

Teacher - Ravi Shankar Ray, Sub - Economics

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Source of Industrial Finance

Some of the sources of industrial finance available in India are as follows:-

We now describe the various sources from which industries meet their needs. This will help us in understanding the present set-up of industrial finance.

(A) Internal self-finance —

One source quantitatively of big importance, is the saving of the unit itself. It may be the

house hold, the business or the Government.

Normally, the house hold not only invests out of its own saving but it also has surplus which it lends to other units via financial institution. like banks, capital market etc.

The savings of the business, comprised of depreciation and the retained earnings, are normally short of its investment. Hence it also borrows from financial institution. Government too finances a part of their investment from internally generated funds.

These arises from the excess

of tax and other income over consumption spending plus transfer. For the short fall, if and when it occurs, it also borrows from the financial system. Altogether, roughly half of all the investment is self financed.

An advantage of investment through internally generated funds is that it combines the acts of saving and investment. As such certain costs are internalized and reduced. This cost pertains to collection of information in respect of borrowers, transaction with them, monitoring the use of funds and enforcement of the conditions of borrowing.

These costs would have to be met if these funds were to be lent to someone else. Self-finance also reduces the risks of lending's as it does not involve preparation of documents in respect of contracts, collateral or security etc.

The ~~shortcoming~~ shortcoming of this source is that it may fall short of investment opportunities or its use may be inefficient. That is funds may not be wholly or partly invested in the most productive lines.