



SECTION - 8

SOURCES OF FINANCE - LONG TERM, SHORT TERM AND INTERNATIONAL

This Section include

- **Sources of capital**
- **Sources of Equity**
- **Debt**
- **International Sources**

8.1. SOURCES OF CAPITAL

8.1.1 To enable investments and creation of assets and infrastructure, an organization requires funds. As already mentioned, the two major forms of capital are:

- (1) Equity (owners' or shareholders' funds), and
- (2) Debt (loans or borrowings).

Both can be raised from both public and private sources.

8.2. SOURCES OF EQUITY

8.2.1 Equity shareholders are the owners of an enterprise and enjoy the rewards of good performance of the company and affected by risks faced by the company. However, their liability is limited to their shareholding in the company.

8.2.2 Equity is in the form of:

- a. Equity capital
- b. Preference Capital and
- c. Internal accruals or retained earnings also known as 'Reserves & Surplus', i.e., plowing back of profits rather than distributing them to shareholders.

8.2.3 Preference Share Capital: It is a hybrid of equity capital and debt, and combines the features of the two in terms of returns and risks. More details of equity are covered in subsequent chapters.

8.3. DEBT

8.3.1 Debt can be in form of either long term or short term. Long term are generally in the form of a. Term loans and b. Debentures.



8.3.2 Short-term debt is in the form of:

- a. Working capital Loans from commercial banks for financing working capital requirements: Cash credit, overdrafts, loans, purchase or discounting of bills Etc; These are called fund-based. There are also non fund-based limits such as letter of credit, guarantee etc;
- b. Trade credits: Credits given by suppliers of materials and services
- c. Other sources.

8.3.3 Other sources of debt include the following:

- a. Suppliers' credit
- b. Lease finance
- c. Hire purchase
- d. Unsecured loans and deposits
- e. Deferred credit
- f. Subsidies, concessions, tax deferrals and waivers given by State and Central governments
- g. Commercial paper
- h. Factoring

Subsidies are in the form of Quasi equity. Grants are treated as Capital Receipts.

8.4. INTERNATIONAL SOURCES

8.4.1 Finance can be raised from international sources in the form of Global depository receipts, American depository receipts, private placements, loans from international agencies such as International Finance Corporation, and so on.

8.5.0 The article titled "An Overview of Project Finance" in the Reader gives a comprehensive picture of the various sources of finance.