

**'Study of viability of Indian MFIs and design of a financing framework in the current context of the Indian microfinance sector'**

**(A) Consultants shortlisted on the basis of evaluation of Expression of Interest:**

1. Deloitte Touche Tohmatsu India Pvt. Ltd.
2. Dun & Bradstreet Information Services India Pvt. Ltd.
3. Ernst & Young Pvt. Ltd.
4. India Ratings & Research Pvt. Ltd.
5. KPMG Advisory Services Pvt. Ltd.
6. PricewaterhouseCoopers Pvt. Ltd.

**(B) Technical Scores of Consultants:**

1. Dun & Bradstreet Information Services India Pvt. Ltd. - 77
2. Ernst & Young Pvt. Ltd. - 81
3. India Ratings & Research Pvt. Ltd. - 71
4. KPMG Advisory Services Pvt. Ltd. - 82
5. PricewaterhouseCoopers Pvt. Ltd. - 83

*The proposal of Deloitte was received late and hence was not taken into consideration for evaluation.*

*India Ratings & Research Pvt. Ltd. was not considered for financial proposal evaluation as it scored less than 75 in technical proposal evaluation round.*

**(C) Financial Quotes of Consultants:**

1. Dun & Bradstreet Information Services India Pvt. Ltd. – Rs.44,30,987
2. Ernst & Young Pvt. Ltd. – Rs.37,20,600
3. KPMG Advisory Services Pvt. Ltd. – Rs.68,68,750
4. PricewaterhouseCoopers Pvt. Ltd. - Rs.40,25,000

*All quotes are exclusive of local taxes.*

**(D) Final Point Ranking of Consultants:**

1. Ernst & Young Pvt. Ltd.
2. PricewaterhouseCoopers Pvt. Ltd.
3. Dun & Bradstreet Information Services India Pvt. Ltd.
4. KPMG Advisory Services Pvt. Ltd.

**(E) Preferred Bidder on evaluation of Technical and Financial Proposal:**

**Name:** Ernst & Young Pvt. Ltd.

**Price:** Rs.37,20,600

**Duration:** 4 months

**Scope of Contract:**

- The Consultant should select a representative sample of MFIs to examine how they are currently placed and appraise their future business plans based on financial and operational data for the next 3 to 5 years.
- The sample should have adequate representatives of large, mid and small sized MFIs (Tier I, II and III). Tier III MFIs are those with borrower-base of less than 50,000, Tier II MFIs are those with borrower base of 50,000 and up to 250,000 and Tier I MFIs are those with borrower base of above 250,000.
- The information collected should be analysed to bring out quantitative and qualitative dimensions of the MFIs with regard to their present and future.
- A set of financial and operational indicators focusing on operational figures, solvency, liquidity and profitability should be used to make a comparative assessment of performance and projections.
- Qualitative assessments should include assessment of strategic elements in business plan, how well different parts of the plans are integrated, cost optimisation measures and risk mitigation mechanisms proposed and how responsible finance aspects are proposed to be mainstreamed.
- Existing data on Indian MFIs from various sources can also be collated and used for the purpose including those from interest rate study, sectoral data reports, etc. so as to build thereon to the extent possible.

- The data, information and findings available with industry associations like MFIN and Sa-Dhan, rating and resource providers like CRISIL, MCRIL, MicroSave, etc. along with the data being collected by miX for the India Microfinance Platform can also be accessed and made use of where required and found adequate. Given the extensive data already available, this may be accessed and built upon so as to reduce both costs and time in finalising the study.
- Based on the assessments, the MFIs should be categorised in three classes:
  - ✓ **Category I** - MFIs that are currently viable and will remain sustainable over the long run
  - ✓ **Category II** - MFIs that currently have problems in viability, but have the potential to be viable and sustainable in the long run (with or without support), and
  - ✓ **Category III** - MFIs that will not be able to achieve sustainable working in future (regardless of whether they are currently viable or not).
- A set of normative benchmarks be established to categorise MFIs in a matrix appropriately adjusted for size of MFIs for objective assessment of current and future prospects.
- The study should suggest a package of financial and non-financial measures for MFIs that have potential but are not currently viable and a set of conditions that should be agreed with MFIs for financing.
- Focus should also be given to Category III MFIs as to the different courses of action that can be considered and the options available for such MFIs and lenders for a practical solution to the benefit of all stakeholders.
- The small and medium MFIs and Community Owned MFIs (COMFIs) have some additional issues that need to be considered. The case for differential treatment of small and medium MFIs as also COMFIs for financing should be examined and suitable recommendations made.
- Issues such as ownership / shareholding structure linked to borrowers may also be commented upon with solutions / road maps suggested.
- The study should result in designing (backed by quick testing) a tool or model of analysis of future potential and viability of MFIs based on the benchmarks. The tool could also be made available for use by various banks for assessing MFIs based on qualitative and quantitative parameters resulting in a grade, score, etc. This would also bring uniformity in credit risk assessment by banks and also indirectly build the capacity of banks in objectively assessing the MFIs.

- The industry/banks/investors should be consulted while formulating recommendations.
- The draft report could be discussed in a workshop comprising industry representatives, banks and technical service organisations.
- The study will be based on financial and operational data collected from individual MFIs. Ideally the study steps will be the following:
  - ✓ Data collection on a uniform format and review including existing data through various studies and surveys of sectoral importance
  - ✓ Consultation with industry associations' experts and banks
  - ✓ Draft suggestions to be tested in a review workshop
  - ✓ The final report.
- The study and its findings together with any tool developed therein or subsequently based on the findings of the study along with all documents relating to the study including draft documents shall be the property of SIDBI and SIDBI shall have absolute right to utilise them as it deems fit including sharing it with others.