SH. ASHOK KUMAR
ASSISTANT PROFESSOR
SUB-DIVISIONAL GOVT.
DEGREE COLLEGE, NAUHATTA,
DEHRI, ROHTAS-821304
MOB- 8544366310

SUBJECT- BUSINESS ORGANISATION

LONG-TERM SOURCES OF BUSINESS FINANCE

The sources of long-term finance refer to the institutions or agencies from, or through which finance for a long period can be procured. As stated earlier, in case of sole proprietary concerns and partnership firms, long-term funds are generally provided by the owners themselves and by the retained profits. But, in case of companies whose financial requirement is rather large, the following are the sources from, or through which long-term funds are raised.

(a) Capital market (b) Special Financial Institutions (c) Mutual funds (d) Leasing companies (e) Foreign Sources (f) Retained Earnings.

(A) CAPITAL MARKET:- Capital market refers to the organisation and the mechanism through which the companies, other institutions and the government raise long-term funds. So it constitutes all long-term borrowings from banks and financial institutions, borrowings from foreign markets and raising of capital by issuing various securities such as shares, debentures, bonds etc. For trading of securities there are two different segments in capital market. One is primary market and the other is secondary market. The primary market deals with new / fresh issue of securities and is, therefore, known as new issue market. The secondary market on the other hand, provides a place for purchase and sale of existing securities and is known as stock market or stock exchange.

(B) SPECIAL FINANCIAL INSTITUTIONS (SFI) :- A number of special financial institutions have been set up by the central and state governments to provide long-term finance to the business organisations. They also offer support services in launching of the new enterprises and so also for expansion and modernisation of existing enterprises. Some of the important ones are Industrial Finance Corporation of India (IFCI), Industrial Investment Bank of India (IIBI), Industrial credit and investment Corporation of India (ICICI), Industrial Development Bank of India (IDBI), Infra-structure Development Finance Company Ltd (IDFC), Small industries Development Bank of India (SIDBI), State Industrial Development Corporations (SIDCs), and State Financial corporations (SFCs), etc. Since these institutions provide developmental finance, they are also known as Development Banks or Development Financial Institutions (DFI). Besides these development banks there are a few other financial institutions such as LIC, GIC and UTI which provides long-term finance to companies and subscribe to their shares and debentures.

(C) MUTUAL FUNDS :- Mutual fund refers to a fund established in the form of a trust by a sponsor to raise money through one or more schemes for investing in securities. It is a special type of investment institution, which acts as an investment intermediary that collects or pools the savings of a large number of investors and invests them in a fairly large and well diversified portfolio of sound investments. This minimizes their risks and ensures good returns to the investors. Thus, they act as an investment agency for small investors and a good source for long-term finance for the business.

(D) LEASING COMPANIES :- Leasing facility is usually provided through the mediation of leasing companies who buy the required plant and machinery from its manufacturer and lease it to the company that needs it for a specified period on payment of an annual rent.

For this purpose a proper lease agreement is made between the lessor and lessee. Such agreement usually provides for the purchase of the machinery. It may be noted that the ownership remains with the leasing company during the lease period.

Now their number is very large and leasing has emerged as an important source.

(E) FOREIGN SOURCES :- Foreign sources also play an important part in meeting the long-term financial needs of the business in India. These usually take the form of (1) External borrowings; (2) Foreign investments and; (3) Deposits from NRIs

(F) RETAINED EARNINGS :- We know that retained earnings refer to the undistributed profits of companies which is usually kept in the form of general reserve. Primarily, it is a hedge against low profits in future and is used for the issue of bonus shares by the companies. But, in effect, it acts as an important source of long-term finance for the companies with zero cost of capital.