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**A STUDY OF BANK TRANSACTION COST OF PCARDBS IN MYSORE DISTRICT**

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**ABSTRACT**

The present study tries to investigate the transaction cost incurred by Primary Co-operative Agriculture and Rural Development Banks (PCARDBs). Transaction Cost that a lending institution incur when it provides a loan: a) The cost of the money that it lends, b) The cost of transaction which includes the cost of identifying and screening the client, processing the loan application, completing the documentation, disbursing the loan, collecting repayments and follow-up on non-payment. The study covers 7 (seven) PCARDBs and the data relating to transaction cost from 2003-04 to 2009-10 have been analyzed. The study finds that the transaction cost incurred by PCARDBs in the district, taking all the seven PCARDBs in the aggregate, the total transaction cost during the seven years period 2003-04 to 2009-10 fluctuated between Rs. 155.83 lakh to Rs. 123.53 lakh. Except Krishnaraja Nagar PCARDB in the district, other PCARDBs showed negative annual compound growth rate. Unless, there is an awakening on the part of the PCARDBs and the borrowers, the problem and difficulties of both would not be overcome. The absence of mutual confidence between lender and borrowers, ignorance of information regarding obtain of loan, poor recovery performance, delay in loan approval have led to the increase in the transaction cost of the bank. Proper training of bank personnel's and concern regarding the borrowers as well as bank than only reduce the bank transaction cost.

**KEYWORDS**

Banking, transaction costs, PCARBD.

**INTRODUCTION**

India is predominantly an agricultural country. More than 70 per cent of the population of India lives in rural areas and about 70 per cent of the workers consist of cultivators and agricultural laborers. Indian agriculture though varied and having a great potentiality. Like any other industry, it is also requires credit for its sustained growth and development. Credit is a vital factor of the production function more so in Indian agriculture. Credit is vital factor in Indian agriculture since the majority of the rural farmers are poor. Technological transformation and rural development necessitate the provision of cheap finance especially for long periods. Thus, investment credit is of considerable importance in a capital-scarce country like India. The advent of Green Revolution and the new farm technology comprising of high yielding varieties of seeds, fertilisers and the recent policy decision to undertake wasteland development and afforestation have opened new vistas in agricultural banking.

**IMPORTANCE OF TERM CREDIT**

Long term finance is of supreme importance for capital investment in agriculture. In India, where there is not much scope for increasing agricultural production by bringing more land under cultivation, efforts are to be directed towards increasing the yield from the land already cultivation. This necessitates the adoption of scientific methods of cultivation so that production potential can be pushed up. Moreover, the majority of Indian farmers has little or no savings and hence is not in a position to go in for capital intensive investments without external finance. The new innovations in agricultural technology have opened up vast potentialities for agricultural development and long term credit has been viewed as dynamic credit in the sense that it helps the farmers to create assets on land, progressively increasing their output and add to the agricultural income of the country. Moreover, recently, according to F.A.O. estimates, about 50 per cent of total geographical area in India is under various degradation hazards and about 2.1 million hectares of land is being degraded or deforested annually. This calls for a need to develop this waste and deforested land, which again requires heavy capital investment of a long-term nature.

**TERM CREDIT**

With the introduction of co-operative movement in the country, there arose a need for a specialised institution, catering exclusively to the long-term credit needs of farmers. The difficulties associated with the long term credit like locking up of funds for long periods, risks involved in lending money for long period etc. forced the planners to have a separate institution. Moreover, the repayment of long-term loans is spread over a number of years and mortgage requirement has been considered as an essential requisite for such long-term loans. These factors led to the creation of specialised institutions – Land Mortgage Banks (LMB) – catering to the complicated term loans of farmers in India.

Co-operative Agriculture and Rural Development (CARD) Banks with their wide network of primaries and their branches at the grass root level and vast experience in the field of rural credit can help in transferring modern technology to the small farmers and rural artisans at minimum cost, thereby bringing about rural development. No doubt, the Central Banking Enquiry Committee, the Royal Commission of Agriculture, the Rural Banking Enquiry Committee, have identified CARD Bank

**CONCEPT OF TRANSACTION COST**

The lending institutions sanction the loan to the borrowers only after obtaining certain documents and records. The borrowers incur expenditure to collect and deposit the same to the lending institutions. Such costs are to be distinguished from production costs. Kenneth Arrows' defines on transaction costs as the "costs of running the economic system". Ladman argues that transaction costs associated with steps that the farmers undertakes to complete these requirements results in borrower's costs.

Transaction costs are incurred by the both lending institutions and borrowers in negotiating loans. The lending institutions incur expenditures, non-staff expenditures and provision for non-staff expenditures. Farmers incur expenses while obtaining loans, as they not only agree upon conditions of loan (mainly interest rate) but also go through the procedural formalities that are required by the lenders. He costs related in fulfilling the procedural formalities are considered as transaction costs of the borrowers.

## TYPES OF TRANSACTION COST

There are three kinds of costs that a lending institution incurs when it provides a loan:

- a) The cost of the money that it lends;
- b) The cost of prudent financial practices such as provisioning for loan defaults; and
- c) The cost of transaction, which includes the costs of identifying and screening the client, processing the loan application, completing the documentation, disbursing the loan, collecting repayments and following up on non payment.

Unlike the cost of funds and the costs of defaults, transaction cost is not proportional to the amount lent.

## NEED FOR THE STUDY

In a multi-agency set up of agricultural credit system co-operative agriculture and rural development banks are supposed to play a vital role in meeting the investment credit needs of farmers, rural artisans, labourers etc., and they could perform this task assigned to them in a fairly satisfactory manner.

Many studies were conducted to analyze the working performance of Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) in Karnataka. No study was conducted to analyze the transaction cost of PCARDBs in Karnataka and in the district. Hence, this study is an attempt in this direction.

## OBJECTIVES OF THE STUDY

1. To assess the need for term credit and concept of Transaction Cost
2. To identify and analyze the loans granted by PCARDBs in the district;
3. To analyze the transaction cost of PCARDBs in Mysore district; and
4. To suggest suitable measures to reduce the transaction cost and to strengthen the working of PCARDBs in Mysore district.

## METHODOLOGY

The present study is empirical one. It is based on secondary data. The sources of secondary data of the study are Economic Survey, Ministry of Finance, GOI, Annual Report of Karnataka State Cooperative Agriculture and Rural Development Bank Ltd (KSCARDB) Bangalore, Progress Report of Primary Cooperative Agriculture and Rural Development Banks (PCARDBs) in Mysore district, Audit Reports of PCARDBs in Mysore district and the necessary details are also collected from the files and ledgers of the PCARDBs and by holding discussions with the officials of respective PCARDBs in the district. In addition of these books, articles, published in journals, unpublished dissertations, thesis are referred. Apart from these Internet has also been extensively made use of for the purpose of the study.

A recourse has been made to diagrammatic and graphical representation of the data wherever necessary. Further statistical tool such as Compound Annual Growth Rate is used to analyze the data.

## AREA OF THE STUDY

The geographical coverage of the study is the district of Mysore. Mysore district has 7 revenue taluks. The study is based on time series which covers from 2003-04 to 2009-10.

Seven PCARDBs have been selected for the purpose of study. Each taluk having one PCARDB namely, H.D. Kote PCARDB Ltd, Hunsur PCARDB Ltd, Mysore PCARDB Ltd, K.R. Nagara PCARDB Ltd, Nanjangud PCARDB Ltd, Piriapatna PCARDB Ltd, T.N. Pura PCARDB Ltd.

## LITERATURE REVIEW

In this study an attempt is made to analyze the transaction cost incurred by Financial Institutions, Commercial Banks, Co-operative Banks and the Borrowers of Banks.

Ladman (1985) explains the in-built nature of transaction cost in credit delivery system. To obtain loans, a farmer must not only assume the agreed upon conditions of the loan but also must go through the procedures that are required by the lender. The costs associated with the observance of many procedures make up the real costs to the farmers. If there are delays in loan approval or disbursement, the farmers may incur additional transaction costs associated with obtaining a temporary loan from another lender.

George (1985) conducted a study in Chengalpet district in Tamil Nadu State. The objective was to examine the farmers borrowing cost on rural credit. It reveals that the borrowing cost per Rs. 100 of loan was higher for marginal and small farmers, as compared to that of medium and big farmers. The cost of borrowing decreases as the size of loan increases, irrespective of borrowing groups. Further, it is found that the cost of borrowing costs from formal institutional loans seem to be higher on term loan than that of crop loan. They suggested minimizing borrowing cost of farmers, the procedure for the sanction of loan must be simplified by maintaining details of the borrowers.

Padmanabhan (1988) looks on the basis for non-interest cost, and argues that confidence and transaction costs have an inverse relationship. The absence of mutual confidence between borrowers and lender increases transaction costs. This is due to lack of information between lender and borrower. His effective information between lenders and borrowers increases the confidence and reduces the transaction costs.

Veerashakarappa (1997) conducted a study in two taluks in Hassan district in Karnataka State with the object of examining the transaction costs of institutional finance for Rural Development. He found that the transaction costs are higher for term loan than crop loan and it has inverse relation with the amount of loan and land-holding. It was also found that the main reason for diversion of loan was the urgency to clear old loans. He concluded that the overdues were related not only to land-holding but also to willful defaults.

Puha Zhendi (1995) In their Study of the Micro Credit Programme of the Nationalized Commercial Banks in India. Both non-governmental organizations and self help groups in the credit delivery system reduce the transaction cost of both banks and borrowers.

Srivasan and Satish (2000) pointed out that micro credit programme of the commercial banks and Regional Rural Banks in India Micro Credit concluded that the intermediation of NGOs and SHGs in the credit delivery system reduce the transaction costs of both banks and borrowers.

Transaction Costs of SHGs in NABARDs SHG Banking Programme: A Study in Karnataka State (2004) the study has shown that transaction costs of a non-representative sample of 78 SHGs and their 1160 members are low and decrease rapidly with increasing loan volumes. The study provides a methodology that can be used in more representative national and local samples. While there is no urgency to intervene in the interest of overall efficiency the TC of the SHGs can, and should be further reduced by simplifying and standardizing the repeat loan process for groups with a good track record; and by speeding up the process of loan examination and disbursement.

From the above discussions it is observed that several studies have been at micro and macro levels relating to different aspect of transaction costs.

## ANALYSIS AND INTERPRETATION

In this paper an attempt is made to analysis of Transaction Cost of PCARDBs in the district over seven years period from 2003-04 to 2009-10 with particular reference to Staff expenditure, Non-staff expenditure and provisions for Non-staff expenditures of the PCARDBs.



**PCARDBs TRANSACTION COST**

In this study, only bank transaction costs are analyzed. The expenses incurred by the banks are as follows:

**A) STAFF EXPENDITURE**

- a) Salaries and allowances paid to staff (including the payment made to the temporary/daily wages).
- b) Other expenses relating to staff (i.e., TA and DA on official tours bonus/medical or any other payment made to staff).
- c) Provisions for salaries and allowances, bonus etc.

**B) NON-STAFF EXPENDITURE**

- a) Rent, Electricity, Insurance, Stationery, Postage, Telephone Meeting Expenses, Repairs, Recovery Charges, Audit Fee, Bank Charges, Directors Charges, General Body Meeting and Other Expenses etc.

**C) PROVISIONS FOR NON-STAFF EXPENDITURE**

- b) Deprecation on Assets (i.e., building, furniture and fixtures, vehicles etc)
- c) Audit fee if any
- d) Incremental bad debts
- e) Others expenses.

**ANALYSIS OF TRANSACTION COST**

Taking all the seven PCARDBs in the aggregate, the total Transaction cost which stood at Rs. 155.83 lakh during 2003-04 decreased to Rs. 123.53 lakh during 2009-10.

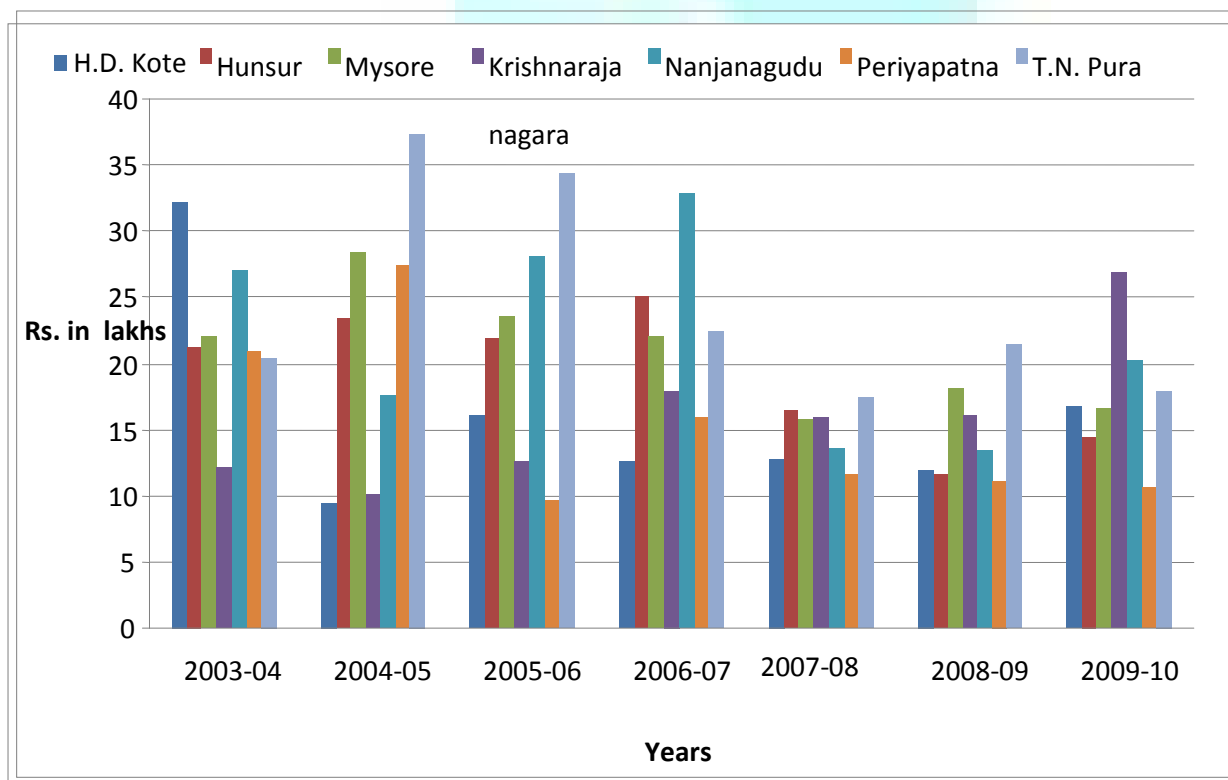
Table presents an overview of total Transaction cost in the district as whole along with the Transaction cost of different taluks. Except K.R. Nagara PCARDB other PCARDBs in the district have negative growth rate. The transaction cost of Piriyaapatna had a compound growth rate (CGR) -10.74 per cent and this was followed by the taluks of H.D. Kote, Hunsur, Mysore, Nanjanagudu and T.N. Pura with the compound growth rates of -10.31 per cent, -6.26 per cent, -4.63 per cent, -4.62 per cent, and 2.11 per cent. The overall transaction cost had a compound growth and the amount of transaction cost decreased from Rs.155.83 lakh to Rs. 123.53 lakh for the period of study. It is observed that K.R. Nagara taluk showed a positive growth rate. It is also observed that there was remarkable position in the transaction cost by all the taluks put together in spite of wide fluctuations over the years.

**TABLE 1: CONSOLIDATED TRANSACTION COST OF PCARDBS 2003-04 TO 2009-10 (₹ in Lakhs)**

Sl. No.	Banks/Talukuks	2003 -04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	CAGR
1	H.D. Kote	32.13	9.53	16.08	12.56	12.81	12.01	16.72	-10.31
2	Hunsur	21.30	23.47	21.86	24.98	16.41	11.66	14.45	-6.26
3	Mysore	22.02	28.32	23.51	22.04	15.69	18.12	16.57	-4.63
4	K.R. Nagara	12.05	10.10	12.68	18.00	15.97	16.14	26.94	14.35
5	Nanjanagudu	26.99	17.60	28.02	32.94	13.68	13.47	20.32	-4.62
6	Piriyaapatna	20.96	27.41	9.69	15.88	11.57	11.15	10.60	-10.74
7	T.N. Pura	20.38	37.31	34.40	22.42	17.46	21.37	17.93	-2.11
Total		155.83	153.74	146.24	148.82	103.59	103.92	123.53	-3.80

Source: Audit Report of the respective PCARDBs.

**GRAPH 1: CONSOLIDATED TRANSACTION COST OF PCARDBs**



**SUMMARY OF FINDINGS, SUGGESTIONS AND CONCLUSION**

The analysis of transaction cost of seven PCARDBs in the district reveals that the different heads of expenditure incurred by PCARDBs were analyzed Staff expenditure, non-staff expenditure and provisions for non-staff expenditure were examined.

**FINDINGS**

Taking all the seven PCARDBs in the aggregate, the total loan issued during the seven years period 2003-04 to 2009-10 fluctuated between Rs. 155.83 lakh to Rs. 123.53 lakh. The overall total loan issued had a negative compound annual growth rate of -13.32 per cent. Comparing to all the PCARDBs in the district total loan issued by Piriapatna taluk showed a highest compound annual growth rate of 25.52 per cent followed by K.R. Nagara, H.D. Kote, Hunsur and their respective compound annual growth rates are 18.66 per cent, 17.81 per cent and 11.66 per cent. The Nanjanagudu, T. Narasipura and Mysore showed a negative compound annual growth rate.

The highest transaction cost was incurred by K.R. Nagara taluk constituting Rs. 26.94 lakh compare to other PCARDBs in the district.

In H.D. Kote PCARDB taluk, transaction cost relating to salary increased from Rs. 3.49 lakh to Rs. 4.47 lakh during the period of the study. The overall Transaction Cost of H.D. Kote showed a negative growth rate of -10.31 per cent.

In Hunsur taluk PCARDB, the total amount of transaction cost decreased from Rs. 21.30 lakh to Rs. 14.45 lakh during the period of the study. The overall transaction of Hunsur showed a negative compound annual growth rate of -6.26 per cent.

In Mysore taluk PCARDB, the total amount of transaction cost decreased from Rs. 22.02 lakh to Rs. 16.57 lakh from 2003-04 to 2009-10.

The depreciation on assets in Mysore taluk PCARDB went up from Rs. 0.17 lakh to Rs. 1.20 lakh during the period of the study. This was followed by audit fee and incremental bad debts.

The overall transaction cost of K.R. Nagara PCARDB showed a compound annual growth rate of 14.35 per cent. The highest compound annual growth rate was found to be incremental bad debts and the lowest compound annual growth rate was non-staff expenditure and their respective percentages stood at 36.79 and 1.81.

In Nanjanagudu taluk PCARDB the total transaction cost was found to be on the declining trend.

In Piriapatna taluk PCARDB, the transaction cost under depreciation on asset had a compound annual growth rate of 46.14 per cent followed by provisions for salary, bonus, allowances which showed a compound annual growth rate of 5.22 per cent.

The amount of transaction cost in Piriapatna taluk decreased from Rs. 20.96 lakh to Rs. 10.60 lakh for the period of the study.

**SUGGESTIONS FOR IMPROVEMENT**

Based on the above findings, the following major suggestions have been made.

1. The form of loan application should undergo a change and be simple as much as possible containing very essential information instead of a lengthy form. The disposal of applications should be made time-bound. The reasons for the rejection of the application for the loan and for the delay beyond the stipulated date must be stated. It leads to reduction in institutional transaction cost.
2. The procedure of loan records building may be made easier by not emphasizing for presentation of unimportant documents, eg: preparation of Land Mortgage Deed is a lengthy procedure. It leads to reduce the work/transaction of the banks.
3. In case of agriculture, "Credit Delayed in Credit Denied" The time taken between the date of application and actual disbursement of loan should not be too much. This is happening at present due to the transmission of application from the primary Bank to the District Bank and vice-versa. Therefore, in order to minimize the delay, the primary Bank may be suitably empowered to sanction and disbursement of loans. It leads to minimize the work and reduce the transaction cost of the PCARDBs.
4. Bank transaction cost can be lowered substantially by lending to self-help groups as financial intermediaries.
5. Transaction cost depends on quantum of transaction in the organization/institution and it shows the efficiency of the institution.
6. Minimize the borrowing cost of the farmers, the procedure for the sanction of loan must be simplified by maintaining details of the borrowers. It leads to reduction of transaction cost of PCARDBs.
7. Greater awareness should be created among borrowers regarding procedural formalities for obtaining the loan from banks which leads to reduction in transaction cost.
8. There should be intermediation of NGOs and SHGs in the institutional credit delivery system which reduces the transaction costs of both banks and borrowers.

**CONCLUSION**

In the study area PCARDBs are the only specialized long-term agricultural financing agency. It is the responsibility of the bank personnel to see that the funds disbursed are channeled towards specified developmental activity. Unless, there is an awakening on the part of the PCARDBs and the borrowers, the problem and difficulties of both would not be overcome. The absence of mutual confidence between borrowers and lender, ignorance of information regarding obtaining of loan, poor recovery performance, delays in loan approvals have led to the increase in the transaction cost of the bank. Proper training of bank personnel/employees of the PCARDBs and concern regarding the borrowers as well as organization then only reduce the transaction cost of PCARDBs in the district.

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