

July 2023

# MICROFINANCE SECTOR OVERVIEW

The global microfinance market is expected to exceed \$300 Billion by 2026 and to reach \$488.9 Billion by 2030.

The financial sector plays an increasing role in economic growth and development in the global economy.

The role of microfinance in economic development is that it serves the needs of economically marginalized populations. The purpose of microfinance is to provide financial services to people "generally excluded from traditional banking channels because of their low, irregular and unpredictable income" according to ING, a global financial institution with a strong European base.

Microfinance – which includes small-scale loans from as little as USD 500 and other basic financial services can play a critical role in increasing financial independence of these underserved individuals, improving financial inclusion and stimulating broader economic growth.

Especially after the pandemic, microfinance is key to improving access to finance in emerging markets, supporting economic growth and helping communities rebuild.



## SECTOR'S KEY GROWTH TRENDS

**The global microfinance market forecast is set to witness a strong growth rate in the upcoming years due to the increasing number of micro-enterprises, government efforts to promote microfinance, and lower interest rates. Market growth is being positively influenced by the pivotal role played by micro-enterprises in driving economic development.**

**The major contributor to the growth trend is the rapid growth in the Asia-Pacific region. Led by countries such as Bangladesh, India, Indonesia, and Vietnam, APAC is forecasted to reach a projected market size of \$236.4 Billion by the year 2030 trailing CAGR by 14.3% over the period 2022 to 2030.**

45% of the market's growth will originate from APAC during the forecast period. China and India are the key markets for microfinance in APAC. Market growth in APAC will be faster than the growth of the market in other regions. In 2022, the Microfinance market in Europe was estimated at \$13.4 billion. Within Europe, Germany is forecast to grow at approximately 3.1% CAGR.

Some of the major factors supporting the market expansion are growth of SMEs and lower-income groups, including women across rural areas, their potential to maintain household and social living along with government initiatives to promote fair competition and improve the national payment system.



Small and Medium Enterprises (SMEs) play a major role in most economies, particularly in developing countries. SMEs account for the majority of businesses worldwide and are important contributors to job creation and global economic development. They represent about 90% of businesses and more than 50% of employment worldwide.

According to World Bank, formal SMEs contribute up to 40% of national income (GDP) in emerging economies. Based on World Bank estimates, 600 million jobs will be needed by 2030 to absorb the growing global workforce, which makes SME development a high priority for many governments around the world.

## NEXT GENERATION MICROFINANCE – DIGITALIZATION

**Quick and easy access to credit is one of the major drivers impacting microfinance market growth. The growth of online microfinance platforms has simplified access to funds. Hence, the popularity of microfinance platforms is increasing.**

No doubt that the digital revolution enhanced the use of financial services around the world transforming the way people manage their money.

During the pandemic, even more users were brought into the digital fold. COVID-19 boosted the adoption of digital financial services: about 40 percent of adults in developing economies excluding China who made a digital merchant payment using a card, phone, or the internet, and more than one-third of adults in developing economies who paid a utility bill directly from an account, did so for the first time after the start of the pandemic. In India, more than 80 million adults made their first digital merchant payment after the start of the pandemic, while in China over 100 million adults did.

Today, the proliferation of mobile phones means that you no longer need expensive infrastructure to provide modern financial services. With digital technology, costs are low enough that it makes economic sense for companies to serve more of the people whom the old system has ignored.

Mobile money has become an important enabler of financial inclusion in Sub-Saharan Africa—especially for women—both as a driver of account ownership and of account usage through mobile payments, saving, and borrowing. According to the last Global Findex published by the World Bank, half of the adult population in developing economies could access extra funds within 30 days if faced with an unexpected expense.

In this new era of digital transformation, FinTechs are also expected to play a significant role in increased digital adoption and financial inclusion for the underbanked customers.



## FINANCIAL INCLUSION

**Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way.**

In developed countries, access to finance is largely taken for granted. But in low-income economies, financial participation is still highly underdeveloped. In 2017 more than 1.7 billion people around the world were unbanked – the majority in Asia-Pacific and Africa. Although the latest edition of the Global Findex (2021) shows that account ownership has grown across the globe and three out of four adults worldwide today have a financial account. Yet 1.4 billion adults remain unbanked.

Financial inclusion is so important that it features in 8 of the UN's 17 Sustainable Development Goals. Women's Financial Inclusion remains the Key Global Focus. The World Bank Group considers financial inclusion a key enabler to reduce extreme poverty and boost shared prosperity. Both research and experience show that financial inclusion helps people exit and stay out of poverty.

**According to the latest World Bank report, 76% of adults now have a bank or mobile account. A decade ago, half the world didn't have access to financial services (global average 51%).**

## AI-DRIVEN MICROFINANCE - A POWERFUL COMBINATION

It is impossible to overstate the potential impact artificial intelligence (AI) will have on financial technology (fintech) companies and as a prediction we can say that AI will fundamentally alter the financial services sector. Chatbots and virtual assistants could be used by fintech companies to provide personalized customer service within the sector.

For Microfinance, characterised by its huge volume of transactions, AI may play a crucial role to analyse enormous amounts of data in real-time. As a result, they would be able to make decisions quicker and effectively by analysing data to gain insights into potential opportunities and risks.

Through the automation of compliance procedures and the identification of potential non-compliance hotspots, the use of AI in fintech would also assist businesses in adhering to regulatory and reporting requirements.

No doubt that the adoption of AI in fintech sector offers a chance to transform financial services and improve customer experiences. AI may change the financial sector for the better in more ways than in most sectors by pushing the boundaries, improving efficiency, reducing costs, and providing better services to their clients. The future of AI has a lot more in-store for microfinance.

## KEY CHALLENGES

Inadequate risk management is one of the major trends influencing the microfinance market growth. Microfinance institutions are continuously facing operational challenges owing to inadequate risk management, but some MFIs are still not in the process of adopting any economic risk management systems. Such factors may hamper the growth of the global microfinance market during the forecast period.

Corporate Governance is as essential for MFIs as it is for any other company. Governance comprises the core systems, structures and relationships that enable a company to set and meet its objectives, manage risk and opportunity, and monitor performance. MFIs providing a range of financial services to micro and very small enterprises and retail customers, need to ensure their governance structures appropriately correspond to their activities and risks, especially as they grow.



## FINANCIAL GAPS ACROSS THE REGIONS

The International Finance Corporation (IFC) estimates that 65 million firms, or 40% of formal micro, small and medium enterprises (MSMEs) in developing countries, have an unmet financing need of \$5.2 trillion every year, which is equivalent to 1.4 times the current level of the global MSME lending. East Asia and Pacific accounts for the largest share (46%) of the total global finance gap and is followed by Latin America and the Caribbean (23%) and Europe and Central Asia (15%). The gap volume varies considerably region to region. Latin America and the Caribbean and the Middle East and North Africa regions have the highest proportion of the finance gap compared to potential demand, measured at 87% and 88%, respectively. About half of formal SMEs don't have access to formal credit.

## ESG AND SUSTAINABILITY

Following the implementation of the Sustainable Development Goals (SDGs) in 2016, the microfinance industry has been focusing efforts on promoting access not just to credit, but also to agriculture, health, housing, education, energy, and education. The sector confirmed its commitment towards the most vulnerable segments of the population. In Europe, women and rural populations remain the primary target groups of European MFIs. This strong social mission is further evidenced by the growing interest in serving migrants and refugees, where many MFIs are interested in increasing their engagement in the coming years. Green sustainable microfinance stands out as one of the major trends in the market, both accelerated by the multiple crises facing society.

The main goal of MFIs is to financially empower the poorest and to foster Sustainable Development. With the new inaugural standards – IFRS S1 and IFRS S2 published by the International Sustainability Standards Board (ISSB), no doubt that Microfinance will become one of the sectors entering the new era of sustainability reporting.

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