

Strengthening Microenterprises, Supporting Livelihoods

Findings of 2018 EFSE Impact Study on Microfinance Borrowers



Microenterprises play a key role in sustaining livelihoods and ensuring income stability for both the microentrepreneur and people working for the business.



Livelihoods: 93% of the respondents indicated that the loan had positively contributed to their quality of life, including the enhanced ability to provide food, medications and education to the family.



Business turnover: 90% of survey respondents reported that the loan had positively impacted their turnover. 50% of all respondents reported a positive increase in turnover of 15%.



Employment: 20% of survey respondents reported to have increased the number of people working for their business, with most surveyed businesses experiencing a stable employment situation.



Effect of loan size: Turnover and employment growth were statistically significantly higher for microenterprises that received loans > EUR 5,000 compared to those receiving smaller loans.



EFSE's contribution: EFSE is confirmed to play an enabling role through resource provision and technical assistance (TA).



Complementing prior impact studies, the findings **confirm EFSE's underlying impact pathway**, which **maps** how the fund works towards its mission of fostering economic development and prosperity in the target region by providing dedicated financing for micro and small enterprises and private households via qualified financial institutions.



Focus

EFSE's effects on microenterprises



Countries

Bosnia and Herzegovina
Kosovo



Participants

627 microentrepreneur clients of 8 microfinance institutions (MFIs) that receive EFSE financing



Approach

Theory-based, mixed Methods
Review Period: 2015-2018

"Two weeks ago, I opened a second shop in another city. The loan enabled this business development, as the money was used for renovations and furniture. The shop will generate additional sales and provide employment for two persons."

Hairdresser, Kosovo

Microenterprises in the study sample

The study sample mainly contained very small businesses involving 1-5 persons (including family members, part time & seasonal workers) and an annual turnover below EUR 10,000.



The average number of people working per business in the sample was 3.6.

MFI sample in Bosnia and Herzegovina



Together, the 5 EFSE partner MFIs participating in the study account for around 90% of the total microfinance market.



The current average loan in the sample ranges between EUR 1,200 and EUR 2,600.

MFI sample in Kosovo



Together, the 3 EFSE partner MFIs participating in the study account for around 66% of the total microfinance market.



The current average loan size in the sample ranges from EUR 1,800 to EUR 2,600 (MFIs are legally allowed to provide loans up to EUR 25,000).

Key findings in detail: EFSE's effect on...

...living conditions of families

- 93% of respondents indicated that the loan positively contributed to their quality of life.
- 90% of respondents indicated that income security and stability improved as a result of the loan.
- More than 80% of respondents confirmed that the loan contributed to improved abilities to provide food, medication, and education to the family.

"Because the loan helped to develop our family business, I was able to quit a side job. While the total income for the household is a bit lower without the side job, I can spend more time with my kids now. This is more valuable to me than the higher income."

Baker, Bosnia and Herzegovina

...business turnover of microenterprises

- 90% of survey respondents confirmed that they perceive a positive effect of the loan on their business turnover.
- In some cases, the positive effect appears to have been counteracted by external events like extreme weather conditions or a decrease in market prices due to competing cheap imports; 50% of the microenterprises in the sample experienced actual turnover growth.
- 50% of respondents reported a positive increase in turnover of 15.3%. The average annual growth in turnover for the total sample is 6.1% – which is a positive effect overall, particularly compared to the annual GDP growth rates for both countries, which amounted to around 3-4%.

"Without the loans, my business would not have existed at all. The availability of working capital helps to sustain turnover. Before, the business was just surviving; I could only dream of growth."

Butcher, Kosovo

...employment opportunities through microenterprises

- In most cases, MFI loans were found to help the microbusinesses maintain their operations, thus sustaining the job of the microentrepreneur as well as the people working for the businesses.
- 20% of survey respondents reported to have increased the number of people working for their business. Net changes in employment opportunities were found to be affected by: (i) the size of the businesses; (ii) changing staffing needs when an investment is used for implementing more efficient production methods; and (iii) increased involvement of family members when more capacity is required.
- The loans provided were also found to support jobs beyond the business itself, by boosting jobs along the value chain:

Total Jobs supported in microenterprises through loans



EFSE's contribution

From the interviews with MFI representatives, the study identified EFSE's contribution as:

- **An enabler:** EFSE and its Development Facility play an enabling role. Although EFSE is one of several funding sources for each MFI, the review showed that EFSE funding and technical assistance have been consistently chosen by EFSE's partners over other potential options.
- **Value addition:** Specifically, EFSE's demand-oriented technical assistance and close cooperation with the fund's advisor Finance in Motion were found to be very valuable by the MFIs – elements which can be considered indirectly beneficial to the MFIs' clients in the rest of the portfolio, as well.

"Because of the loan I could send my grown son to a training in graphic design. He can use the knowledge and skills from the training in my business and thereby generate additional sales."

Entrepreneur in billboard marketing, Bosnia and Herzegovina

Study approach

The study was conducted by Ecorys, a research and consulting firm. The study team applied a mixed methods approach, drawing on both quantitative and qualitative data:

- Quantitative analysis with primary data was collected through a phone survey. Interviews applied the recall method to assess changes before and after the loan. The representative sample contained 627 microenterprises and were selected from the MFI's portfolio, taking into consideration different economic sectors, loan purposes, and loan cycles.
- Qualitative interviews were conducted to prepare eight case studies per country (16 in total), which provided in-depth qualitative information and context for the results of the survey.
- Interviews with MFIs, at both a management and loan officer level, were conducted to inform assessment of both country context and EFSE's contribution to the effects observed.

The study was undertaken in the second half of 2018. The period under review was 2015-2018.

EFSE's impact knowledge base: Learnings from previous studies

To assess and confirm the fund's underlying impact pathway, the EFSE Development Facility periodically undertakes in-depth impact studies that review how the fund's financing and technical assistance activities contribute to changes at both the sector level (financial institutions) and the end borrower level (micro- and small businesses, households) to achieve the fund's overall mission.

This recent study, with its finding of a positive correlation between microenterprise loans and business income as well as work opportunities in the microenterprise segment not only complements findings from previous studies (summarized below), but also confirms earlier conclusions that small enterprises are more likely to create jobs, while microenterprises tend to sustain jobs.

Good to know: Since its inception, EFSE has...



...enabled **1 million loans** to micro and small businesses totaling **USD7 billion**



...worked with **128 financial institutions** in **16 countries** including MFIs, commercial banks and leasing companies



...strengthened the entrepreneurship ecosystem including by working with **16 accelerators & incubators** and by providing **>9,500 hours of mentorship** to **>2,000 entrepreneurs**.

Micro and Small Enterprise Finance	Findings at end borrower level • 18% of micro and small enterprises in the survey would not exist or be closed without the loan • 12% of enterprises graduated from micro to small enterprise • Small enterprises are more likely to create jobs, whereas microenterprises tend to sustain employment Findings at financial institution level • EFSE loans to partner institutions contribute to improving lending for micro and small enterprises as well as overall banking operations, including strengthened responsible finance practices, target-group-specific lending products, cash-flow-based lending methodology, and increased outreach and loan maturities • EFSE acts as a springboard to attract other creditors and investors
Agrifinance	Findings at end borrower level • 90% of end borrowers expressed that they could not have made the investment without the loan • Around 70% of end borrowers indicated that their profit increased due to the investment made using the loan • More than 30% of respondents reported that their capacity to pay for their children's education and health services had improved, together with quality and quantity of food consumption Findings at financial institution level • EFSE has a positive impact on the rural and agricultural orientation of its partner institutions through dialogue and technical assistance • The absence of EFSE would likely mean less credit for agriculture for MFIs, especially since MFIs in the region cannot mobilize savings

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