Executive Summary – Thesis

Part I – Transactions costs

A review of the transaction costs economics underlines that carrying any exchange implies several costs for the seller. But the statement is also true for the customer. Applied to microfinance, clients' transaction costs must take into account all costs occurred to initiate, manage and close the transaction such as travel costs, opportunity costs, documentation, ad-hoc funds or bribes. Since this study intends to assess the cost of borrowing and the related constraints for clients, delays and uncertainties are also taken into account.

Part II – Costs in Bandhan

The research looks into the costs of Bandhan. To properly identify and quantify the components, a field survey has been carried out with 140 members in three local branches of the institution. The data collected allows to draw the following table.

Summary of the transaction costs

Average	
Admission fee	10 INR
Security fund	379 INR
Risk fund	100 INR
Official stamp	1 INR
Photo	25 INR
ID copy	1 INR
Time for photo, stamp & ID copy	28 m - 9 INR
Time to go to group meeting	4h - 75 INR
Time in group meeting	21h - 365 INR
Time to go to BO	65 min - 19 INR
Time at BO	69 min - 20 INR
Travel to BO	12 INR
TOTAL TCs	**1,015 INR**

On average, the total transaction costs amounts to INR 1,015 which corresponds to 20% of the loan amount. Two elements stand out and, together, they count for more than 80% of the costs. First, the compulsory security fund which is dedicated to cover the risk of default. The impact is however lessened by the fact the fund is totally refundable after the repayment of the loan. The second point is the opportunity cost related to group meetings. With an average of 41 weekly meetings per year, clients spend more than 25 hours for them, which accounts, in terms of opportunity cost, for more than INR 440.

The study stresses the need of composite services and their role in lowering client's transaction costs. It is clearly indicated by the numerous complains about the lack of savings facilities and the related dropout.

While the home collection of instalments shows its ability to minimize visits to the office, delays are limited to four weeks and the level of uncertainty is very low. Moreover, it to say that most of the costs have proper rationales and might have positive impacts on clients too.

Part III – Other experiences

The third part examines some other Indian microfinance providers. The importance of corruption is pointed out by an average of bribes paid by Indian clients that ranges from 10% to 20% of the total amount of their loan. Delays and uncertainties are also identified as being very high since the time taken to process the loan could reaches more than thirty weeks in commercial banks compared to the four weeks in Bandhan. Finally, while moneylenders are said to provide loans with extremely low transaction costs for their clients, the very high interest rate they usually charge cancels all the benefit.

Part IV – Strategies for low clients' transaction costs

From both the institution and the government side, some practices leading to low clients' transaction costs are discussed. Among other flexibility in the rules appears as being an efficient buffer to lower variable potential costs. The group meetings process is discussed to minimize the waste of time. Remarks are also made on mechanisms that can lessen delays, uncertainties, corruption, documentation and information costs. Innovations such as smart cards, credit cards or specific ATMs can also play an important role in lowering the cost. As stated above, emphasize is put on potential benefits that clients can have from being offered composite financial services.

Finally, government has the opportunity to facilitate the development of the sector. Specialists underline the fact that competition between providers is a good way towards low costs. In the same way, it might push provider to enlarge their services.