

## **Inter-Organizational Transaction Costs Theory and Credit Delivery**

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**Area: Economics & Social Sciences, Finance & Accounting**

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### **Abstract**

Do inter-organizational transaction costs among commercial banks in India's oldest financial inclusion program affect credit lending? I study the Lead Bank Scheme of RBI where since 1969, for each district a commercial bank (Lead Bank) has been overlooking credit delivery and for each state a commercial bank (Convenor Bank) is co-ordinating the lead banks of the state. Using a game-theoretic model, I find that lead banks will put effort in credit disbursement with higher probability when – 1) convenor bank faces low transaction costs in rewarding a lead bank; 2) convenor bank has a higher benefit of catching inefficient lead banks and 3) when the costs due to inefficient lead banks is high for convenor banks. To test the model, I use a dataset of credit disbursements by commercial sector banks in India for all districts from 2004 to 2016. I find that in districts where lead bank and convenor bank of that state are same (aligned districts), credit disbursement is 2.7% higher after controlling for temporal shocks, demand side factors and supply side factors. Further, I find that around the fourth quarter, credit disbursement increases, consistent with implication 3. To understand the welfare analysis of alignment, I show that following good rainfalls, deposits in aligned districts do not rise by a significant amount vis-à-vis non-aligned districts. This allows me to claim that while alignment pushes the lead banks to provide credit, they may not necessarily providing it to viable units. The results show how distortions created by organizational features may affect service delivery in welfare programs.

### **Speaker Profile**

I am an Associate Fellow at NCAER, New Delhi. I obtained my PhD in Economics from Boston University in May 2018. My primary areas of interests include Organizational Economics, Industrial Organization, and Development Economics. As an Associate Fellow, I work on wide range of projects related to the Indian economy. In my current project, I am assessing DBT preparedness of Indian states.

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