy of nearly 40% of MFIs. Although fewer MFIs (33%) report their environmental performance indicators, as many as 55% monitor and manage adverse impact of their own operations (green footprint).

Monitoring clients' environmental impact and including such data in the loan assessment is less often practiced (27% of MFIs) and monitoring clients' environmental vulnerabilities is applied by only 15% of institutions. 71% of MFIs finance green solutions of their clients: 26% do it through dedicated loan products while 45% of MFIs finance green solutions through regular microenterprise or housing loans. Another 23% of MFIs plan to introduce a specific green product in the near future and 17% of MFIs do not plan to have green loans in their offer.

Post-COVID Recovery

In 2020, despite the pandemic and lockdowns, the total volume of annual disbursements increased by 6% to reach EUR 1.8 billion. In 2021, disbursements further grew by 11% to reach EUR 2.0 billion. The 2020 growth can be primarily attributed to the largest bank surveyed. NBFIs and credit unions actually decreased disbursements and NGOs only slightly increased them during 2020. Overall, 62% of MFIs decreased the volume of disbursements in 2020, the pandemic year. Eastern European MFIs reduced their lending volumes by 10% in 2020 while Western European MFIs increased the total value of disbursements by 15%.

During the pandemic, many MFIs focused on rescheduling loans and communicating with clients about new repayment conditions. MFIs which became implementing partners for government funding programs and disbursed liquidity loans to microenterprises managed to significantly increase their lending volumes during the pandemic. In 2021, the recovery year, 71% of MFIs increased their disbursement volume, mainly in Eastern Europe and among all institutional types (except NGOs).

1 Outliers, values outside of the boundaries of the average value +/- 3 standard deviations, were removed.

EUROPEAN MICROFINANCE NETWORK

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