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Sources of business finance can be studied under the following heads:

(1) Short Term Finance:

Short-term finance is needed to fulfill the current needs of business. The current needs may include payment of taxes, salaries or wages, repair expenses, payment to creditor etc. The need for short term finance arises because sales revenues and purchase payments are not perfectly same at all the time. Sometimes sales can be low as compared to purchases. Further sales may be on credit while purchases are on cash. So short term finance is needed to match these disequilibrium.

Sources of short term finance are as follows:

- (i) **Bank Overdraft:** Bank overdraft is very widely used source of business finance. Under this client can draw certain sum of money over and above his original account balance. Thus it is easier for the businessman to meet short term unexpected expenses.
- (ii) **Bill Discounting:** Bills of exchange can be discounted at the banks. This provides cash to the holder of the bill which can be used to finance immediate needs.
- (iii) **Advances from Customers:** Advances are primarily demanded and received for the confirmation of orders. However, these are also used as source of financing the operations necessary to execute the job order.
- (iv) **Installment Purchases:** Purchasing on installment gives more time to make payments. The deferred payments are used as a source of financing small expenses which are to be paid immediately.
- (v) **Bill of Lading:** Bill of lading and other export and import documents are used as a guarantee to take loan from banks and that loan amount can be used as finance for a short time period.
- (vi) **Financial Institutions:** Different financial institutions also help businessmen to get out of financial difficulties by providing short-term loans. Certain co-operative societies can arrange short term financial assistance for businessmen.
- (vii) **Trade Credit:** It is the usual practice of the businessmen to buy raw material, store and spares on credit. Such transactions result in increasing accounts payable of the business which are to be paid after a certain time period. Goods are sold on cash and payment is made after 30, 60, or 90 days. This allows some freedom to businessmen in meeting financial difficulties.

(2) Medium Term Finance:

This finance is required to meet the medium term (1-5 years) requirements of the business. Such finances are basically required for the balancing, modernization and replacement of machinery and plant. These are also needed for re-engineering of the organization. They aid the management in completing medium term capital projects within planned time. Following are the sources of medium term finance:

- (i) **Commercial Banks:** Commercial banks are the major source of medium term finance. They

provide loans for different time-period against appropriate securities. At the termination of terms the loan can be re-negotiated, if required.

(ii) Hire Purchase: Hire purchase means buying on installments. It allows the business house to have the required goods with payments to be made in future in agreed installment. Needless to say that some interest is always charged on outstanding amount.

(iii) Financial Institutions: Several financial institutions such as SME Bank, Industrial Development Bank, etc., also provide medium and long-term finances. Besides providing finance they also provide technical and managerial assistance on different matters.

(iv) Debentures and TFCs: Debentures and TFCs (Terms Finance Certificates) are also used as a source of medium term finances. Debentures is an acknowledgement of loan from the company. It can be of any duration as agreed among the parties. The debenture holder enjoys return at a fixed rate of interest. Under Islamic mode of financing debentures has been replaced by TFCs.

(v) Insurance Companies: Insurance companies have a large pool of funds contributed by their policy holders. Insurance companies grant loans and make investments out of this pool. Such loans are the source of medium term financing for various businesses.

(3) Long Term Finance:

Long term finances are those that are required on permanent basis or for more than five years tenure. They are basically desired to meet structural changes in business or for heavy modernization expenses. These are also needed to initiate a new business plan or for a long term developmental projects. Following are its sources:

(i) Equity Shares: This method is most widely used all over the world to raise long term finance. Equity shares are subscribed by public to generate the capital base of a large scale business. The equity share holders shares the profit and loss of the business. This method is safe and secured, in a sense that amount once received is only paid back at the time of winding up of the company.

(ii) Retained Earnings: Retained earnings are the reserves which are generated from the excess profits. In times of need they can be used to finance the business project. This is also called ploughing back of profits.

(iii) Leasing: Leasing is also a source of long term finance. With the help of leasing, new equipment can be acquired without any heavy outflow of cash.

(iv) Financial Institutions: Different financial institutions such as former PICIC also provide long term loans to business houses.

(v) Debentures: Debentures and Participation Term Certificates are also used as a source of long term financing.

Conclusion:

These are various sources of finance. In fact there is no hard and fast rule to differentiate among short and medium term sources or medium and long term sources. A source for example commercial bank can provide both a short term or a long term loan according to the needs of client. However, all these sources are frequently used in the modern business world for raising finances.

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