

## Components of Cost of Credit and Apparent Cost under PLDB'S (Primary Land Development Bank)

**\*Dr. Sitaram Sharma**

### **Abstract**

In the Indian economy PLDB's is most important sector which heavily contributes to the GDP of India. And under loan sanction process of PLDB's which type of charges charged by the PLDB to the borrower are study in the topic and analyse the different type of cost charged by PLDB and impact of these charges on borrower and also to PLDB's

### **Need of Study**

Study of Cost of credit and apparent cost are required for knowing that which type of cost charged by the PLDB's for sanctioning the loan and ultimately final Burdon of that type of cost on the borrower and how this type of cost calculated and impact on revenue of PLDB's

For knowing that fact we have take personal interview of PLDB's employee and field study also done and survey also done to knowing the fact of different type of cost.

### **Objective of the Study**

- For understanding the process and cost of credit methods.
- Identify the relation between cost of credit and apparent cost
- Impact of cost of credit method for sanction of loan and revenue generation of PLDB's

### **Methodology**

The Way in these Cost and Charges affect the real cost if the LDB Loans is an important Issue for the discussion. I have adopted the Prime cost, authorised cost and other method which is mentioned below to calculate the real cost of LDB long term credit. The data are based on the statement by the sample farmers equipment dealers and the official of PLDB's and personal discussion with the Branch manager of PLDB's for understanding the process and cost of credit methods.

### **Introduction**

The cost of long term credit is so high that it does not attract the cultivator to avail of such credit. A fairly low rate of interest is being long term credit for cultivator s because.

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- The Burdon is shouldered by borrower and tis generation
- The borrower mortgage his assets and a portion of his future earnings. Against this the only hope for him as to when the loan will finance a productive purpose is that his income will arise.
- However it is more important to the back ground as the only effective agency for such a type of long term credit is the land development bank, and its resources are not adequate to meet the demand of the cultivators. But now there is an urgent need to reassess the situation in the light of increased developmental finance provided in the make planned development conceived for our country.
- However the real cost of credit is something more the rate of interest charged from the borrower. In other words the contract rate is not always the effective rate which should determine the cost of credit. Since farming is business conducted for profit, the cost of credit is an important factor determining the use of such credit in farming cost of credit consists of interest and prime cost / expenditure to the borne by the cultivators as the time of taking the required volume of long term co- operative credit.

### **Cost of Credit Method's**

#### **Prime Cost**

The expenditure incurred by a borrower at the time of loan application purchased to make it complete with the collection of a series of documents and certificates from govt department, co-operatives and other financial institution for No Dues certificates, the charge at the time of submission of application to the PLDB's office, photo, photo state and typing charges of the documents and various certificates which will be attached with the the application form, the authorised deduction charged by the the PLDB's at the time of loan disbursement in the way of 'share money' and administration fee- legal and other expenditure like travelling, lodging and boarding expenditure and gratification money in the collection of documents from various official. Pursuing the loan application and to influence the bank official for the sanction of loan are also included in the prime cost.

Beside the above charges, the higher cost of the assets which is charged by the equipment dealer from whom farmers purchase through PLDB's finance is also a prime cost factor in the case of equipment and machinery loan as the amount sanctioned loan for farm machinery is to be paid directly to dealer after the delivery and installment of the equipment at the borrower farm. There are many charging a higher cost form the PLDB's borrower in comparison to others, who purchase the equipment by the cash payment, this situation was personally observed by me at the time of field investigation

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**The Prime cost includes the Following Charges:-****Authorized Cost**

- It include cost of loan application form.
- Share money is 8% for large farmers and 5% for small farmers of the loan amount sanctioned when the loan is sanctioned by the PLDB's the amount of membership fee and entrance fee Rs. 51 are excluded from the share money.
- Administration Fee is 1% of the amount borrowed. At the time for Appling of loan, the amount is different according to the loan amount. The rest of fee is deposited after the the loan is sanctioned. In the case of loan is refused, the fees initially deposited is not refunded.

**Legal & Other Cost**

- The expenditure borne by an applicant to collect a series of documents and certificates from the Govt. departments, co-operative institution and banks.
- Travelling, loading and boarding expenditure.
- Expenditure by way of gratification and speed money.

**A. Higher price charged by Equipment dealer**

The Burdon of higher price charged by the equipment dealer is only in those cases in which the direct payment system is adopted by PFDB's The equipment's included are tractor, electric, pump sets and drips, irrigation. The dealer charge higher price for those who buy through PFDB's finance and not from open market due to following reason.- like service charges, Various Taxes, Risk of PLDB's Loan, A large amount which is paid to persons and LDB officials.

**B. Cost of Time**

A long period of time spent by an applicant to secure the loan from PLDB's due to the cumbersome loan procedure and unnecessary delay. If we want to work out the real cost of PLDB's credit then it is very much logical that we also include the cost of that time which is devoted by farmer of secure PLDB's loan because in this , the work of of that cultivator suffers.

**C. Cost of Harassment**

If we want to workout the real cost of PLDB's credit then we must know the cost of terms of harassment and botheration borne by applicant and its sanction and consequent disbursement.

Prime cost is the PLDB's credit is the some of all above cost which are to be paid by an applicant for the principal amount, It is not impossible but difficult to take into account the last two cost factor (cost of time and cost of harassment) in the prime cost there is no appropriate data or method to calculate the above cost.

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Calculation of Prime Cost Under the Sample						
Purpose of Loan	Average amount of Loan	Prime Cost which Paid by an average				
		Authorise d cost Charged by PLDB	Legal and Illegal Cost by dealer	Higher Cost Charged	Total Prime Cost	Net investment Averahe amount of loan- (Prime Cost)
<b>A. Minor Irrigation</b>						
(i) Construction	23555	1424	1441		2875	20680
(ii) EPS	14786	898	773	800	2471	12315
(iii) DPS	14250	866	758	500	2124	12126
(iv) Sprinkler Sets	19895	1250	1014	1000	3219	16676
<b>Total (A) (Average)</b>	<b>19318</b>	<b>1172</b>	<b>1040</b>	<b>718</b>	<b>2930</b>	<b>16388</b>
<b>B. Farm Mechanisation</b>						
Tractor	12562 5	11317	4272	5500	21089	104536
<b>Total (B) (Average)</b>	<b>12562 5</b>	<b>11317</b>	<b>4272</b>	<b>5500</b>	<b>21089</b>	<b>104536</b>
<b>C. Other Purposes</b>						
(i) Camel Carts	6000	371	537	-	908	5092
(ii) Horticulture	22000	1331	1200	-	2531	19469
<b>Total (C) (Average)</b>	<b>9200</b>	<b>563</b>	<b>670</b>	<b>-</b>	<b>1233</b>	<b>7967</b>
<b>Total (A+B+C)</b>	<b>31403</b>	<b>2383</b>	<b>1397</b>	<b>1219</b>	<b>4999</b>	<b>26404</b>

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The said table also shows the fact that the loan amount or borrowed amount is not the value of net investment but amount actually invested at the borrower farms. The actual investment is much less than the borrowed amount. If we worked out the actual investment then the prime cost is to be educated from the loan amount because the amount of prime cost is not a real investment is too much less from the borrowed amount.

### Interest

The primary co-operative Land development bank charges some cost from thr cultivator by way of interest. The rate of interest charged by the PLDB's on all sorts of its advantages as follows-

Upto Rs . 25000- 12% per Annam

Rs.- 25000 to 200000- 14% per Annam

For non-agricultural loan – the following interest rate is charged by PLDB'S

Rs. 200000 to 1000000 – 16.5 Per annum

Above Rs.- 10 Lac- 18% per Annam

Thus the rate of interest charged by PLDB's for Construction of new wells, Sprinkler sets, tractor, and horticulture is 14% per annual and for the purpose of camel cart loan 12% per annum respectively.

If we take into the account the rate of interest only charged by PLDB's loan is not costly but when we go into the details, the actual burden of interest is very high in comparison to the apparent cost.

Here the basis of our discussion is the interest, a charge made for the use of capital, if we examine this logically we can say that the burden of interest is very high and similar is the case with cost of credit. It is supported by field survey and general thinking of the borrowers. Here I have tried to make clear the conclusion drawn from the above statement.

Purpose wise actual Burdon of cost of PLDB's Loan						
Purpose of Loan	Average amount Borrowed	Total net investment during recovery period	Total Prime Cost	Total Intt on net investment	Burdon of Intt on Net Investment (%)	Total Cost of Credit
<b>A. Minor Irrigation</b>						
(i) Construction	24000	187415	2930	31981	17.06	34910.96

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(ii) EPS	15000	65242	2507	12293	18.84	14800
(iii) DPS	14000	63169	2087	11473	18.16	13560
(iv) Sprinkler Sets	20000	87950	3236	16391	18.64	19627
<b>Total (A) (Average)</b>	<b>19477</b>	<b>102548</b>	<b>2953</b>	<b>18481</b>	<b>18.02</b>	<b>21434</b>
<b>B. Farm Machanisation</b>						
Tractor	126000	544450	21155	105840	19.44	126995
<b>Total (B) (Average)</b>	<b>126000</b>	<b>544450</b>	<b>21155</b>	<b>105840</b>	<b>19.44</b>	<b>126995</b>
<b>C. Other Purposes</b>						
(i) Camel Carts	6000	20644	908	20644	15.68	4148
(ii) Horticulture	22000	109327	2530	18480	16.9	21010
<b>Total (C) (Average)</b>	<b>9200</b>	<b>38381</b>	<b>1233</b>	<b>6288</b>	<b>16.38</b>	<b>7520</b>
<b>Total (A+B+C)</b>	<b>31564</b>	<b>149134</b>	<b>5024</b>	<b>27787</b>	<b>18.62</b>	<b>32811</b>

### Cost of Credit to Apparent Cost

In the below table compare the cost of credit to apparent cost analysed and below table also shown the interest on net investment. Thus it is quite clear that cost of PLDB's Credit is costlier and does not attract cultivators for borrowed money for their farms. This is an unhealthy situation and result, the only situation which is advancing investment credit to the farmers has not succeeded in its objectives.

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<b>Comparative statement of Cost of Credit to Apparent Cost</b>				
<b>Purpose of Loan</b>	<b>Apprent Cost for PLDB's Loan</b>	<b>Total Cost of Credit</b>		<b>Total Cost ( % to net investment)</b>
		<b>Prime Cost (%)</b>	<b>Interest (%)</b>	
<b>A. Minor Irrigation</b>				
(i) Construction	14	12.21	17.06	18.57
(ii) EPS	14	16.71	18.84	22.68
(iii) DPS	14	14.91	18.16	21.47
(iv) Sprinkler Sets	14	16.18	18.64	22.32
<b>Total (A) (Average)</b>	<b>14</b>	<b>15.17</b>	<b>18.02</b>	<b>20.9</b>
<b>B. Farm Machanisation</b>				
Tractor	14	16.79	19.44	23.33
<b>Total (B) (Average)</b>	<b>14</b>	<b>16.79</b>	<b>19.44</b>	<b>23.33</b>
<b>C. Other Purposes</b>				
(i) Camel Carts	12	15.13	15.69	20.09
(ii) Horticulture	14	11.5	16.9	19.22
<b>Total ( C ) ( Average)</b>	<b>13</b>	<b>13.41</b>	<b>16.38</b>	<b>19.59</b>
<b>Total ( A+B+C)</b>		<b>15.59</b>	<b>18.62</b>	<b>21.99</b>

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**Conclusion**

The actual Burdon of cost of credit is as high as rate of interest because it include the prime cost. So the actual cost of credit for the loanees for the purpose of construction.

The ultimate rate at which the farmers can borrow, on a long term basis depends on a variety of factors. The PLDB's have not justified the rates of a co- operator and charged on monopolistic interest rate from their members thereby not being able to play a favourably role of saving of farmers from the clutches of moneylenders.

However it is rightly emphasised that the management of PLDB's, NABARD and Govt should try to reduce the cost of credit, by this way a greater satisfaction can be derived from the borrowers. With regard to the the cost component of PLDB's credit it is noted that the rate of interest is not high but it is not the only factor responsible for higher cost of credit.

However it is not the matter of our discussion but it is suggested that this must checked by giving due weight to public complaints and by taking prompt administrative action. Educating rural population on co-operative principal in order to encourage their active participation in the management of this co- operative institution would be great help in curbing the courpt practices. If these function are not adequately carried out farmers themselves will feel that the PLDB's credit are costly and this will feel severely curtails uses of PLDB's credit.

**\*Lecturer**  
**Department of Business Admn**  
**S. K. Govt. College,**  
**Sikar (Raj.)**

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