



Institutional Finance


Traditionally, the role of commercial banks in the field of long-term finance to industry has been negligible. Therefore, the Government has set up a number of special financial institution in the country to provide long-term finance to business enterprises. The IFCI, IDBI, ICICI, SFCs are the main among such financial institutions. These term-lending institutions or development banks have become a major source of finance for flotation of new concerns as well as for the modernisation and expansion of existing concerns. They supplement other sources of finance and fill gaps. They provide finance both in the form of equity and debt.




These institutions provide both direct (loans) and indirect (purchase and underwriting of securities) assistance. These institutions are not simply financial institutions. They also provide promotional, technical and managerial services. They take initiative in locating and filling gaps in the country's industrial structure. In addition to, well-known development banks in the country, the LIC. General Insurance Corporation. NSIC, etc also help in providing finance to industry.



The main advantage of institutional finance are as follows: (a) Both risk as well as loan capital is available. Special financial institutions provide underwriting and direct subscription facilities also. (b) New companies which may find it difficult to raise finance from the public can get finance from these institutions. Assistance is available when recourse to normal sources is impracticable or unprofitable. (C.) As these institutions carry out a thorough investigation before granting assistance to a concern, relationship with them helps to increase the credit-worthiness of a company.



(d) Loans and guaranties in foreign currency and deferred payment facilities are available for the import of required in foreign currency and deferred payment facilities are available for the import of required machinery and equipment. (e) The rate of interest and payment procedures are convenient and economical. Facilities for repayment in easy installments are made available to deserving concerns. (f) Along with finance, a company can obtain expert advice and guidance for the successful planning and administration of projects.



However, institutional financing may involve the following limitations: (a) The concern requiring finance from special financial institutions has to submit itself to a thorough investigation. A number of formalities and documents are involved. (b) Many deserving concerns may fail to get assistance for want of security and other conditions laid down by these institutions. (c) Sometimes, these institutions place restrictions on the autonomy of management. They lay down a convertibility clause in loan agreements. In some cases, they insist on the appointment of their nominees on the Board of Directors of the debtor company.