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Source of Industrial Finance.

② Loans from Bank. —

Commercial Banks can do also provide funds for meeting short-term needs or for working capitals. Loans are given against the guarantee of Government Securities and Stocks with Companies. Loans are granted in the form of overdraft and credit limit. Commercial Banks are generally reluctant to put their money in the purchase of shares.

The reason is that the deposits that they receive from the public are generally for a short term and therefore, banks will afford to take

risk in investing public money in share. They can, however, do something by way of buying debentures of companies.

They can earn fixed interest on such investment and at the time of need they can sell these debentures in the market and recover their money. Still, little has been achieved in this field because of the fear that banks may find it difficult to cash debenture precisely at a time when they need.

(E) The Managing Agency System:—

The system of industrial finance, peculiar to India, and which prevailed till the recent times, is of little importance now days, under this system an individual or a group —

of individuals finance the initial stage of the establishment of industries, and manage many activities of the company thus established very often, one managing agent controls more than one concern and uses funds of one concern to meet the needs of others under him.

In the past when there was a great shortage of industrial finance and almost complete lack of financial institutions, and capital market in the real sense had not even come into existence, managing agents did render a valuable service in the promotion of industries within the country. Of course, it is true that their funds were mostly used for the

establishment of consumer goods industries

In due course, however, the system developed certain drawbacks. It came to be plagued by serious shortcomings. The management of so many units, good and bad, and producing a variety of products led to certain evils.

The payments which managing agents extracted for themselves, interest on their money, commission for their services etc. were too much and were out of production with the paying capacity of the companies and/or the work performed by these agents. It is for these reasons that the government put a ban on this system in 1970.