BANKS LENDING TO MICRO, SMALL AND MEDIUM ENTERPRISES IN GOA: AN EMPIRICAL STUDY

Thesis submitted to the

Goa University

For the Award of the Degree of

DOCTOR OF PHILOSOPHY

In

COMMERCE

By

Atmaram M. Tarpe

Under the Guidance of

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Goa

JULY 2019

DECLARATION

I, **Atmaram M. Tarpe**, hereby declare that the thesis titled **"*Banks Lending to Micro, Small and Medium Enterprises in Goa: An Empirical Study*"**, is bonafide record of original research work done by me under the guidance and supervision of **Dr. R. Antony Sathish Benadict**, Head, P.G. Department of Commerce and Research, Government College of Arts, Science & Commerce, Quepem-Goa and that the same has not been previously formed the basis for the award of any degree, diploma or any certificate or similar title of Goa university or any other Universities. I have duly acknowledged all the sources used by me in the preparation of this thesis.

Place: Taleigao **Atmaram M. Tarpe**

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CERTIFICATE

This is to certify that the thesis titled **"*Banks Lending to Micro, Small and Medium Enterprises in Goa: An Empirical Study*"** is a bonafide record of the original research work done by **Atmaram M. Tarpe**, under my guidance and supervision and the same has not been previously formed the basis for the award of any degree, diploma or any certificate or similar title of Goa University or any other universities.

Place: Taleigao

Date: July 2019

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"No one who achieves success does so without acknowledging the help of others. The wise and confident acknowledge this help with gratitude".

Alfred North Whitehead

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1.1 INTRODUCTION

Small scale industry has played a significant role in the economic development of the developed countries like Japan, Great Britain, Germany, the United States of America etc. All the developed as well as developing nations have realised that small scale industry is the engine for economic growth, generating high employment and creating new business opportunities. Countries across the world both developed and developing have taken several steps and measures for promoting, developing and maintaining small scale industry. Issues and challenges of today's Small Scale Industries has been the theme for debate and discussion in various seminars, workshops, symposiums and conferences.

India is primarily an agrarian nation. India has over the years taken major steps towards industrialisation. In the process of industrialisation, the product changes over a period of time after strategic analysis, resulting in economic progress and industrial growth. This ensures the rise in the per capita income and standards of living of the people in any country. The greater number of industrial goods moving into the consumption basket of the consumer indicates the improved standard of living. The definitive net economic benefit of industrialisation must reach to maximum number of people. The country secures upright position in the world through its industrial development, whereas, absence of industrial development makes the country dependent on other countries, which may infringe its dignity. The economic and political freedom of the nation also depends on the industrialisation.

Indian economy is a developing economy. Its immense resources are either unutilized or underutilized. Most of the manpower is lying idle. The per capita income is comparatively lower than other developing countries. Capital is inadequate and scarce and investment is low. Production process is traditional and the technique is outdated. The outputs generated are not sufficient and the basic needs of the people remain unfulfilled. The only way to rectify this state of the economy is industrial growth. The problem is of the approach, which should be direct, effective and pragmatic.

India has been laying stress on the development of the industrial sector and the infrastructural facility required for the same. Post independence period has seen great movement in the activities for promotion of large, medium and small scale sector. The growth of large and medium scale industries led to the development of certain geographical area, which restrain a balanced regional growth. It was noticed that some of the states of the country lacked behind in terms of industrial growth and prosperity.

It was at this critical moment that the need for promoting small scale industries on the wider perspective was realised. The advantage of low capital requirement, high employment generation, lack of location specificity; especially proximity to urban area and the ability to mobilise resources and human skills, enhanced the attractiveness and acceptability of this sector.

Enormous schemes have been introduced by the Central and State Government to promote, implement, nurture and support small scale industries in India. These schemes support the commercial, financial and technical development of the enterprise. These measures have significantly impacted the growth of Small Scale Industries in India. The most impressive is the wide range of products made by this sector right from mass consumption of products to sophisticated electronic items.

Although, the growth of this sector has been incredible, the issues and challenges of maintaining and supporting this sector from a long term prospective has been enormous. The frequent change in the official policy for the steady and significant growth of small scale industries has been the reason for criticism especially to those specific programmes which were introduced but never worked nor made any contribution to the growth of this sector.

MSMSEs are labour intensive and less capital intensive compared to large firms. They play crucial role in the economic growth of the country. These enterprises cover traditional as well as modern technology based enterprises. The importance of this sector can be seen through the range of products manufactured by this sector.

The concept of Small Scale Industries (SSI) has evolved over the years. Prior to independence the present SSI was meant to denote the village and urban cottage industry. They manufactured more indigenous products. For the first time, the Indian economist Sash K. T. realised the importance of small scale industries in India and gave the feasible definition of these industries. According to him, "A Small Scale or Cottage Industry may be defined as enterprises or series of operations carried on by a workman, skilled in the craft on his responsibility, the finished product of which, he markets himself".

1.2 DEFINITIONS OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs)

With the changing circumstances and existing problems of Indian economy, the definitions of MSMEs have changed over a period of time. MSMEs have been defined in a different way by several institutions, government agencies and individuals.

a. **Industry Policy Resolution (1948)**

As per the Industry Policy Resolution 1948 all industries in handloom, handicraft, coir, silk and khadi and village industries are grouped into small scale enterprises, without any limit on capital investment. Such units generally employ less than 10 workers if power is used and less than 20 workers if power is not used.

b. **Small Scale Industries Board (1950)**

Small Scale Industries Board in 1950 stated that, Small Industrial Unit is one that has gross investment in fixed assets not exceeding Rs. 5 lahks and employment of less than 50 workers per day with the use of power or less than 100 workers per day without use of power. In 1955, the number of workers per day was replaced by per shift provision. In 1957, the per shift provision was changed to multiple shift provision. In 1960, it was irrespective of number of persons employed.

c. **Ministry of Industries, GOI (1966)**

Ministry of Industries, Government of India and Small Scale Industries Board considered Rs. 7.5 lakh as the original value of plant and machinery only for Small Scale Industries. In 1974, the value of plant and machinery was considered as 10 lakhs.

Then it was further raised to Rs. 20 lakhs and Rs. 35 lakhs in the year 1980 and 1985 respectively.

d. **Industrial Policy Statement (1990)**

Industrial Policy Statement of 1990 raised the investment ceiling in plant and machinery for small industrial units from Rs. 35 lakhs in 1985 to Rs. 60 lakhs and for ancillary units from Rs. 45 lakhs to Rs. 75 lakhs. As per the modified definition, an ancillary unit is one which sell out not less than 50% of its manufactures to other industrial units.

e. **Union Budget (2002-03)**

The definition of small industrial units changed with enhancement of investment ceiling in plant and machinery. With regard to industrial undertaking, manufacturing specified items, the investment limits was enhanced from Rs. 1 crore to Rs. 5 crore.

f. **MSMED ACT, 2006**

The Micro, Small and Medium Enterprises Development Act 2006 was enacted by the Government of India on June 16, 2006 which was further notified on October 2, 2006. The paradigm shift that has taken place is the inclusion of the service sector in the definition of Micro, Small and Medium Enterprises, apart from extending the scope to medium enterprises. The following is the modified definition of Micro, Small and Medium Enterprises engaged in manufacturing or production and providing or rendering of services as per MSMED Act, 2006.

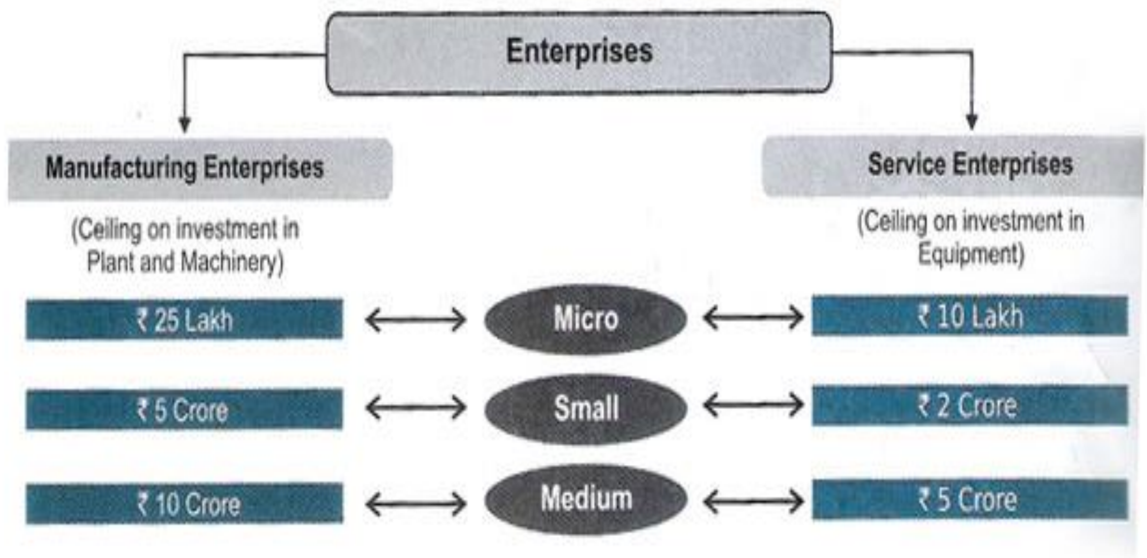
i. **Manufacturing Enterprises**: The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule of the industries (Development and Regulation) Act, 1951. The manufacturing enterprise is defined in terms of investment level in plant and machinery.

ii. **Service Enterprises:** The enterprises providing or rendering of services and are defined in terms of investment in equipment.

The limit for investment in plant and machinery / equipment for manufacturing / service enterprises, as notified by Government of India as per MSMED Act 2006 are as under:

Manufacturing Sector	
Investment of Enterprises in Plant and Machinery	
Micro Enterprises :	Does not exceed twenty five lakh rupees
Small Enterprises :	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises :	More than five crore rupees but does not exceed ten crore rupees
Service Sector	
Investment of Enterprises in Equipments	
Micro Enterprises :	Does not exceed ten lakh rupees
Small Enterprises :	More than ten lakh rupees but does exceed two crore rupees
Medium Enterprises :	More than two crore rupees but does not exceed five crore rupees

Figure No. 1.1: Classification of Micro, Small and Medium Enterprises



Source: Drawn by Researcher

1.3 IMPORTANCE AND NEED OF MSMEs

The balanced and sustainable growth of the economy, calls for certain minimum level of diversification of the economy in the direction of the industrial sector. Hence, MSMEs have an important place in the economic life of a developing country like India. Even in the most industrially advanced countries like the USA, Germany and Japan, these industrial establishments occupy a significant position in their respective economies. In France, about 90 percent of the industrial establishments employ less than 100 workers each and further in these establishments, more than 50 percent employ less than 60 workers each. In Japan, the industrial hub of eastern world, over 80 percent of the total number of establishments employs less than 30 workers. Even in the U.S.A., small business makes up 92 percent of the total business establishment. These industries account for 54 percent of workers and 34 percent of business volume. In England, 19 percent of the total output is from the small-scale sector.

The importance and need of MSMEs is all the more great in a developing economy like India, wherein, nearly three-fourth of the population is dependent upon agriculture which is seasonal one and results in a large scale unemployment and underemployment. The best way of dealing with this, is to provide the cultivators with work through the development of MSMEs, so that seasonal unemployment and underemployment could be minimised.

The significance of MSME sector is one of the keys to economic development which effectively needs to be emphasised. The areas where motivation to development is present among the people, the MSME sector acts as a stimulant. However, areas where motivation is lacking among people it acts as a lubricant. The promotion of MSMEs, has been widely recommended as one of the most suitable means of developing industry in over populated backward countries. Japan is usually held as a great example of what can be done in this regard.

Hence, for a backward region, with a typical pattern of factor endowment, adoption of labour-intensive technique, and low capital cost can only increase employment opportunities, reduce regional imbalances and check migration to urban areas. The economies starved of capita and technical knowhow, naturally turn to small industries. The focus on small industries should not be looked upon as economic compulsion of backwardness, but it should be taken up as an economic necessity.

Hence, there is no denial of the fact that MSMEs play a vital role in activating the resources of the backward areas. There is an urgent need for, fostering the growth of MSMEs, which can supplement the income of the farmers. The support for farmers is important in an over populated agricultural economy with disguised unemployment.

1.4 SPECIAL ADVANTAGES TO MSME SECTOR

a. Sales Promotion

i. The remarkable development of the marketing of consumer durable and capital goods, particularly sales of automobiles and electronics have encouraged the growth of ancillary and Micro and Small scale units , directly and indirectly

ii. There was a renewed realization in the late 1990s about the sale opportunities for food processing units both within the country and abroad. This had given a boost to the growth of sales by MSME food processing units across the country

iii. The devaluation and depreciation of rupee encouraged the sales by export oriented small scale units particularly in garment, leather products and handicrafts sectors

iv. Further, there is an emerging trend of Multinational Corporations (MNCs) sourcing products from small and medium enterprises in India

v. The setting up of Small Industries Development Bank of India (SIDBI) directly and indirectly has led to a qualitative change in the credit flow to MSMEs.

All these factors promoting Micro and Small Scale sector, among others, have collectively contributed to unhindered high growth of MSME when stepped in the globalized era. However, small scale industry does have problems on diverse fronts which need to be tackled, to further promote their growth in the future. The finance for the marketing of products of MSMEs may play an effective role in promoting this sector.

b. Opportunities to Produce and/or Sales at Minimum Cost

The opportunities to MSME sector in the Globalization era are enormous due to demand to their products which are produced at the minimum cost. The following factors enable to produce more at the minimum cost under MSME sector.

i. Low capital

ii. Liberal Promotion and support from the Government in extending assistance in procurement of machinery
iii. Availability of local raw material
iv. Sufficient manpower training facilities
v. Availability of technical and managerial skills
vi. Export promotion assistance from the NGOs
vii. Ample domestic demand
viii. Growth in requirement for ancillary units due to the increase in the number of Greenfield units coming up in the large scale sector
ix. Reservation of products for exclusive manufacturing by MSMEs
x. Simplest project formation
xi. Large quantity of funding for MSMEs
xii. Availability of finances and subsidies
xiii. Availability of loans at reasonable rates
xiv. Availability of low cost labour.

c. Government Sponsored Special Export Promotion Schemes

i. Organizing international exhibitions
ii. Organising and participating in buyer-seller meet
iii. Sponsoring delegation from different MSME sector to various countries
iv. Providing information about sales opportunities available in the international market
v. Product specific catalogue preparation
vi. Advertising and publicity in various countries through Indian High Commission, offices abroad and India
vii. Publication of exporters' directory
viii. Participation in Global tenders
ix. Providing assistance in deemed exports
x. Organisation of seminars and workshops to upgrade and update MSME with regard to international developments
xi. WTO agreements.

d. Financial Assistance to Export Oriented Units (EOUs)

i. Pre and Post Shipment finance at concessional rate of interest
ii. Financial assistance for procurement of indigenous and imported raw material
iii. Financial assistance for upgradation and modernization of MSME units
iv. Assistance in the process of claiming export incentives.

e. Technical Assistance to Rationalize the Production Cost

i. Laboratory and testing assistance for improving quality of products
ii. Providing assistance in packaging
iii. Providing assistance for obtaining and inspection of documents
iv. Conducting various programme related to technology upgradation
v. Assisting MSME sector in technology assimilation
vi. Imparting technical training
vii. Effective product improvement

f. Schemes by National Small Industries Corporation (NSIC)

Following activities are also undertaken by NSIC for Export Promotion for MSMEs;

i. Study visits to various developed countries to identify the product range and market demand
ii. Arrange visits of delegations consisting of representatives of MSME units/ Associations to different specialized exhibitions and buyer-seller meets
iii. Collect samples during the above export promotion visits and to identify suitable small scale suppliers to develop counter samples.

NSIC has already opened two offices abroad at South Africa and at Dubai in the U.A.E. These offices will be for generation of business for the MSME sector.

1.5 PROMOTIONAL AGENCIES

a. Small Industries Development Organisation

The Small Industries Development Organisation (SIDO) was established in 1954, which is the apex body, for assisting the government in formulating and overseeing the implementation of its policies and programmes for promotion and development of small-scale industries. The SIDO is headed by the Additional Secretary and Development Commissioner.

b. National Small Industries Corporation Ltd (NSIC)

The National Small Industries Corporation Ltd. (NSIC) was established by the Government in 1955 as a public sector company with a view to promote and foster the growth of MSMEs in the country, with focus on commercial aspect of their operations. NSIC implemented several schemes, to help the MSMEs in the areas of raw material procurement, product marketing, credit rating, acquisition of technology, adoption of improved management practices etc. through its 7 Zonal offices, 26 Branch Offices, 15 Sub Offices, 5 National Technical Services, 2 Software Technologies and 3 Technical Services Extension Centres, spread practically all over the country. The Corporation, an ISO: 9001-2000 Certified, has also set-up a number of turnkey projects in many developing countries.

c. National Entrepreneurship Development Institute (NEDIS)

Entrepreneurship development and training is one of the key elements for the promotion of Micro, Small and Medium Enterprises, particularly for the first generation entrepreneurs. To undertake this task on regular basis, the Ministry has set up 3 national-level Entrepreneurship Development Institutes, viz. National Institute of Small Industry Extension Training (NISIET) at Hyderabad, National Institute of Entrepreneurship and Small Business Development (NIESBUD) at Noida and Indian Institute of Entrepreneurship (IIE) at Guwahati, as autonomous societies. These institutes are engaged in the development of training modules, undertaking research and training and providing consultancy services for entrepreneurship development and promotion of MSMEs.

d. National Commission for Enterprises in the Un-organized Sector (NCEUS)

The National Commission for Enterprises in the Un-organized Sector (NCEUS) was constituted on 20th September 2004 and consists of a chairman, two full-time members, one member secretary and two activists concerned with the unorganized sector to advise the commission. The commission has been given the mandate to examine the problems of the unorganised sector (also referred to as informal sector) and suggest measures to overcome them. The term of the commission which was initially fixed as one year, has been extended to three years.

1.6 GROWTH AND DEVELOPMENT OF MSMEs IN INDIA

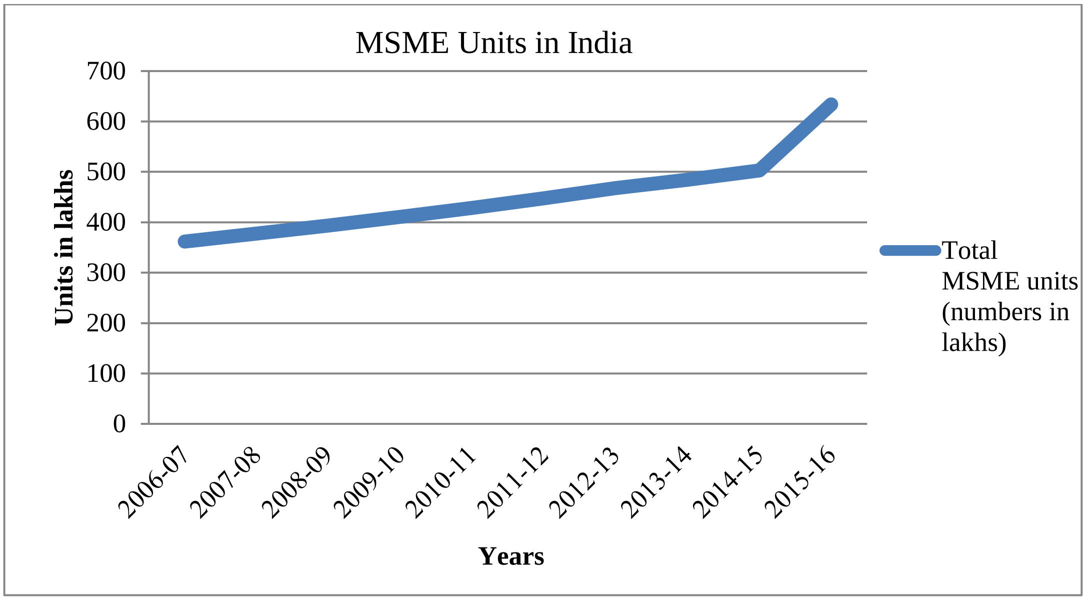
The growth of MSME sector in the country during last two decades is the outcome of liberal and positive policy reforms carried out by the Government, which has resulted in enhancing competitiveness in terms of production, distribution and productivity of units in this sector. Labour reforms, concessional tariff/duty rates, enhancement in infrastructural facilities and investor friendly environment has resulted in attracting foreign investment and has helped in sustained growth in industrial sector. MSMEs have contributed significantly to the industrial growth of the country. This is a result of several initiatives and measures adopted and implemented by the Government of India to promote and develop MSMEs. This sector solves the problem of unemployment, creates balanced development of the economy and contributes to the economy in terms of production and export. Table 1.1 shows the growth and development of MSMEs in India.

Table No. 1.1: Growth and Development of MSMEs in India

Year	Total MSME units (numbers in lakhs)	Market Value of Fixed Assets (Rs. in Crore)	Gross Output (Rs. crore)	Employment (number of persons in lakhs)
2006-07	361.76	868543.79	1351383.45	805.231
2007-08	377.37	917437.46	1435179.26	842.23
2008-09	393.70	971407.49	1524234.83	881.14
2009-10	410.82	1029331.46	1619355.53	922.19
2010-11	428.77	1094893.42	1721553.42	965.19
2011-12	447.73	1176939.36	1834332.05	1011.8
2012-13	467.56	1269338.02	2385248	1061.52
2013-14	484.47	1363700.54	2653329	1114.29
2014-15	502.93	1471912.94	2783433	1171.32
2015-16	633.88	1469407.83	2262521.63	1109.89

Source: Annual Reports, Govt. of India, Ministry of MSME Year 2006-07 to 2015-16.

Figure No. 1.2: Growth in number of MSME units in India

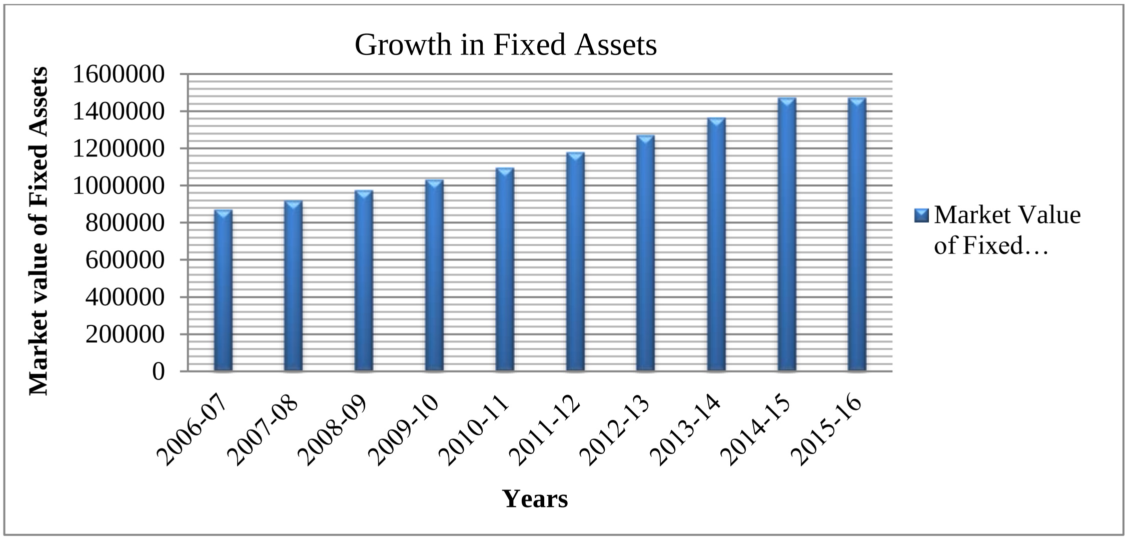


Source: Drawn from data given in Table No.1.1

The above Line Graph depicts the growth in the number of MSMEs in India over last one decade. As shown in the line graph, there is a steady growth in the number of MSME units in India since 2006-07 to 2015-16. However, 2015-16 has seen highest growth in the number of MSME units from 5,02,93,000 lakhs in the year 2014-15 to 6,33,88,000 lakhs in the year 2015-16.

It is noted that in the year 2015-16 there has been significant increase in MSME units. This is mainly due to a path breaking steps taken by the government to promote ease-of-doing business for MSMEs in India. Ministry of MSME has notified a simple one page registration form UAM on 18th September 2015 which replaces the filling of Entrepreneurs Memorandum (EM part- I & II). The MSMEs have to file online, a simple one-page UAM to get instantly a unique Udyog Aadhaar Number (UAN).

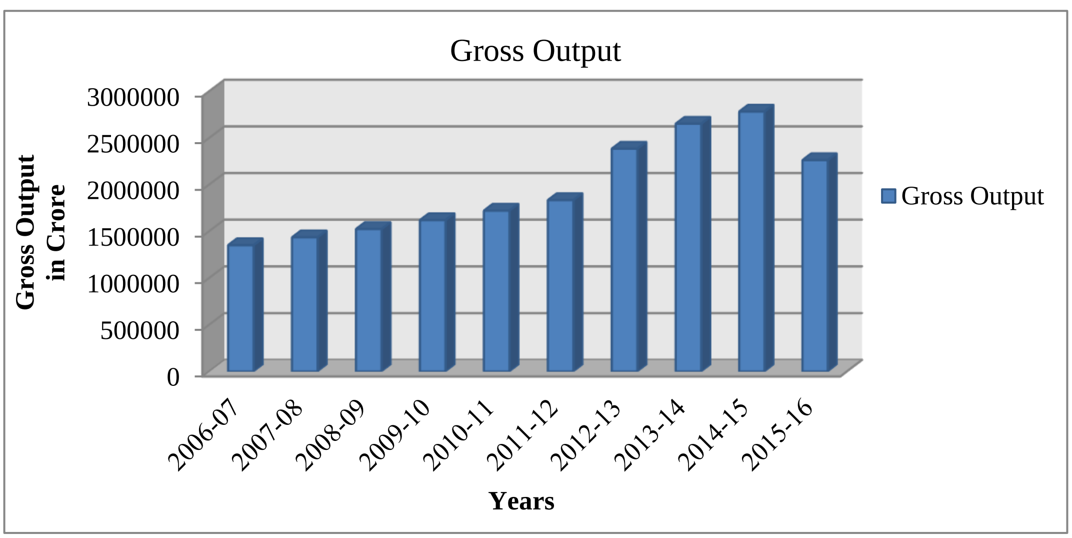
Figure No. 1.3: Market value of Fixed Assets of MSMEs



Source: Drawn from data given in Table No. 1.1

As shown in the above Bar Graph, the market value of fixed assets of MSMEs has grown over a period of years. However, the year 2015-16 has seen the diminutive fall in the market value of fixed assets. Thus, it can be seen that, the growth in the market value of fixed assets of MSME is not proportionate to the growth in number of MSME units in India.

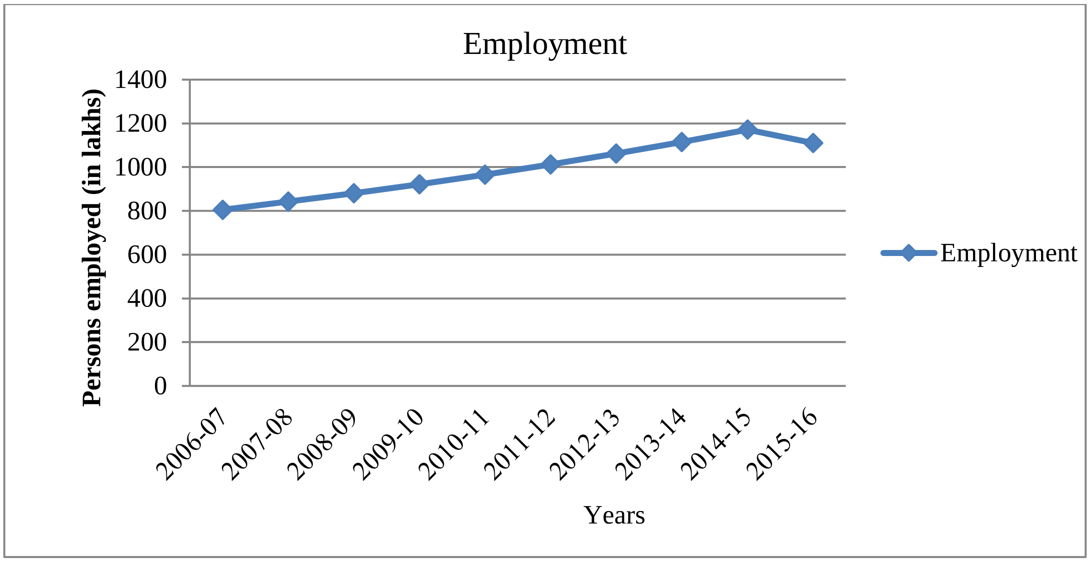
Figure No. 1.4: Growth in Gross Output of MSMEs



Source: Drawn from data given in Table No. 1.1

The above bar graph depicts the growth in gross output of MSMEs in India. The gross output from the MSME sector has also grown from the year 2006-07 to 2015-16. However, the gross output has shown a small fall in the year 2015-16. In the year 2014-15 the gross output from the MSME sector was 27,83,433 crore which fall to 22,62,521.63 crore in the year 2015-16.

Figure No. 1.5: Employment Generation in MSME sector in India



Source: Drawn from data given in Table No. 1.1

The above line graph depicts rise in the employment in the MSME sector in India from the year 2006-07 to 2015-16. MSME sector generates the highest employment after Agriculture sector in India. As seen in the line graph, the employment in the MSME sector has grown since 2006-07. However, there has been decrease in employment generated by this sector in the year 2015-16.

It is noted that though in the year 2015-16 there has been highest growth in MSMEs units, it has not resulted in the subsequent increase in employment. This may due to the online filling of UAM as it only allows the applicants to provide details of units but does not ensure the actual existence of the unit and people employed in the unit.

1.7 RECENT POLICY INITIATIVES

a. Ease of Registration Process of MSMEs- Udyog Aadhar Memorandum:

i. Based on the Hon'ble Prime Minister's suggestion in his 'Mann Ki Baat on 3.10.2014, to simplify forms to enable ease of registration of MSMEs, Ministry of MSME has notified simple forms to enable ease of registration of MSMEs. Ministry of MSME has notified a simple one page registration form -'Udyog Aadhaar Memorandum (UAM)' on 18th September 2015. The simplified one page registration form UAM was made after consultations with the States and stakeholders, on the basis of recommendations made by the Kamath Committee on financial architecture and observations/approvals by Department Related Parliamentary Standing Committee, National Board for MSME, Advisory Committee for MSME etc.

ii. This is a path breaking step to promote ease-of-doing-business for MSMEs in India as the UAM replaces the filling of Entrepreneurs' Memorandum (EM part- I & II) with the respective States/Union Territories. The entrepreneurs in the MSME sector just need to file online, a simple one-page UAM to get instantly a unique Udyog Aadhaar Number (UAN). The information sought is on self-certification basis and no supporting documents are required at the time of online filling of UAM. Revised notification were also issued on 10.01.2017 and 30.06.2017, for inclusion of new additional features.

iii. More than 38.95 lakhs UAM have been filed since September 2015 upto December 2017. The filling of the UAMs has also significantly increased the information available with the Ministry of MSME, regarding the trends in the sector such as manufacturing, services, number of enterprises, employment generation and investment details etc. These trends can help in enhancing its capabilities of the MSME sector.

b. **Launch of Web Portal for MSME Loan approval up to Rs. 1 crore within 59 Minutes.**

The Union Minister of Finance and Corporate Affairs launched a transformative initiative in MSME credit space. The web portal www.psbloansin59minutes.com will facilitate within 59 minutes in principle approval for MSME loans up to Rs. 1 crore from SIDBI and 5 Public Sector Banks (PSBs). It is a tactical initiative of SIBDI led PSB consortium incubated under the aegis of Department of Financial Services (DFS), Ministry of Finance. The portal sets a new mark in loan processing and reduces the turnaround time from 20-25 days to 59 minutes. Subsequent to this principle approval, the loan will be disbursed in 7-8 working days.

MSME banking credit space portal, www.psbloansin59minutes.com is one of its kind platform in MSME segment which integrates advanced fintech to ensure seamless loan approval and management. The loans are succeeded without human intervention till sanction and or disbursement stage. A user friendly platform has been built where MSME borrowers is not required to submit any physical document for in-principle approval. The portal use sophisticated algorithms to read and analyse data points from various sources such as IT returns, GST data, bank statements, MCA21 etc. in less than an hour while collecting the applicants basic details using smart analytics from available documents.

c. **The New MSME Norms**

MSMEs will soon be defined based on their annual turnover. The government has given a new turnover based classification of MSMEs in the MSME Development (Amendment) Bill, 2018.

As per this new classification, the MSMEs are categorized in term of business turnover; the same turnover based criteria have been applied for all type of MSMEs including those operating in the services sector. The units will be defined in terms of annual turnover as follows:

- A micro enterprise will be defined as a unit where the annual turnover does not exceed Rs 5 crores;
- A small enterprise will be defined as a unit where the annual turnover is more than Rs. 5 crore but does not exceed Rs. 75 crore;
- A medium enterprise will be defined as a unit where the annual turnover is more than Rs 75 crore but does not exceed Rs. 250 crore.

Though the primary responsibility of promotion and development of MSMEs is of the State Governments, the Centre has passed an Act in 2006 to empower the sector and also has formed a Ministry of MSMEs.

1.8 INSTITUTIONAL CREDIT FACILITY FOR MSME SECTOR IN INDIA

a. **Commercial Banks**

Commercial banks, including Regional Rural Banks, are the most important source of finance for MSMEs. Though, the involvements of these banks are mainly by way of working capital advances, their support by way of term loans is important. Some of the commercial banks have opened specialised branches to meet their credit needs.

b. **State Financial Corporations (SFCs)**

In pursuance of the SFCs Act 1951, SFCs were set up primarily to finance Small and Medium scale units. The area of operation of these banks is generally limited to the concerned states. SFCs also assist MSME units for their modernisation and technical upgradation programmes by providing soft loans, resuscitating the sick small scale units through rehabilitation schemes and through equity type of assistance under SIDBI’s seed capital scheme.

c. **Industrial Development Bank of India (IDBI)**

Till April 1990 IDBI as the prime financial institution for coordinating the activities of institutions engaged in financing, promoting and developing industry was also assisting the MSME sector. IDBI has taken a number of measures to encourage the flow of term finance to MSME units. The assistance provided by these banks has been indirect, by way of refinance through SFCs and other Commercial banks. It also provides assistance to SIDCs. Besides refinancing term loans granted by the lending institutions, IDBI was operating a scheme for rediscounting bills arising out of the sale of indigenous machinery on deferred payment basis and providing seed capital assistance.

d. **Small Industries Development Bank of India (SIDBI)**

The Small Industries Development Bank of India (SIDBI), a wholly owned subsidiary of IDBI, has been set up specially to meet the needs of the MSME sector. It commenced functioning from 2nd April 1990 and has assumed the role which was earlier performed by IDBI in relation to the MSME sector. The National Equity Fund, now stands transferred to SIDBI, was earlier operated by IDBI. Apart from continuing the different schemes of assistance introduced by IDBI, SIDBI has taken several measures to augment the flow of assistance to the MSME sector. The most important of these measures are given below:

i. Enhancement of the ceiling amounts under the Single Window Scheme from Rs.5 lakhs to Rs.10 lakhs and further to Rs.20 lakhs and extending the scheme to the commercial banks.
ii. Liberalisation of the scope of the National Equity Fund Scheme and the Automatic Refinance Scheme.
iii. Introduction of a scheme of direct discounting of bills arising out of the sale and purchase of indigenous capital equipment and machinery.
iv. Infrastructure support by way of direct assistance to SSIDCs, State Infrastructure Development Corporations and other State level agencies for the development of industrial areas.
v. Scheme to facilitate marketing support intended to strengthen and expand the marketing, Infrastructure and expedite the realisation of the sale proceeds of the products of the SSI sector.
vi. Resource support to SIDDCs and NSIC for extending raw material supply and marketing facilities to SSI units.

vii. Promotion of, and extending resource support to, factoring companies, jointly with banks.

In addition, SIDBI has also taken up certain programmes for technology upgradation and entrepreneurship development.

e. **National Bank for Agriculture and Rural Development (NABARD)**

NABARD was established in 1982 pursuant to the recommendations to this effect made by the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD). The functions relating to the refinance facilities for rural artisans, village and cottage industries which were earlier being provided by RBI directly, were taken over by NABARD. In 1985, NABARD introduced a package of schemes for refinancing against loans for productive purposes as well as for infrastructural and promotional support to the artisan/village industry category. It also established in the year1984-85, a soft loan assistance fund for margin money which is utilised to provide 100 per cent refinance to the financing banks against their margin money advances to eligible borrowers. Such assistance is interest free.

f. **Other Financing Agencies**

RRBs and Cooperative banks including Urban Cooperative Banks also provide credit support to the MSME sector, more particularly to the village industries and tiny units.

g. **Other Institutions**

There are various agencies which assist the growth of small scale industries exclusively. Prominent among them are the National Small Industries Corporation Ltd. (NSIC), at the all India level with offices in various states and the State Small Industries Development Corporations (SSIDCs) at the State level. The various forms of assistance rendered by the NSIC and SSIDCs to the MSME sector are:

i. Supply of machinery on hire-purchase basis

ii. Procurement and distribution of raw materials

iii. Securing contracts from government/purchasing agencies
iv. Provision of technical and consultancy services and
v. Marketing assistance.

1.9 BANK CREDIT TO MSMEs IN INDIA

Bank plays an important role in the economic life of the nation. The health of the economy is closely related to the soundness of its banking system. Although banks create no new wealth but their borrowing, lending and related activities facilitate the process of production, distribution, exchange and as such become effective partners in the process of economic development. Banks in India extend credit to companies to cater to the needs of short and long term investments in the form of fixed and working capital besides extending credit to various other economic units.

One of the factors of smooth functioning of any sector is its ability to finance. The credit flow from banks to any sector is an indicator of its importance. Considering the ability of employment generation and contribution to GDP, Government of India formulated MSME Development Act, 2006. Since then, banks have been able to direct their MSME lending activity in a considerable manner.

However, the working capital support extended by banks is evidently far from adequate. Lack of proper credit assessment techniques and expertise, higher transaction cost and more importantly the higher incidence of non-performing loans, do not encourage the commercial banks to extend credit to the MSME sector. In the absence of any quantitative restriction to MSME lending within the priority sector, banks have enough leeway of diverting funds to ‘Other Priority Sectors’ like housing, retail trade, etc. and thereby meeting the overall target.

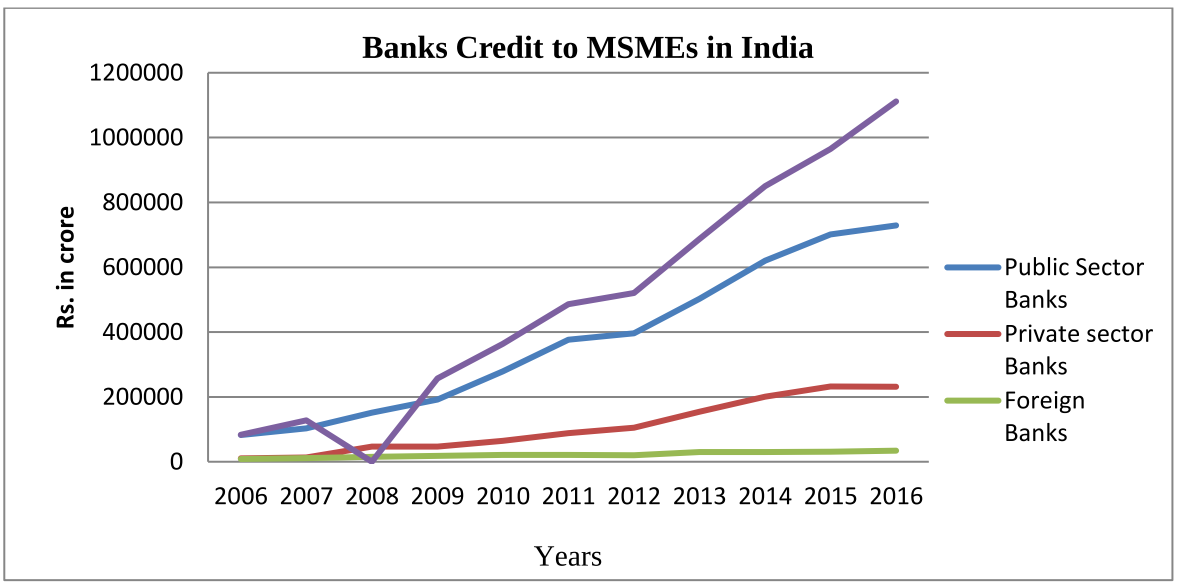
MSMEs are starved of capital because of limited access to bank credit. One of the key reasons for this has been lack of documentation and inability to predict future cash flows, lack of proper records, and compliance with taxation. Currently, bank finance to MSMEs is mainly based on pledged immovable properties such as land and buildings. Such credit is bundled as loan-against-property. Banks also assess the moveable assets of manufacturers such as, stock of goods to ascertain cash flow, to sanction credit to small companies. Following is the table showing the credit extended by Public, Private and Foreign banks to the MSME sector from 2006 to 2016.

Table No. 1.2: Banks Credit to MSMEs in India

Year	Public Sector Banks (Rs. in crore)	Private sector Banks (Rs. in crore)	Foreign Banks (Rs. in crore)	Total (Rs. in crore)
2006	82,434	10,421	8,430	1,01,285
2007	1,02,550	13,136	11,637	1,27,323
2008	1,51,137	46,912	15,489	2,13,538
2009	1,91,408	46,656	18,063	2,56,127
2010	2,78,398	64,534	21,069	3,64,001
2011	3,76,625	87,857	21,461	4,85,943
2012	3,95,976	1,05,085	19,839	5,20,900
2013	5,02,459	1,54,732	30,020	6,87,211
2014	6,20,139	2,00,840	29,491	8,50,470
2015	7,01,571	2,32,171	30,837	9,64,579
2016	7,29,066	2,31,147	34,134	9,94,347

Source: MSME Annual Reports, Govt. of India & Reserve Bank of India from 2006 to 2016.

Figure No. 1.6: Banks Credit to MSMEs in India



Source: Drawn from data given in Table No. 1.2

As shown in the above line graph, there has been steady increase in the bank credit to MSME sector since 2006. As depicted in the line graph, public sector banks have contributed significantly in lending credit to MSMEs. This may be attributed to the wide network of bank branches of these banks, spread across the country making the credit accessible to this sector. Further, private sector bank credit to MSMEs has shown a steady growth over a period of time. However, foreign banks contribution to MSME sector has been diminutive compared to other banks. There is no much credit lending to MSME sector by foreign banks.

1.10 ABOUT GOA

The breath-taking natural beauty of Goa attracts tourists from all over the world, creating a flourishing tourism industry that is a significant source of revenue and employment generation to the state of Goa. The mining sector which is presently at halt in the state is itself dependent and continues to depend on the natural ore resources available in the State.

With a well-spread network of banking and financial institutions, the State is in an ideal position to attract investments. Goa, today has over 7621 Micro and Small Scale Industrial units, 210 Large and Medium Scale units employing more than 50,000 people. There are 20 industrial estates developed/established today in Goa. Some of these industrial estates are considered among the best in the country.

The industrial activities in Goa include 50 sub sectors which include, pharmaceuticals, tourism, electrical, automobile accessories etc. Though, the state has been doing well in the economic front; it needs to achieve lot in the industrialisation process. Despite the several loopholes, the industrial sector in Goa has done well but the explanation for this does not lie in any planned industrial development strategy or policy that the State adopted- indeed there was a pointed lack of any such strategy. In fact, it is because of Goa's natural advantages and inherent strengths. The Government is now trying to gear up for accelerated industrial development and overall economic growth. This is possible only if there is proper environmental concern, social infrastructure, well being of people in the state and various needs of existing industries taken into consideration while drafting the Industrial Policy.

1.11 ENTREPRENEUR MEMORANDUM (PART - II) FILED BY MSMEs IN GOA

The state of Goa has seen significant economic growth through accelerated industrial development. The goal is to create sustainable and increased employment opportunities mainly to the local people of Goa. It also encourages and includes environmental friendly industrial development ensuring balanced growth of region in the state. The industrialisation is essential for raising income of the people, creating employment opportunities, improving standard of living and bringing social transformation in the State. Hence, a holistic and broad based industrial development is necessary for the accelerated growth of the economy.

Before the introduction of the MSMED Act 2006 by the Govt. of India, around 7093 small scale industrial units were permanently registered with the Directorate of Mines and Industries, Panaji- Goa, providing employment to 49390 persons with investment of Rs. 35414.53 lakhs in the state.

The Goa Daman and Diu Industrial Development Corporation (GDDIDC), now Goa Industrial Development Corporation (GIDC) was established on 11th Nov. 1965 by the Government of Goa, Daman & Diu to achieve a balanced industrial development of the state of Goa with emphasis on developing industrial areas/estates for setting up industries at various locations. In pursuance of the above objectives, GIDC so far established 20 industrial estates in the state of Goa. The corporation provides various services like water supply, maintaining street lights, common facility centre etc. to all these industrial estates.

To facilitate entrepreneurs, the procedure with regard to the setting up of an enterprise in Goa has been simplified and streamlined. The simplification of procedures has been welcomed by the industry and efforts are now being made to permit on-line filing of applications. At present, an acknowledgement to the application for starting an industrial unit is issued within 24 hours, if all the documents and applications are in order.

Any person willing to set up an enterprise can obtain permission for starting MSMEs immediately after the application. This permission is valid for the period of 2 years. Within these two years, the entrepreneur should file second application if the production has begun.

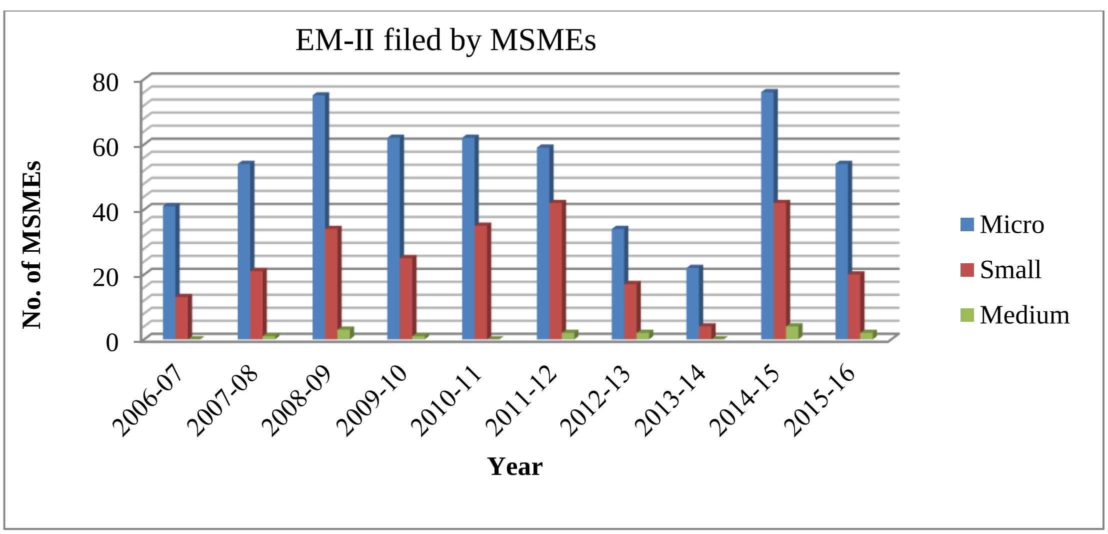
The number of Memorandum/Applications that was filed by the entrepreneurs after introduction of the MSMED Act, 2006; are as follows:

Table No. 1.3: Entrepreneur Memorandum (Part - II) filed by MSMEs in Goa

Year	Micro	Small	Medium	Total
2006-07	41	13	0	54
2007-08	54	21	1	76
2008-09	75	34	3	112
2009-10	62	25	1	88
2010-11	62	35	0	97
2011-12	59	42	2	103
2012-13	34	17	2	53
2013-14	22	4	0	26
2014-15	76	42	4	122
2015-16	54	20	2	76

Source: Directorate of Industries, Trade and Commerce, Govt. of Goa, year 2015-16.

Figure No. 1.7: Entrepreneur Memorandum (Part - II) filed by MSMEs in Goa



Source: Drawn from data given in Table No. 1.3

The above bar graph shows, the number of Entrepreneur Memorandum (Part - II) filed by MSMEs in Goa after the implementation of MSMED Act i.e. from the 2006-07 to 2015-16. The number of EM-II filed by Micro enterprises compared to Small enterprises is considerably higher. While Medium enterprises has shown no increase in EM-II filed since 2006. However, the year 2013-14 has shown a considerable fall in the EM-II filed by Micro and Small Enterprises; however, there was no EM-II filed by Medium Enterprises in this year.

1.12 PROCEDURE FOR SETTING UP OF MSMEs

An Entrepreneur coming up with an idea for setting up of the unit, approaches the DITC for procedure and other details. They are then provided with the relevant details and are asked to Register the unit online by highlighting the features of his/her proposal/project. The Registration is accepted and processed and relevant Acknowledgement of Registration under MSMED Act, 2006 is issued immediately.

Prior to MSMED Act, the Registration was issued in the form of Provisional Registration Certificate (PRC) under Industrial (Development & Regulation) Act, 1951. Earlier the Entrepreneurs Memorandum Part–I was issued, under MSMED Act and was valid for 2 years, and to those under Industrial (Development & Regulation) Act, 1951 for 5 years. Once the Entrepreneurs establish its project and commences the operation, the Provisional Registration is converted into Permanent Registration under MSMED Act, 2006 or Permanent SSI Registration under Industrial (Development & Regulation) Act, 1951. Under Udyog Aadhar Memorandum, 809 units have been registered online with a proposed investment of 35392.00 lakh with an employment potential to 8410 persons during 2017-18 (Economic Survey 2017-18, Government of Goa).

1.13 AGENCIES PROVIDING ASSISTANCE TO SET UP MSMEs IN GOA

Following are the brief description of different agencies for rendering assistance to the entrepreneurs in Goa.

Sr. No.	Type of assistance	Name and address of agencies
1.	Provisional Registration	Directorate of Industries, Trade & Commerce,

Cont…

	Certificate (EM-1) & Permanent Registration Certificate (EM-II).	Udyog Bhavan, Panaji, Goa.
2.	Identification of Individual Project Profiles, Techno-Economic Analysis and Managerial Consultancy Services, Market Survey and Economic Survey reports.	MSME-Development Institute, Margao-Goa Agenl EDI, Verna.
3.	Land and Industrial shed.	Goa-Industrial Development Corporation, Patto, Panaji.
4.	Financial Assistance.	Nationalized Commercial Banks; SIDBI, Panaji; EDC Ltd, Panaji; NABARD, Panaji .
5.	For raw materials under Government Supply	GHRSSIDC, Neugi Nagar, Panaji.
6.	Plant and machinery under hire / purchase basis	NSIC, Panaji
7.	Power/ Electricity	Electricity Department of the concerned area
8.	Technical Know –how	MSME-DI, Margao; PCC Engineering College, Verna.
9.	Quality & Standard	MSME-DI, Margao; ETDC, Taligao Plateu. Goa.
10.	Marketing /Export Assistance	Directorate General of Foreign Trade, St. Inez, Panaji; Export Inspection Agency, Panaji; Marine Products Export & Development Authority (MPADA), Panaji; GCCI, Panaji.
11.	Other Promotional Agencies.	KVIC, Panaji; KVIB, Panaji.

1.14 INSTITUTIONS PROVIDING MARKET ASSISTANCE TO BUSINESS UNITS IN THE STATE

a. **Goa Handicraft Rural, Small Scale Industries Development Corporation (GHRSSIDC)**

Marketing assistance to Micro and Small Enterprises is provided through Goa Handicraft Rural, Small Scale Industries Development Corporation as well as NSIC, under the market assistance programme. These institutions envisage not only large market for products but also ensure availability of certain raw- material.

The GHRSSIDC is implementing the Preferential Purchase Scheme (PPS) since 1999 for the benefit of registered MSMEs located in the State. The scheme is intended to provide encouragement to the business units by giving preferential treatment to the various products produced by the MSME units. The State government has constituted a Rate Contract Committee, to decide upon the items to be purchased under annual rate contract and to deal with other modalities of PPS. The items covered under rate contract are as per the need of government organizations. The GHRSSIDC has organized exhibitions namely, Family Utsava and Ahimsa silk at Panaji, Ciif-09 at Chandigarh and *Goenkarancho Ekvot* at Noida, Indian International Trade Fair and Saras at New Delhi, to provide market support. Moreover, the corporation has also set up 10 emporia in Goa to provide direct market support.

b. **National Small Industries Corporation Ltd**

An ISO certified company, since its establishment in 1955, has been working to fulfil its mission of promoting, aiding and fostering the growth of small enterprises with a set of customized schemes designed to put them in a competitive and advantageous position. The schemes comprise of market support, credit support, technical support and other support services.

c. **Economic Development Corporation, Goa**

The EDC Ltd., originally known as the Economic Development Corporation of Goa, Daman and Diu Limited, incorporated on 12th March 1975, as a public limited company, under the Companies Act. It has been the State financial institution set up with the prime objective to promote industrial development. Initially, EDC was operating in the union territory of Goa, Daman and Diu and thereafter, the State of Goa besides union territory of Daman and Diu. The equity capital of the company is mainly subscribed by the State as well as administration of Daman and Diu. The main objectives of EDC are stated below:

i. To carry on the business of an investment company, for providing financial assistance to industrial enterprise

ii. To extend financial assistance in various types of instruments, as fund based and provide guarantees, securities as non-fund based activities and provide fee based financial services
iii. To establish companies in subsidiary or joint sector for starting, taking over or conducting industrial and other activities
iv. To encourage and promote participation in various forms like equity, preference and debentures in the industrial enterprises and other activities
v. To identify and motivate entrepreneurs to set up industries and assist them by conducting Entrepreneur Development Programme
vi. To act as an agent for the disbursement of various incentives, concessions and benefits on behalf of the government.

Apart from the above, EDC, offers variety of loan schemes under different categories befitting the class of entrepreneurs, the size of the project and the purpose of the requirement of funds. The schemes funded are:

1. General term loan
2. Equipment finance
3. Extended credit
4. Specific schemes for acquisition of: Diesel generating sets, Pollution control equipment Computers and quality control cell, Indigenous/ import substitution system
5. Marketing assistance
6. Schemes for loan assistance, for units acquired under auction
7. Schemes for self-employment of educated unemployed.

d. **Small Industries Service Institution (SISI)**

SISI is established to provide assistance to the entrepreneurs by way of product selection, product feasibility and technical assistance. It has floated a number of work-shops for the benefit of the enterprises.

e. **Khadi and Village Industries Board (KVIB)**

The KVIB implements the schemes formulated to assist the entrepreneurs. The task of the Board is also, to formulate new schemes, to provide financial assistance to the entrepreneurs at concessional rate of interest. It also conducts activities like skill training, documentation to create linkages with banks and awareness programmes.

f. **Goa State Industries Association (GSIA)**

GSIA established in 1965 by the small scale industrialists is an apex body representing MSMEs in Goa on various State and Central government bodies. GSIA has been successful in obtaining State government subsidy for its members from time to time and providing valuable information concerning the MSMEs to the Government of Goa. It is instrumental in formulating the Goa Industrial Policy 2003. Moreover, GSIA has been an excellent service provider for its members and has been influential, for implementing Price Preference for MSME unit and entering into Rate Contract with Government of Goa for various items manufactured in MSME sector.

1.15 INDUSTRIAL POLICY 2003 BY THE GOA STATE GOVERNMENT

After attaining statehood, the government framed State Industrial Policy from time to time. The purpose of State Industrial Policy is to accelerate planned industrial growth and to create an environment in which both existing and new enterprises can prosper. The State had so far Industrial Policies of 1991, 2001 and 2003. However, Industrial policy of 2003 has got attractive features and is based on the mission to ensure accelerated industrial development, catalyze economic growth, ensure balanced regional growth, protect environment and above all create sustainable employment. The Policy document strives to achieve overall development of the State through accelerated industrial development. This will be achieved by providing industry an access to high quality infrastructure, extending institutional support, technology upgradation, deregulating the business environment for a competent, positive and transparent administrative framework and catalyzing the entrepreneurial as well as creative capability of the human resources along with market support. The policy document aims at ensuring of facilitative regime that explores and unleashes the energies of the private sectors to create an environment in which industries can prosper. The major objectives of industrial policy are:

a. To promote industries specifically identified as ‘Thrust Areas’
b. To promote industries that would consume locally available raw material and have consumption pattern within the State and neighbouring areas
c. To develop Goa as the ‘Export /Import Hub’ and encourage export oriented Industries
d. To develop self-employment opportunities for the local youth especially in rural and semi urban areas
e. To promote and encourage the agro- based industries to give a boost to the rural economy
f. To promote and encourage development of handicraft products to give boost to local artisans
g. To create a healthy climate for the growth and promotion of small scale and cottage industry
h. To create Cluster Development Centre in rural areas
i. To encourage participation of women entrepreneurs in the industrial development of the State
j. To ensure balanced growth to address regional, economic and social disparities in the State
k. To encourage promotion of all such industries that are environment friendly and do not indulge in wasteful consumption of resources
l. To facilitate revival and rehabilitation of sick industrial units by devising suitable schemes
m. To encourage the participation of Industry Association in decision making process and support their initiative in promoting industrial development.

1.16 THE INCENTIVE SCHEMES OF THE GOA STATE GOVERNMENT

To provide competitive advantage to the State as an attractive investment destination as well as to sustain the long term presence of industries, a number of investment friendly schemes were introduced. These are stated below:

a. Capital contribution scheme, to encourage consumption of local raw-material
b. Preferential purchase incentives scheme for Micro and Small entrepreneurs in the State
c. Financial incentives to the industries for certification and patenting, interest subsidy scheme and incentives to women entrepreneurs scheme
d. Employment subsidy scheme and Share capital to local entrepreneurs' scheme.

1.17 GROWTH AND DEVELOPMENT OF MSMEs IN GOA

In the State of Goa, the main thrust under MSME sector has been to foster sustainable economic growth by balancing development of industry and protecting environment and natural resources. With this in view, support has been provided to MSME in a big way. MSME, play a vital role in the process of industrialization by creating an atmosphere for entrepreneurship to flourish and by providing an entry point for new entrepreneurs who can start small and then grow big. MSMEs are also vehicles for achieving a broader regional spread of industry and are generally more employment intensive per unit of capital than large scale industry and above all, non-polluting and environment friendly. Development of MSMEs results in enhanced productivity, accelerated economic growth and creates varied employment opportunities. It also facilitates development of other sectors. The State of Goa envisages catalyzing economic growth through accelerated industrial development. The mission is to create sustainable employment opportunities mainly to the local people of Goa.

Table No. 1.4: Growth of MSMEs in Goa

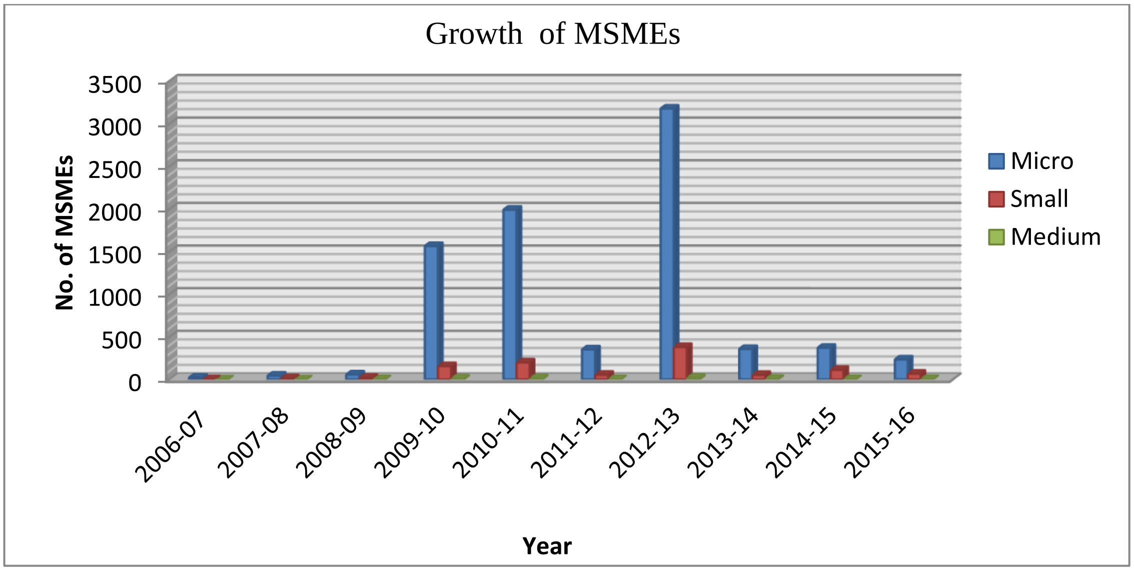
Year	Micro	Small	Medium	Employment Generation	Estimated Investment (in lakhs)
2006-07	21	1	0	130	457.00
2007-08	44	13	0	871	1246.26
2008-09	58	20	2	1375	2559.17

Cont...

2009-10	1564	156	11	17412	27574.19
2010-11	1990	199	12	22908	34964.14
2011-12	352	55	2	4867	9832.35
2012-13	3176	380	20	39655	67500.46
2013-14	357	53	6	4019	9091.91
2014-15	371	112	2	6609	14202.63
2015-16	234	67	4	5460	25135.69

Source: Goa Economic Survey, Govt. of Goa 2006-07 to 2015-16.

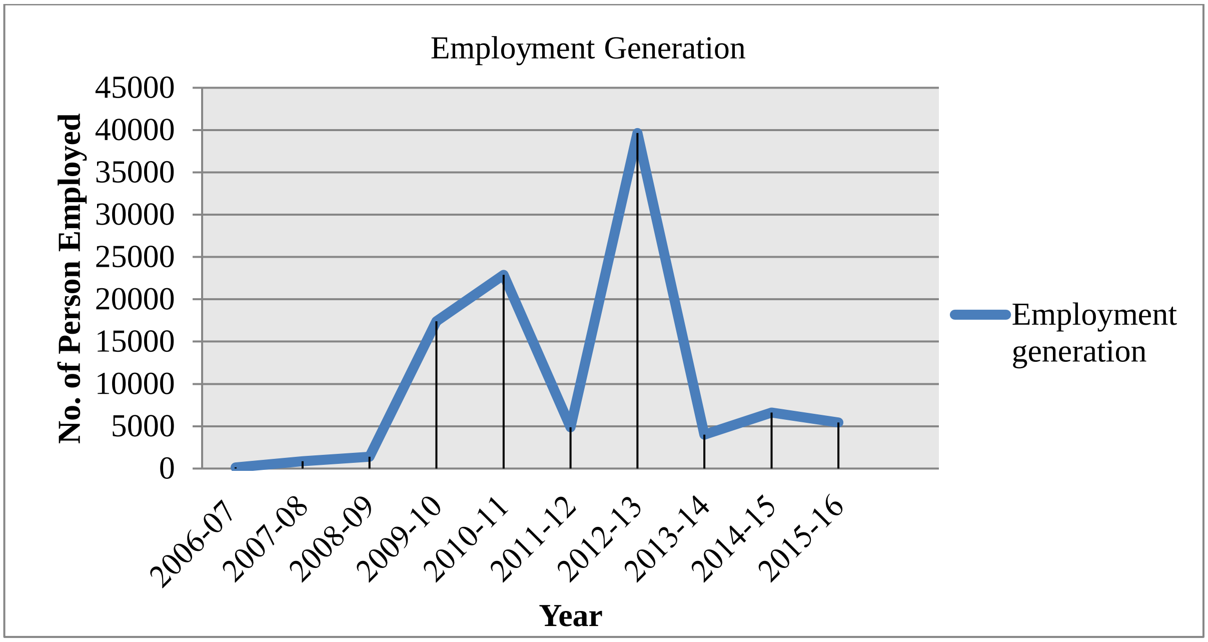
Figure No. 1.8: Growth in number of MSMEs in Goa



Source: Drawn from data given in Table No. 1.4

The above figure 1.8 shows the growth in the number of MSMEs in Goa. Though there has been considerable growth in the number of MSMEs in Goa over a period of time, the year 2006-07 has seen the least growth in number of Micro enterprises and Small enterprises. The Medium enterprise has a miniature existence and growth in Goa. The year 2006-07 and 2008-09 has seen no growth in Medium enterprises. However, 2016-17 has seen the highest growth in MSMEs in Goa.

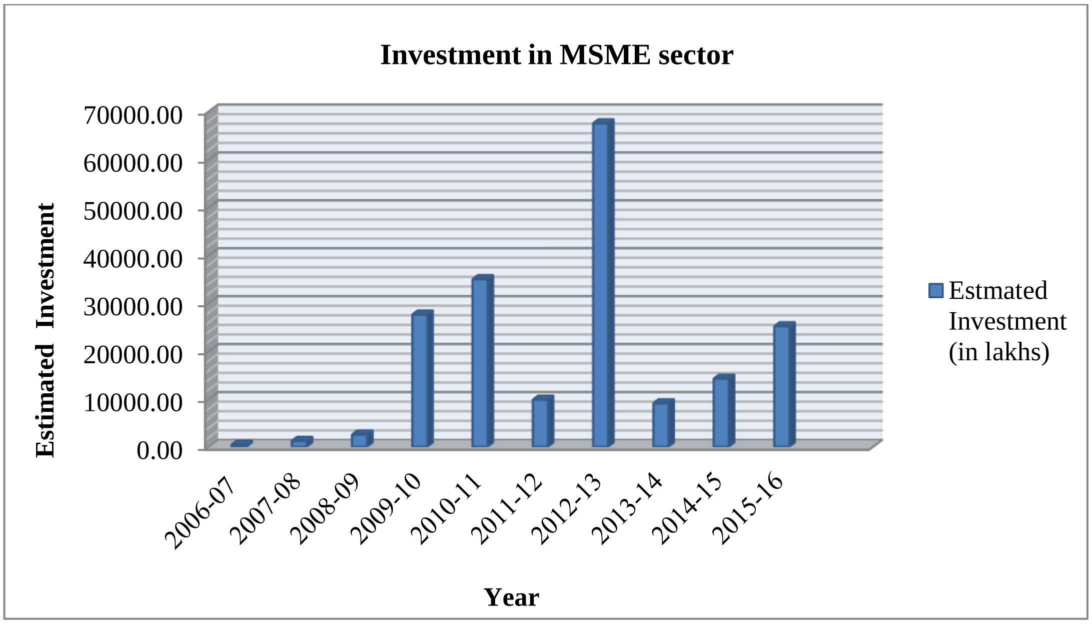
Figure No. 1.9: Employment Generation in MSME sector in Goa



Source: Drawn from data given in Table No. 1.4

Figure 1.9 depicts the employment generated by MSMEs since 2006-07. Though the employment generated by this sector has been low in the initial two years, there has been moderate growth in employment over a period of time. Year 2012-13 has seen the highest employment generated by this sector employing around 39,655 persons in the State. Further, there has been fall in employment generation in the year 2013-14, 2014-15 and 2015-16. But 2016-17 has again seen the rise, in the employment generated by this sector. It can be noted that rise in employment generation is also not proportionate to rise in number of MSMEs.

Figure No. 1.10: Estimated Investment in MSME sector in Goa



Source: Drawn from data given in Table No. 1.4

As depicted in the above Figure 1.10, there has been growth in proposed investment in MSME sector in Goa. Though the investment in this sector has been low in the initial years i.e 2006-07, 2007-08 and 2008-09, the growth in investment in this sector has increased in 2009-10. The year 2016-17 has seen the highest growth in the investment in this sector. It can thus be concluded that growth in Investment in this MSME sector is proportionate to growth in number of MSMEs in Goa.

The impact of online filling of a simple one-page UAM to get instantly a unique Udyog Aadhaar Number (UAN) has been found positive, as there is a notable growth in MSME units, employment and estimated investment in the MSME sector in Goa.

1.18 BANKING FACILITIES IN GOA

Money lending has existed in the State for a long time, especially with Merchants and Landlords lending out cash for social and religious ceremonies and for purchase of necessities and luxurious goods/items. Except for the 'Banco Nacional Ultramarino' there was no banking establishment or professional lending institutions in the State, apart from Caixa Economic de Goa, which allowed borrowing on a small scale for the needy, not for business. After Goa's merger with Indian Union in the year 1962 the spurt in development process in the State gained momentum, as a result many banks opened their branches in the State.

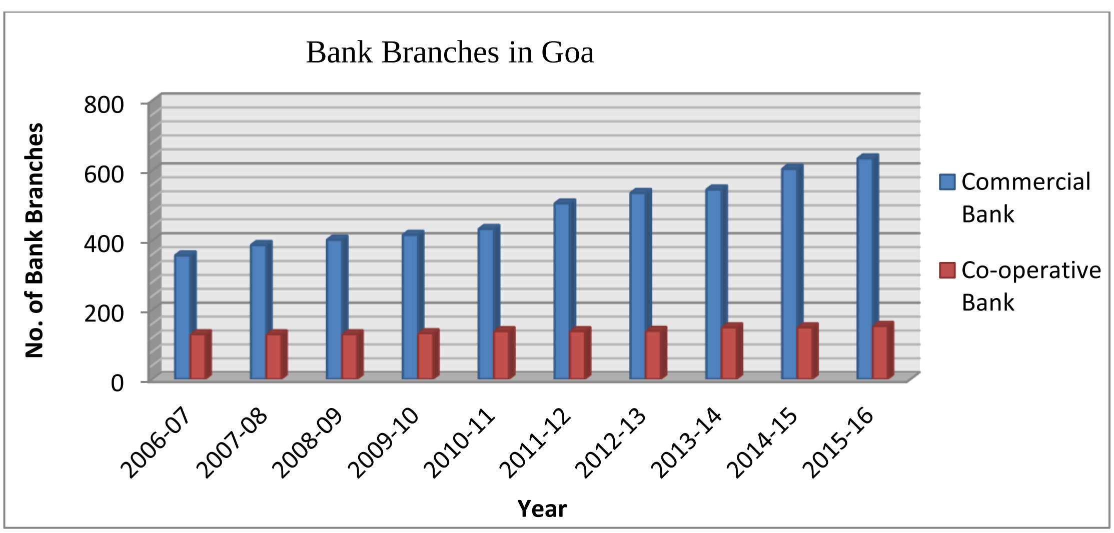
The State bank of India opened its first branch in the State on 2nd January 1962 and other commercial banks followed swiftly. The number of bank branches operating in Goa from 2006-07 to 2016-17 is given in the table 1.5.

Table No. 1.5: Number of Bank Branches in Goa

Year	Commercial Bank Branches	Co-operative Bank Branches	Total Branches
2006-07	356	129	485
2007-08	386	129	515
2008-09	401	129	530
2009-10	415	132	547
2010-11	432	138	570
2011-12	505	138	643
2012-13	535	139	674
2013-14	545	149	694
2014-15	604	149	753
2015-16	634	153	787

Source: Goa Economic Survey, Govt. of Goa, 2006-07 to 2015-16.

Figure No. 1.11: Bank Branches in Goa



Source: Drawn from data given in Table No. 1.5

Banking sector in Goa, has improved over the years due to persistent government efforts to promote banking-technology and promote expansion in unbanked and non-metropolitan region. At the same time, banking sector in India has remained stable despite global convulsion, thereby retaining public confidence over the years. Strong growths in saving amid rising disposable income levels, are major factor influencing deposit growth. There are 826 number of banking offices in the State as on 30.09.2017(Economic Survey 2017-18, Government of Goa). The number of bank branches has shown upward trend. There are 37 commercial banks and 16 co-operative banks functioning in the State. The 37 commercial banks together have 660 branch network accounting for 80 percent of the total bank branches in the State. The total 53 banks comprising of 21 public sector banks (490 branches), 16 private sector banks (170 branches) and 16 co-operative sector banks (166 branches). State Bank of India, which is the lead Bank for the State has the maximum number of branches (97). HDFC Bank is the second highest with a total of 70 banking offices, followed by Corporation Bank with 57 branches. The 16 Co-operative banks together have 166 branches accounting for 20 percent of the total number of bank branches in the State. Amid the co-operative banks functioning in the State, Goa State Co-operative Bank Ltd. has the maximum number of branches (60) followed by Mapusa Urban Co-operative Bank Ltd. (26) and Goa Urban Co-operative Bank Ltd. (16).

1.19 BANKS LENDING TO MSMEs IN GOA UNDER ANNUAL CREDIT PLAN

One of the most important objectives of government policy since nationalisation of banks has been to extend and expand credit not only to those sectors which were of crucial importance in terms of their contribution to national income and employment, but also to those sectors which had been severely neglected in terms of access to institutional credit.

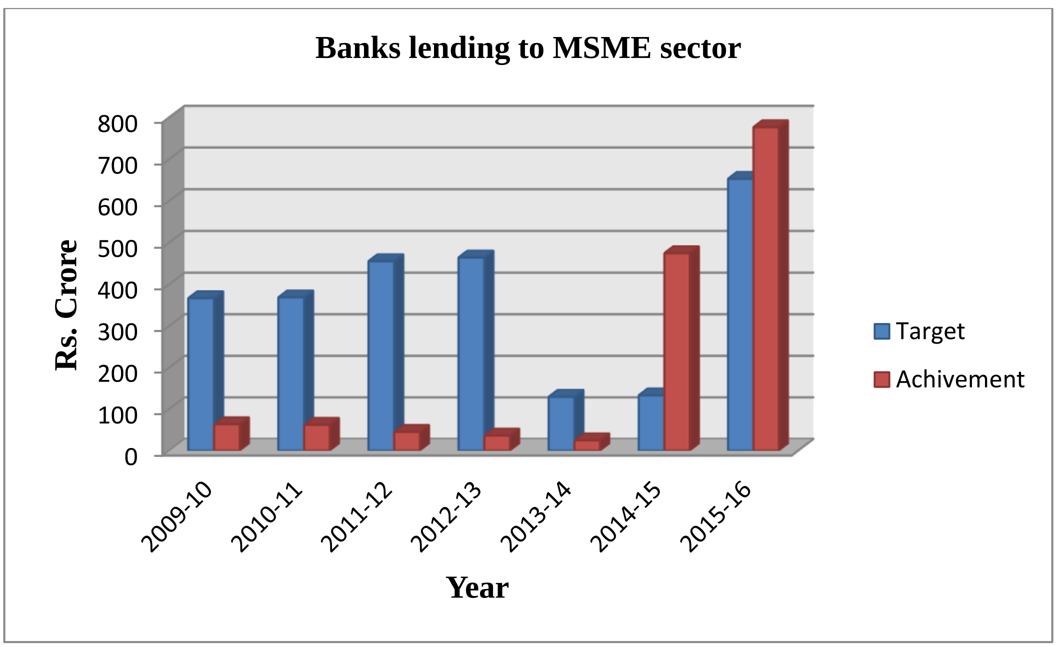
The Reserve Bank of India has from time to time, issued a number of guidelines/ instructions/directives to banks on Priority Sector Lending and has emphasised that commercial banks should increase their involvement in the financing of priority sectors, viz., agriculture and MSMEs. Bank credit plays a critical role in economic growth particularly in case of bank based financial systems like India. Banks lending to MSME sector in Goa under Annual Credit Plan from 2009-10 to 2016-17 is given below:

Table No. 1.6: Banks lending to MSME sector in Goa under Annual Credit Plan

Year	Target (`In crore)	Achievement (`In crore)	Achievement in Percentage
2009-10	366.67	63.46	17
2010-11	368.59	62.18	17
2011-12	455.52	45.1	10
2012-13	464.37	36.31	8
2013-14	129.32	24.66	19
2014-15	132.98	474.67	357
2015-16	652.94	776.85	118.97

Source: Goa Economic Survey, Govt. of Goa, 2009-10 to 2015-16.

Figure No. 1.12: Banks Lending to MSME Sector in Goa under Annual Credit Plan



Source: Drawn from data given in Table No. 1.6

The above Figure 1.12 depicts the credit lending targets and achievement of banks for MSMEs under Annual Credit Plan in Goa. The bank has performed miserably in achieving the target, in credit lending to MSME sector under Annual Credit Plan till 2013-14. In the year 2012-13 banks could achieve only 8% of the target. However the banks achievement under Annual Credit Plan in the year 2014-15 was higher compared to previous year 2013-14. It can be seen that since 2014-15, banks performance under Annual Credit Plan has improved. However in the year 2016-17 banks could achieve only 90.81% of the total target.

1.20 CHAPTER SUMMARY

MSME sector is considered as the most vibrant and diverse sector of the Indian economy. It has emerged as an engine of economic growth in the new millennium. Its contribution to the GDP, export and employment generation in India has been progressive. This chapter attempted to cover the brief history, evolution and definition of MSME sector over a period of time. It also highlights the significant policy initiative undertaken by the Central Government to improve their competitiveness. The chapter also stated and explained the role of different financial institutions and its credit lending to MSMEs in India.

The more detail information has also been provided about the industrial scenario in the State of Goa. The chapter briefly covered the registration procedure involved along with the concerned institution for MSMEs in Goa. It also provides the data about the growth and development of MSMEs in Goa, being represented graphically. It throws an insight into the growth of banking network in the state of Goa. The performance of banks under Annual Credit Plan in the state of Goa has also been reviewed and represented graphically.

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CHAPTER –II

LITERATURE REVIEW

Sr. No.	Contents
2.1	Introduction
2.2	Review of Literature of Studies Conducted Abroad
2.3	Review of Literature of Studies Conducted in India
2.4	Identification of Research Problem
2.5	Chapter Summary
	References

2.1 INTRODUCTION

Literature review helps to gain background knowledge of the theoretical concepts, identify the problems associated with the subject matter and to identify the appropriate methodology. Thus, it was necessary to present the brief review of the available literature relating directly or indirectly to the subject under study. The following literature, makes no claim of being an exhaustive review of all investigation done on the problems related to the study, rather an attempt has been made to highlight the main issues related to the topic at various levels from published source.

The research studies related to MSMEs are classified into two sections, namely, studies conducted abroad and studies conducted in India. In section I, some international studies conducted on problems, issues, challenges relating to MSMEs have been reviewed. In section II, studies which have been carried in different states of India have been reviewed. The literature has been found to focus on the general aspect, issues, challenges and problems faced by MSMEs in India and abroad. The studies related to changing policy measures, incentive schemes, development programmes and unique approaches adopted by Central and State Government at national and international levels are also been reviewed.

However, several studies in a restricted sense and areas have been undertaken by particular bank/groups of bank, individuals, organisations and institutions. Policy measures and initiatives introduced and adopted by Committees appointed by the Government of India and RBI have also been reviewed and presented below.

2.2 SECTION – I: REVIEW OF LITERATURE OF STUDIES CONDUCTED ABROAD

Claremont K. (1977), in his research paper titled “Bank Lending and Economic Underdevelopment In Jamaica: Can An Indigenous bank Solve the Problem”, identified the extent to which the Commercial bank lending has contributed to economic underdevelopment. The study evaluated the role and performance of the workers’ savings and loan bank of indigenous commercial bank in Jamaican economy. The study found that the commercial banks in Jamaica have allocated only a negligible amount of fund to the small business sector. The State therefore had to attempt to redress the imbalance by providing finance for small business through Jamaica Development Bank and Small Business Loan Board. The study suggested that all foreign owned commercial banks operating locally should be nationalized. The nationalization will minimise the transfer of surplus to overseas countries and retain these funds for local use. Secondly, it will allow the commercial banks to play a much more dynamic role without the constraints of Head Office directives. The banks will become more involved in projects of social importance and allocate funds in this direction. Thirdly, this will facilitate greater functional specialisation with effective liaison between the banks and other financial institutions, especially those allocating finance to specialized areas like agriculture and industry. It further stated that although this is not a panacea, such a policy allows for a serious strategy of national economic development to be enacted.

Momtaz U. A. (1984), examined whether lack of adequate finance poses effective constraint on the growth and expansion of rural Small Scale and Cottage Industries (SCIs) in Bangladesh or the capital shortage perceived by the small entrepreneurs is more apparent than real. This was done by analysing the perceptions of the borrowers about the difficulties involved in obtaining institutional loans and the complicacies actually encountered by them in obtaining such loans. The study also presented the views and experience of the bankers in administering small loans and highlighted the difficulties faced by bankers in handling such loans. The major findings emerged from the analysis suggests that in- adequate availability of credit, flowing particularly from the institutional sources, which further poses a critical constraint on the growth and sustained development of SCIs in Bangladesh. The small entrepreneurs are found to confront almost insurmountable barriers (i.e., stringent collateral requirements, intricate official formalities, exceedingly high monetary and non-monetary costs and so on) to enter into both formal and informal credit markets.

Naved H. and Ijaz N. (1984), identified and discussed the important issues in the role of small scale industries in employment generation in particular and overall industrialization strategy in general in Pakistan. The study found that small scale sector plays an important role in creating and expanding markets in developing countries. The small scale sector helped to remove under-employment of scarce resources in the economy. Further, it was noted that the choice of producing in the small sector has resulted in forward and backward linkages with the economy. The study implies the use of local machinery, indigenous skills and a lower capital output ratio by small scale sector compared to the large sector. The study concluded that lending to small industry is no more risky than lending to large firms. It is just difficult to distinguish between good and bad risk until sufficient information and lending experience regarding small firms has been gathered by the financial institutions concerned.

Kenneth J. (1986), in the paper research paper titled “Fiscal and Financial Factors Affecting Small and Medium Business Improvement in the ASEAN Region” focused on detailed analysis of the effects of specific fiscal policies on Small and Medium Businesses (SMBs) and the working of financial assistance programmes involving SMBs. The "view from below" looks at the credit situation from the viewpoint of small business and presented the data from the SMBI (Small and Medium Businesses Improvement) project's sample surveys and in-depth interviews. The studies on Development policies of the ASEAN countries have reflected a shift away from the earlier preoccupation with large industry, to an increasing awareness of the need to encourage the development of small and medium enterprises. Further, major revisions of policy were suggested to eliminate the innate bias towards large industry and hence against SMBs. The study has taken the pragmatic view that such revisions are unlikely in the foreseeable future. The measures proposed in this study thus seek to minimize rather than eliminate such bias.

Muhammad H. M., Aftab A. C. and Ivo C. H. (1986), emphasized the importance of small industries in the economy and the number of incentives in the form of fiscal and financial provided by the Government of Pakistan for the growth of this sector in the country. They also underline the significant role played by different institutions in the promotion of small industries through establishment of industrial estates and provision of financial, technical and marketing facilities. The study further suggested that a committee consisting of representatives from the federal and provisional government, provincial small industries corporations and lending institutions, should be formed to formulate a systematic policy for the promotion of small scale industry in the country.

Mine E. C., Gunar E. and Kaytaz M. (1988), examined the status and survival potential of some small – scale manufacturing firms in Bursa, Turkey. The Growth in demand was found to be an important factor in the survival of most firms, including the inefficient ones. The source of raw material did not appear to be related to growth. Even in sector where the majority of firm purchased raw material from government owned firms at subsidized prices, the scarcity of material was a source of complaint as an impediment to growth. The unexpected finding of the study was the importance of family labour in the survival of a firm. The surplus accrued from having unpaid family and child labour provided firms with the largest source of funds for survival. It was found that those who did not have access to female family labour due to the nature of the production process (such as metal casting), did not do well when market conditions changed against them. The contribution of the small-scale firms to employment in the country was in the form of providing jobs for the immediate family.

Walker, D. A. (1989), in the paper titled "Financing the Small Firm" presented a framework to delineate financing the small firm in the United States. Special consideration is given to small firms' unique financing sources such as trade and bank credit, entrepreneur's own resources, informal investment and venture capital. The small firm has limited or no access to many traditional debt and equity markets that supply long term financing to the corporate world, and therefore operates in segmented and imperfect financial markets. The links between small firms' financing opportunities and managerial goals are traced from the start- up stage through establishing a matured firm. As the small firm matures, it operates in a broader financial market. In addition to the sources of funding that are available to firms in earlier stages of development, the matured firm usually has access to nearly all segments of debt and equity markets with few barriers to entry. The matured firm may not have access to some financial markets that serve the nation's largest firm.

Rappaport A. and Wyatt R. W. (1990), examined the relationship of bank participation in Small Business Administration (SBA) guaranteed lending programs to bank characteristics and market demographic characteristics. The major metropolitan areas included in the study were Chicago, Detroit, Des Moines, Milwaukee and Indianapol. The study investigated the effect of bank characteristic and market demographics on bank participation in SBA lending. Banks that participate more intensively in SBA lending, concentrate more on business lending, are more likely to be members of holding company and substitute SBA loans for consumer loans secured by personal assets in market areas with population of 50,000 or less. It was noted that the development role of SBA lending is increased by legislation encouraging the territorial expansion of holding companies. In markets of 50,000 populations or less, greater SBA lending and the resultant benefits were associated with lower per capita income levels. It therefore appears that the achievement of the SBA's economic development policy objectives may be greater in rural market areas.

Sunday I. O. (1990), in the paper titled "Venturing into small business in a developing economy : Motivation and Constraints" investigated how far the Nigeria's structural adjustments programs have contributed to growth of more small businesses. The study accords with this received wisdom as part of a broader inquiry into the motivations of small business start-ups in general, even though the available support systems have not kept pace with the revolution of rising expectations. In other words, why do people venture into small business in Nigeria? What consideration determines their choice of business activity? And what are the related issues of the constraints to entrepreneurial endeavours in Nigeria? The findings of the study revealed contrary to what might be expected in the prevailing economic circumstances in Nigeria. Small business founders are neither strongly persuaded into business by the worsening unemployment situation nor by its imminent threat. Rather their entrepreneneurial aspiration are fired mostly by their desire to be independent, to translate some cherished ideas into physical goods and/or services as well as by the lure of high financial returns. The capital constraints are pervasively the most disturbing of all constraints facing small firm owners, especially at the early and rapid growth stages.

Tulus T. (1991), found that concern for the socio-economic problems in Indonesia has revived interest in the role of small-scale industries (SSIs) in the country. This study at the macro-level leads to a much less pessimistic view of the performance of SSIs in Indonesia, though imperfections in comparison with Medium-and Large Scale Industries (MLSIs) do exist. The article has given major attention to a critical question of appropriate policies needed to support this sector in Indonesia. Analysis has shown that SSIs still provide the bulk of employment and income opportunities for a large part of the population in Indonesia. Credit at market rate and improved processing of loans (including the selection procedure) for small producers are more likely to influence the growth of SSIs positively in Indonesia. However, there has been a decline over time in their share of employment and number of units in the manufacturing.

Dennis R. and John K. (1992), found that increasing American competitiveness in the international economy requires expanding trade with emerging markets, especially in developing countries of Asia, Latin America and Africa. The study observed that, historically, as developing countries' economies have grown, the capacity for exporting and importing have both expanded. In the future, the capacity for trade in developing countries will depend increasingly on their ability to create sufficient numbers of jobs to absorb their rapidly growing labour forces. Experience has shown that policies for improving the capacity of small-scale enterprises to generate jobs have had only mixed results in developing countries. The government and the private sector are facing the following problems; (1) creating an economic environment conducive to small enterprise development; (2) removing regulatory and administrative obstacles to small-enterprise expansion; (3) tailoring small-enterprise promotion programs to local conditions and needs; (4) providing capital and credit for small-business owners; (5) involving the private sector in small enterprise development programs; and (6) providing technical assistance, training and educational programs through public-private partnerships.

Mitchell A., Petersen and Raghuram G. R. (1994), in the paper titled "Does Distance Still Matter? The Information Revolution in Small Business Lending" studied in detail the firms' creditor relationships. The study estimated the effect of relationship on both, the availability and the price of credit and provided the evidence on the precise channel or channels through which relationship benefit the firm. The data was used from the National Survey of Small Business Finance collected by the U.S. Small Business Administration (SBA). The study found a small effect of relationship on the price charged by lenders. The length of an institution's relationship with the firm seems to have little impact on the rate. Similarly, the rate charged is insignificantly lower when the lender provides the firm financial services. The firms that borrow from multiple banks are charged a significantly higher rate. The interesting conclusion of the study was that the apparent concentration of borrowing and the purchasing of financial services do not seem to make small firm worsen off.

Allen N. B. and Gregory F. U. (1995), examined the role of relationship lending in small firm finance. It examined the price and non price terms of bank lines of credit extended to small firms. The focus on bank lines of credit allows the examination of a type of loan contract in which the bank-borrower relationship is likely to be an important mechanism for solving the asymmetric information problems associated with financing small enterprises. The study found that the borrowers with longer banking relationship pay lower interest rates and less likely to pledge collateral. These results are consistent with theoretical argument that relationship lending generates valuable information about borrower quality. The result of the study suggested that the impact on small business lending may be limited because of the value of relationship associated with bank lending. Secondly, the bank failure may create a loss of value in excess of the book value of the bank. Lastly, bank failure may create 'credit crunches', or reduction in the supply of credit for small borrowers who may face higher loan rates and more collateral requirements if a bank with which they had an established relationship fails.

Carlo C., Giovanni F. and Andrea G. (1995), noted that the high degree of stickiness of bank lending rates observed in Italy in the past is related to constraints on competition within the banking and financial markets. Using individual data for 63 local Italian banks in a variety of financial environments, it discusses the effect on the lending rate determination process of the recent sweeping financial liberalization in Italy. The study also discusses the role of the discount rate in speeding up the adjustment process of bank interest rates, and the pros and cons of its possible indexation. The study re-examined the relation between financial structure and the lending rate determination process by focusing on the Italian bank loan market. It presented new econometric evidence on the stickiness of Italian lending rates, taking explicitly into account the non stationarity of the lending rate series.

Mark H. and Eric H. (1995), adopted components of employment change methodology and examines the process of job generation in the late 1980s for three contrasting regions of the United Kingdom. The emphasis in the analysis is on the contribution of new and small firms to regional manufacturing employment growth. The principal component analysis was used to overcome this obstacle by grouping together variables that are highly correlated into principal components and as a result, bring a simplification to analysis. The results indicated the important role of new and small indigenous firms in the job generation process, particularly in Northern Ireland, in the period 1986-90. However, the level of displacement associated with these job creations is sufficiently high to cause concern about the long- term sustainability of these trends.

The evidence from the analysis in this paper demonstrates that irrespective of the performance of the small firm sector the key determinant of employment growth or decline are the activities of larger firms, whether indigenously or externally owned. The paper concludes by arguing that policies designed to stimulate new firms formation and small firms growth are not sufficient to promote growth.

Charu C. G. (1996), made a comparison between the performance of large industries, modern SSI and traditional industries. The analysis in the paper has been carried out using time series on gross output, gross value added, employees, capital, emoluments and number of factories from 1980-81 to 1991-92 for small and large factories using ASI (Annual Survey of Industries) data. The analysis presented in this study has shown that labour productivity has been increasing in all the sectors with higher rates of growth (and also higher absolute values) in large industrial units followed by SSIs and traditional Industries. In terms of capital productivity it is found that the smaller SSIs had the best performance. There is a better utilization of scarce capital in smaller units. It is found that smaller SSIs are growing faster not only numerically but also in terms of employment, investment and output. SSI in the factory sector have however not been showing any growth in number of factories and employment though capital is being accumulated at fast pace.

Kieu M. N. (2001), contributed to the knowledge of financial management practices and financial characteristics of SMEs in Vietnam which can be considered representative of emerging economies. Descriptive findings of financial management practices and financial characteristics of SMEs in this study expand the literature of financial management in general and especially financial management of SMEs in Vietnam. The study investigated the association between profitability and financial management practices and financial characteristics of SMEs. The study found that financial management practices and financial characteristics significantly affect SME profitability. Variables measuring financial management practices and financial characteristics, except debt ratio, were found to be related to SME profitability.

Mohamed B., Tijani N., and Jeffrey B. N. (2001), studied a case of what in many respects is an institutional failure. It is the popular lending program in Tunisia known as 'Fonds de Promotion et de Decentralisation Industrielle', (FOPRODI), created in 1974 for the promotion of small and medium manufacturing enterprises (SMEs) and for the decentralization of industry. FOPRODI's announced aim was to help new entrepreneurs with insufficient capital to start their businesses and thereby to create new jobs. Because of an extremely low repayment rate, the program has failed in the sense that it became unsustainable and indeed finally collapsed in 1997. While there are some bases for believing that FOPRODI may have been more successful than what was experienced in social terms, at this point it seems to have been a failure. The sources of its institutional failure are traced to inappropriate incentives attributable both to the institutional structure surrounding FOPRODI and its own rules. The findings are then used to generate policy recommendations on ways in which similar programs could be better designed, transaction costs reduced and the outcomes obtained more satisfactory.

Mitchell A. P. and Raghuram G. R. (2002), documented two facts: First, the physical distance between small firms and their lenders has grown steadily in the United States over the period 1973 to 1993. Second, not only are borrowers growing physically more distant from lenders with whom they start a relationship, but are also communicating less in person. This effect is not just concentrated in recent years, a period of significant structural and technological change; it shows up as a steady trend throughout the study sample. The study observed that increases in labour productivity, as measured by the increase in loans per bank employee or total regional output per bank employee, empirically account for the trend in distance. Further, the Information Revolution in Small Business Lending suggests that increasing capital intensity of lending due to the greater usage of tools such as computers and communication equipment has altered the way loans are made, which in turn could account for the growing distance.

Erik L., Doris N. and Solvig R. (2004), in the paper titled "Lending to Small and Medium-Sized Firms: Is There an East-West Gap in Germany?" explores if financing of small and medium-sized firms is restricted by unfavourable bank loan terms and conditions. A comparison of the terms of lending between the former East German and West German states yield a lending gap given by higher loan prices and collateral requirement in East Germany. This gap is explained by differences in credit risk and lending strategies of banks. The study found that, there exists a lending gap between the former East German and West German states as East Germany firms pay significantly higher loan rates and provide significantly more collateral than West

German Firm. These inter-regional differences contribute to the explanation of variation in loan rates and collateral requirements rating. Firms located in East Germany are rated as worse borrowers by the banks and therefore pay a higher risk premium. The study also showed that banks differ in their lending decisions; especially cooperative banks seem to have a restrictive lending policy.

Feakins, M. (2004), in the paper titled “Commercial Bank Lending to SMEs in Poland” explored the processes of financial intermediation that are used by commercial banks in their interactions with SMEs in Poland. The study examined the empirical realities of commercial bank involvement with the SME sector within the context of economic transformation by suggesting that the connection between them influences the trajectories of economic change within transition. The finding from this research suggested that there are some considerable variations within the commercial banking sector in the loom to, and practices for, lending to the SME sector.

Joshua A. and Nicholas B. (2007), in this study identified financing as a dominant constraint to Ghanaian small and medium sized enterprises (SMEs). The study explores the determinants of bank financing and debt among Ghanaian SMEs by employing firm-level characteristics identified in the previous empirical studies examining the financial structure of SMEs. The characteristics include the age and size of the firm, asset tangibility, profitability, and firm growth. This study also includes macroeconomic variables inflation and interest rates as determinants of bank finance. A regression model estimated the relation between the determinants and the bank debt ratio. The result revealed that bank loans account for less than a quarter of SMEs’ total debt financing, and show that the age and size of the firm, alone with asset tangibility, have significant positive associations with the bank debt ratio. The finding had significant implications about both at the firm level and for the support of policies aimed at improving SME financing in Ghana.

Julius M. G. (2007), analyzed in detail about economic development in Kenya, Government participation in industry sector, Banking Act in Kenya and the role of CBK (Central Bank of Kenya) and other financial institution for industrial development. The study also examines the financial sector reforms in Kenya (comparative analysis of sub Saharan Africa), it also studied the impact of tied Aid, for industrial development in

Kenya, equally analyzing the impact of import substitution, industrialization for industrial development in Kenya. Finally it studied the impact of multinational banks on commercial and central bank's credit supply to priority sector for industrial development in Kenya.

Meghana A., Thorsten B. and Asli D. (2007), analyzes the relationship between the relative size of the small and medium enterprise (SME) Sector and the business environment in 76 countries. The paper first describes a new and unique cross-country database that presents consistent and comparable information on the contribution of the SME sector to total employment in manufacturing and GDP across different countries. The study then relates the importance of SMEs and the informal economy to the indicators of different dimensions of the business environment. It was found that several dimensions of the business environment, such as lower costs of entry and better credit information sharing are associated with a larger size of the SME sector while higher exit costs are associated with a larger informal economy. Specifically, using a regression-based ANOVA approach, the study assess how much of the cross-country variation in the size of the SME sector in manufacturing can be explained by cross-country variation in various business environment regulations, including the ease of firm entry and exit, labour regulations, access to credit and contract enforcement. Next, study employ linear and instrumental variable regressions to gauge the economic importance of specific policies for the size of the SME sector, while controlling for reverse causation and simultaneity bias.

Ojiakor, Uche C. U. and Chide (2007), attempted a critique of a new scheme Small and Medium Scale Industries Equity Investment Scheme in Nigeria. It was found that the main reason for SMEs have been unsuccessful in Nigeria was because of the unstable macroeconomic environment and the dearth of basic infrastructure. This has made their cost of operations unacceptably high, relative to their capital base. Furthermore, the belief that the banks have better management structures and experience is erroneous. Huge bank profits are consequences of government subsidy to these banks via the foreign exchange market, rather than the consequence of their sound management. Even banks that have good management skills may not necessarily have the necessary experience to manage SMEs.

Ibrahim U. (2008), identified the factors, problems, constraints, difficulties and challenges faced by the small and medium industries (SMIs) in the Borno State in Nigeria. The study found that SMIs are affected by inadequate infrastructure such as power supply, Raw material shortage, lack of access to finance, Shortage of competent personnel and the problems relating to policies, incentives and operating environment. The study concludes that high performance goals for SMI in terms of products, exports, employment generation and contribution to GDP can only be achieved when SMI are provided with friendly policies and incentives and conducive operating environment improvements in infrastructure; enhanced peace and security. They found that SMIs need to employ competent personnel that have right attitudes and high performance goals. Recommendations deliberate efforts are still needed on the part of Governments, Trade Associations, SMI and other stakeholders to nurture a climate that is conducive to successful and profitable operation of SMI.

Yadav S. (2008), in the paper titled “Innovative ways in financing SMEs experience from Thailand and Vietnam” found that though definitions of SMEs differed in both Thailand and Vietnam, similarities were observed in problems being faced by SMEs as well as by bankers in financing them. The problem of access to finance, collateral, obsolete technology/machineries/equipments, deficiency of business development services, marketing, infrastructural bottlenecks, poor financial and managerial knowledge and inadequate inputs/skilled labour are the common problems being faced by the SMEs. Perception of high credit risk leading to high level of non-performing loans (NPLs), high cost of servicing and monitoring, information asymmetry, non-availability of collaterals/credit history, inadequate managerial competence and financial understanding were found common among bankers/FIs (Financial Institutions) in these countries. Government agencies at the central and provincial levels collaborate closely with private sector representative organizations and public and private service suppliers to assist SMEs to improve their competitiveness.

Lemuel, E. (2009), studied the challenging problems of SMEs financing in Nigeria and identified other alternative financing options available to SMEs such as the Non-bank financial institutions. The research and surveys confirmed that small and medium scale firms are not favoured by the Commercial banks in the provision of medium to long term loan facilities. Furthermore, it is clear that the majority of the employed populations are engaged in SME in Nigeria, therefore, if meaningful development is to be attained in the economy of the country, there has to be sustainable funding for SMEs. NBFI (Non- Banking Financial Institution) system can play a major role in achieving the developmental goals of Nigeria. However, these institutions are not really helping the SMEs because they are also not as developed as found in the Western countries where, they provide support to the banking system in the provision of funding for businesses especially small and medium enterprises. It was suggested that Government has to improve the conditions and infrastructural inadequacy hindering the commercial banks from investing in the growth and development of the SMEs sector in Nigeria.

Annika Y. (2010), sorted out the areas of financial reporting information that are likely to be of significance to managers of entrepreneurial SMEs in Sweden. According to the study results, the continuous high demand for capital is a great challenge to managers of entrepreneurial SMEs in their efforts to make their entities develop and grow. In this context, financial reports make up an important tool mainly for informing external capital providers, among which bankers hold a prominent position. The high demand for financial capital also makes risk capitalists and other external owners more important as financiers of entrepreneurial SMEs than what is the case in SMEs in general.

Babar Z. B., Ahmed I. H. and Kashif U. R. (2010), considered the relationship between organizational performance and financial management practices like, dividend policy, investment appraisal techniques, capital structure decision, working capital management and financial performance assessment in Pakistani commercial sector. Sample of the study consisted of 40 companies working in Pakistan, related to diverse sectors and listed at Karachi Stock Exchange. The study measures the relationship between different financial management practices and organization performance by regression technique. The study concludes that, dividend policy, investment appraisal techniques, capital structure decision, working capital and financial performance assessment all these have positive and significant impact on perceived financial performance assessment, working capital policy and capital structure decision more imperative than dividend policy and investment assessment techniques.

Elin G. and Leon P. (2010), in the paper titled “Internal and External factors hampering SME growth -A qualitative case study of SMEs in Thailand” conducted qualitative study of the external and internal factors hampering the growth of SMEs in Thailand. All the respondents in this research had similar perceptions and experiences regarding factors affecting businesses, the authors have identified these issues as the major or severe obstacles constraining the growth of SMEs in Thailand. All firms have experienced similar external and internal obstacles constraining their growth. Regarding external factors, it could be argued that limitations in finance make Thai SMEs more vulnerable to threats such as macroeconomic instability, corruption, political instability and it also makes it more difficult for them to comply with trade regulations. In terms of internal hampering factors, all firms and institutions recognize that similar issues are affecting the growth of Thai SMEs. For instance, lack of management competencies have been mentioned as one of the major or severe obstacle for firms to grow.

Fatoki O. and David G. (2010), in his thesis titled “Obstacles to the growth of new SMEs in South Africa: A principal component analysis approach” investigated the internal and external environmental obstacles to the growth of new SMEs in South Africa. 30 variables were identified as obstacles. The principal component analysis with varimax rotation was used to reduce the variables to five clusters. The most important obstacle was termed as ‘Financial’ which is largely an internal factor. The other obstacles respectively as determined were Economic (external), Markets (external), Management (internal) and Infrastructure (external). The study suggested that new SMEs should be able to produce business plans that forecast cash flow requirements, have an operational plan and demonstrate viability and sustainability in order to secure debt finance. Government support agencies that can help new SMEs with finance and training should be rigorously marketed to create awareness. Concessional loans for SMEs should have low interest rates in order to ease the loan burden on the emerging ventures.

Aremu, Mukaila A. and Adeyemi, Sidikat L. (2011), found that finance is the most important and cogent key of Small and medium scale enterprises. Small and Medium Scale Enterprises must be financially supported so that they can take off and expand and be able to meet the needs of the Nigerians. Shortage of indigenous entrepreneurs has been identified as a major impediment to economic development. It is also recommended that there is need for supporting and strengthening SMEs' productive capacities and market competitiveness in the country. This therefore calls for the need for establishment of Small-Scale Enterprises as a way of developing and providing a training ground for indigenous entrepreneur. The rural urban drift is due to lack of job opportunities in the rural area. Thus, small-scale enterprises will help to reduce this drift particularly when they are sited in rural areas.

Deresse M. L. and Prabhakara R. (2011), in the paper titled "Effect of Financial Managment Practices and Characteristic on Profitability: A Study on Business Enterprises in Jimma Town, Ethiopia" investigated the effect of efficiency in financial management practices such as accounting, reporting and analysis, working capital management, fixed asset management and financial planning on the profitability of firms and also examined the effect of financial characteristic such as liquidity, leverage and asset turn over on the profitability of firms in Jimma town (Ethiopia). Both primary and secondary data was collected from 37 business enterprises in Jimma town. The result confirmed that two of the four financial management practices and two financial management characteristics are significantly related to profitability of business organisation, but no sufficient evidence was available for total asset turnover. This finding leads to the conclusion that the efficiency of financial management practices and characteristics can bring about higher profitability.

Md. Aminul I., Mohammad Aktaruzzaman Khan, Abu Zafar Muhammad Obaidullah and M. Syed Alam (2011), in the paper titled "Effect of Entrepreneur and Firm Characteristics on the Business Success of Small and Medium Enterprises (SMEs) in Bangladesh" examined the effect of characteristics of entrepreneur and characteristics of the firm on the business success of Small and Medium Enterprises in Bangladesh. The study is based on survey methodology through a questionnaire administered on the owners and employees of small firms. The study revealed that the characteristics of an entrepreneur are found to be a significant factor than the firm characteristics for business success of SMEs in Bangladesh. The results of the analysis show that only one of the demographic factors which is duration of organization operated has significant effect towards business success of SMEs. In addition to this, independent sample t-test shows that gender plays a significant role on business success of SMEs in Bangladesh. Multiple Regression Analysis was used to determine whether the two independent variables, which are SMEs characteristic and entrepreneurs' characteristics have any significant effect towards business success of SMEs in Bangladesh. The findings of the study revealed that Entrepreneurs characteristics are significantly related to the business success of SMEs in Bangladesh while the characteristics of SMEs were found to have no significant effect on the business success of SMEs in Bangladesh.

Andrene S. (2012), reviewed the literature on the use of Secured Transaction Framework (STF) in other countries and recommends microfinance, leasing and reverse factoring as additional types of financing for MSMEs in Jamaica. These supply side initiatives, which are currently being used in other developing economies, have been successful as complementary financing products which place greater emphasis on relationship lending, cash flow coverage of lease obligations and the credit worthiness of large international buyers. Increased use of these non-traditional lending arrangements by financial institutions which are supervised by the Central Bank is expected to increase the number of MSMEs which access credit from the formal banking sector, thereby strengthening the efficacy of the credit channel of monetary policy transmission in Jamaica. The study suggested that in order to resolve the constraints, there is a need to deepen the financial market by revamping the legal and regulatory framework governing the country's lending infrastructure.

Abanis T., Arthur S. and Derick S. (2013), in the paper titled "Financial management practices and business performance of small and medium enterprises in western Uganda" studied the relationship management practices and business performance of SMEs in western Ugnada with a view to establish a coherent model directed at improving business performance and it was hypothesized that financial management practices positively influences business performance. The study adopted a positivist (quantitative paradigm) with cross sectional and correlational designs. The study used a respondent sample of 335 SMEs operating in Mlnarara, Sheema and Bushenyi whose owners/ managers were the unit of enquiry. Structural Equation Modelling with Analysis of Moment Structure was used for statistical modelling. The finding in respect of the main purpose of the study indicated that financial management practices accounted for 33.8% of the variance in business performance of SMEs. The results also indicated that working capital management influences highly since it predicts over 22% of the variance in business performance. The study provided models for efficient financial management practices. These models can then be used to provide a trajectory for improving business performance of SMEs in Uganda.

Charles W. and Karanja N. (2014) explored the influence of financial management practices like financial innovation, investing activities, risk management practices and working capital management on the performance of Micro and small Enterprises (MSE) in Kenya. The study found out that investing can be described as the redirection of resources from being consumed today to creating benefits in the future and that development of an effective business support system is also a key condition for the success of investment capacity building. Further respondents strongly agreed that investing requires business support agencies which have a demonstrated capability of penetrating the MSE sector. This study concludes that financial innovations influence the performance of Micro and Small Enterprise in Kenya significantly and the reason for innovation in an organisation is to make profit. Finally, the study concludes that there is a statistical significant between working capital and firm performance.

Chera E. D. (2014), in the paper titled "MSMEs Access for Finance in Zambia"examined the level of MSMEs access to Bank Finance in order to determine the demand for and supply of financial services to the MSME sector, and the potential for broadening and deepening existing linkages between the banking community and MSMEs in Zambia. The finding of the study shows that MSME operators understand little about the basic principle of commercial bank lending and borrowing practices. The survey also shows that commercial banks have limited experience with the MSME sector and lacks the knowhow to assess the associated credit risks, and are therefore unwilling to meet the sector's growing demand for financial services. As far as Banking institutions are concerned, many MSMEs do not understand how to work with the financial institution. As a result these historical perspectives, both the supply of and demand for MSME financial services are not being adequately addressed in Zambia.

Kofi E. M., Adjei H., Collins M. and Christian A. O., (2014), assessed the Financial Reporting Practices among Small Scale Enterprises in Kumasi Metropolitan Assembly**.** The research revealed high level of financial illiteracy in terms of basic financial records keeping and financial reporting on the part of small business owners. Unfortunately, the training programmes organized by National Board for Small

Industries and other institutions, like district and sub-metro assemblies, also neglect this important tool for business survival.

Omoregie N. A. E., Adeparubi O.O. and Iboi P. E. (2014), ascertained the weaknesses of the current financial reporting system for SMEs in Nigeria and to determine whether having a separate financial reporting system will be acceptable to the users of SME financial statements amongst others. The methods used in data analysis were actual response analysis, analysis in relation to specific problem, percentage analysis and chi-square. The study revealed that the current financial reporting system whereby there is a single set of standard with some exemptions for SMEs is satisfactory, also there is a high preference for the use of a single set of GAAP with exclusion from certain standards for SMEs in preparing SME financial statement. The study also revealed that using a single set of GAAP with exclusion in an order of its importance will produce the following benefits: simplicity and cost reduction, reduction in delay and increased relevance to the organization and that the current financial reporting system in Nigeria is still the most preferred financial reporting model by SMEs in Nigeria.

Oyewo B. M. and Badejo S. O. (2014), examined the capital structure of Micro, Small and Medium Enterprises (MSMEs) as well as the factors influencing it. Primary data was collected by administering 300 copies of research instrument with a combination of cluster and simple random sampling techniques. The research discovered that there is a significant difference in the Capital Structure of Nigerian MSMEs; there is no statistically significant difference between the Capital Structure of Nigerian MSMEs at start-up and the Capital Structure at continuation; and the factors influencing the patronage of bank and non-bank finance providers among MSMEs do not significantly differ.

Rathnasiri U.A.H.A. (2015), investigated the availability of differences in the adoption of financial management tools and technique among Sri Lankan SMEs with reference to different aspects of businesses such as legal form, size and age of the business, level of education of the owners/manager, location and leverage. Non- parametric Kruskal-Wallis test and Mann Whitney U test were used to test the hypothesized relationships. Result of non parametric tests revealed that legal form, size of the business based on number of employees, education background of owner/manager, leverage of the business are the variables which showed statistically significant difference in adoption of financial management tools and techniques. However, the variables of number of operative years under existing management and the location of the business did not determine significant difference in adoption of financial management tools and techniques. These findings concluded that SMEs should highly regard financial management and contemplate financial management practices as one of the tools to improve and increase the profitability. Study further revealed that Sri Lanka SMEs maintained relatively a low level of equity capital since most of the businesses were continuing their operations by obtaining debt financing rather than equity financing.

Tim M., Sophie R. and Delwyn C. (2015), in the paper titled “The financial management practices of small to medium enterprises” explores the financial management and performance of these SMEs and the skills and capabilities of the owner-manager who operate them. The SMEs diagnostic assessment tool comprised questions on the firm’s actual financial performance. This included total sales, variable and fixed costs, gross profit, break even sales and net profit. It also contained 16 questions relating to the owners/managers’ views on sales trends, pricing, break-even and profitability management, cash flow forecasting and monitoring, sources of financing and financial management skills. The finding shows that SMEs have largely informal and ad hoc financial management. The owner’s of SMEs with higher financial literacy have greater capacity to monitor and control the financial management of their businesses. The study also found that most owners/managers’ preferred to finance their firms from personal sources and to avoid excessive bank borrowing or even equity financing, other than from family or friends. The study shows that the key issues for SME owners/managers’ regarding financial management include controlling cash flow, monitoring costs and working capital requirements, and seeking to find the most appropriate pricing strategy to retain sales while also ensuring profitability. Most of the owners/managers’ from micro-firms were not confident in their ability to read and use financial statements. Further, most firms found that their accounting and reporting systems were adequate for financial accounting and tax compliance purposes, but inadequate for the more important task of monitoring their firm’s financial performance on a daily, weekly basis.

Bakhit G. R and Alamin M. A. (2016), studied the role of financial management in the financial decision- making in business and the extent of responsibility to make decision and commitments in the entrusted tasks through integrated concept of financial management in the business. The study also attempts to know the role and functions of the Chief Financial Officer in the commercial and financial institutions. The study used descriptive analytical curriculum and historical data to study the objectives. The study relied on the information and data from primary sources represented in the survey on a sample of selected workers of Kenana Sugar Company Limited. The study result stated that the relationship between financial management and financial planning helps to take appropriate decision in the process of obtaining various sources of funding. It also leads the process of regulation in the organisation and carries out investment decision in commercial establishments.

Jona P. R., Mildred S., Sarah J. D. and John V. M. (2016), examined the capital investment decisions of Micro, Small and Medium enterprises, with the aim of assessing its current levels and its conditions across industries in Digos City. Non-parametric test of associations revealed that there is no significant association of capital investment decisions and nature of industry being engaged by MSME owners/managers. Pearson *r* correlation test revealed that generation of investment opportunities, project analysis and approval, and post implementation audit have significant relationship with years of operation. Further qualitative analysis of interviews revealed that the influential factors affecting financing decision of MSMEs owners include source of finance, entrepreneurs' prior experiences, business trends and diversification of investments. An increased year of operation is significantly correlation with investment opportunities, project analysis and approval, and post- implementation audit, which purports that these decisions improve through time. Capital investment decisions are also defined as to the managers' ability to pool funds to finance its operations. This has also posted the biggest obstacle to entrepreneur of all types of business, including micro, small and medium enterprises due to guaranteeing requirements needed to secure funding, resulting in reliance of the entrepreneur to own venture capital money.

Samuel T. E. and Peter K. (2016), in the paper titled "Cash management practices of small, medium and micro enterprises in the Cape Metropolis, South Africa" investigated the cash management practices of small, medium and micro enterprises (SMMEs) in the

Cape Metropolis, in South Africa. Data was collected from a sample of 200 SMMEs by means of a close-ended questionnaire survey. The finding of the study revealed that most of the sampled SMMEs manage their cash for speculative purposes or even invest their surplus cash gainfully. Thus, they fail to optimize on their entities' cash resources. Likewise, only a minority of the SMMEs employ computers for managing their cash, which is rather surprisingly given the proliferation of computers at a low cost in South Africa. The finding of the study revealed the implication for policy- makers of SMMEs as they will be made aware of the benefits of managing their cash effectively, particularly with regard to the need to use computers to manage cash, need to hold cash for speculative purposes and the need to invest cash surplus in the various short term investment opportunities available for the business.

Daniel A. and Assefa B. (2017), empirically analyse the inventory management practice of micro and small firms. In order to attain the research objective, target population of the study were Micro and Small enterprises functioning in manufacturing sub sector in four selected towns in Arsi Zone, Ethiopia. The descriptive statistics result signify that MSEs in the target study area found to be unfamiliar with the main scientific inventory management techniques and highly depend on manual base record keeping of their inventory as well as thumb based assessment of the inventory related decisions. The study found that policy makers, NGOs, universities and other agencies who are engaged in supporting of micro and small enterprises, don't work in providing the essential training and resource to encourage the inventory management practice of MSEs. This results in decrease in competitiveness and organizational performance of MSEs.

2.3 SECTION – II: REVIEW OF LITERATURE OF STUDIES CONDUCTED IN INDIA

Sandesara J. C. (1982), studied the assistance programme of the Government of India under the question of efficacy and incentives for small industry relating to long term financial assistance, reservation and the use and significance of incentives. The finding underlines the need for a proper assessment of assistance programmes related to raw materials, machinery on hire-purchase, technical assistance and preferential purchase scheme. The study revealed that the assistance may have gone to the units when they may not have needed it badly or in the quantum they got. It was seen that government assistance have been more substitution, less supplemental, replacing the resources they would have raised from elsewhere : other agencies in private field, diverting their resources from other investments or sparing some of their current incomes for investments through more austere living as some of the first generation entrepreneurs are known to have done, etc.

Nagaraj R. (1985), conducted a study using two all-India sample surveys, i.e. Reserve Bank of India's sample survey of small scale industrial units conducted during 1976-77, and National Small Industries Corporation sample survey data for 1979. The study found that there was a perceptible increase in the number of registered small scale units after the mid – sixties. Though, textile, food products, leather and furniture industries are numerically dominant, their significance in terms of the proportion of the total value added is relatively much less. Wages in the small scale sector are generally low and the distribution of unit within is highly skewed. More interestingly, the profitability as well as capital efficiency in the small scale sector as a whole is much higher than that of the corporate sector. The plausible reason for the relatively higher profitability in the small scale sector seems to be the lower wages and greater exploitability of labour on the one and fiscal concessions on the other.

Wrong S. (1993), revealed that the image of the institutional credit system is clogged up the credit flows to the small-scale and informal sectors. On the one hand, there is the crying need for larger institutional finance for the various categories of small-scale units which is now well documented by the P.R. Nayak committee of the Reserve Bank of India and On the other hand, commercial banks under the new dispensation have been rendering a smaller proportion of their incremental credit in favour of the small-scale and informal sectors. The operations of the SFCs are hamstrung by serious resource constraints, including reduced internal generation of funds due to lower recoveries. The reduced flow of credit from SIDBI to the SSI sector coincided with the government's stabilisation and structural adjustment programmes. The study found that the direct discounting of bills relating to medium and large industry's purchases from SSI units is regarded as a way out but it would be a narrow interpretation of the role envisaged for SIDBI in promoting and developing the small-scale sector. If the spirit behind the mobilisation of funds is to be respected, SIDBI should focus on schemes of assistance which would go to satisfy the direct credit needs of the small-scale sector.

Murthy R. (1994), analysed the impact of financial assistance on industrial development, and also assess the problems faced by the entrepreneurs in the state of Karnataka. It has been substantiated in the study with facts and figures that the financial support, the SSI sector received is not in proportion to the contributions made from this sector. It has been found in the field survey that the loan disbursement time for the SSI units is relatively longer. The major reasons being too many formalities and procedures to be followed, delay in sanctioning and release of the loan from the financial institutions. Majority of the SSI are not happy with the procedures followed by the financial institutions, several clearance from the various agencies, no proper planning on the part of the entrepreneurs etc. The role of Governmental agencies in providing scarce raw-material at a reasonable price to the SSI sector is the lowest. Majority of the SSI depend on open market or imports for raw-materials.

Nanjundan S. (1994), in the paper titled "Changing Role of Small-Scale Industry: International Influences, Country Experiences and Lessons for India" discussed the changing role of small-scale industry in the context of the adjustments called for by the process of globalisation. The first part of the study reviews the internationally pervasive influences of globalisation, technology revolution and structural reforms. The second part presents eight country case studies i.e. The US, Germany, Italy, Japan, China, Korea (South), Malaysia and Mexico focussing the changing role of small-scale industry. The final part attempts to draw lessons for India from the analyses of the first two parts. The study finds that the Statistics on small-scale industrial enterprises are notoriously inadequate in India because of overlapping definitions for regulatory and assistance programmes, changing coverage, exclusion of self-employed or own-account enterprises and no-reporting of closures or mortalities. R & D in many countries is carried out in public research institutes, universities etc, and there is need to provide for linkages and transfer mechanisms to small enterprises. Financing should be provided preferably as in Japan where separate institutions are catering to small enterprises finances. Such small business banks in dispersed locations could develop close client relationships and also be able to link up with informal channels of capital and credit. The study suggested that the trend towards closer and greater relationships between large enterprises and small enterprises need to be strengthened.

Ramaswamy K.V. (1994), approximated the small scale sector in India by the factory non-household segment of the manufacturing sector. It is found to be a significant source of manufacturing employment, particularly during the period 1981 to 1991, most of the addition to the manufacturing employment has come from non- household and non- factory segment. Registered small scale units are found to be a small but growing segment of manufacturing. It is observed that wages in small scale units are lower relative to the large scale sector but labour productivity is not proportionately lower in 1987-88. This production of reserved items is not found to be a dominant activity of SSI units. The estimated output share of reserved items in industries with large share of the number of reserved items is not found to have increased. This questions the policy of product reservation for the small scale sector.

Thomas T. T. (1994), contributed to the knowledge of how the SSI units perceive the market and approach it. It tried to look at the marketing decisions with reference to one major area; the channels of distributions; a study of the existing marketing systems and the operations of the SSI units manufacturing selected food products in Ernakulam District. The study analysed the existing channels of distribution as employed by these units in term of patterns employed, tasks undertaken and deficiencies. A study is based on the perceptions of the SSI units as regards to the Channels, their importance with reference to performance and relationship. The small scale industrialists operate within a series of constraints, a paucity of financial resources which restrict them in generating adequate awareness about themselves. SSIs are unable to build-up a credible image among the consumers, which would have otherwise lead to high levels of loyalty to their products/ brands. There is also a lack of scientific approach to marketing, resulting in improper deployment of resources and less effective processes.

Bala Subrabmanya M. H. (1995), recapitulated the origin of the policy of reservation of particular product lines exclusively for small scale industries and examined the evolution and performance of the policy with a view to answer the question if there is a case for continuing the reservation policy within the current policy framework of economic reforms. He observed that promotional agencies encourage the growth of SSI but protective measures such as reservation, coupled with concessions and benefit encourage SSI units to remain small rather than transforming itself to a larger size over a period of time. Protective policy acts as a hindrance or discouraging factor for realisation of inherent dynamism of SSI and impediment to the competitiveness of the sector. He further suggested that policies towards small industry should be based on a positive developmental attitude, seeking to aid by promoting efficiency, adaptation to new circumstances and growth rather than by protecting obsolete types of production against the competition of more modern methods.

Ramavat V. (1999), studied different problems relating to marketing of the SSI units in 16 talukas of Nanded District in Maharashtra. The problems were put before the entrepreneurs and their responses were noted by means of ranking. The study found that the majority of problems arise either because of traditional mindsets or infrastructural lacunas. The major problems identified were socio-economic conditions and socio-psychological setups. The study suggested that adequate infrastructure should be developed for marketing in Nanded (Marathwada region). Government should give priorities for the development of social overhead like- Roads, Railways, bank, communication etc. Marketing co-operative societies should be strengthened and should be ready to undertake various marketing functions such as storage, transportation, grading etc.

Bhati, S. S. (2002), analysed the role of SSI in the economic development of India. The study examined the factors affecting the growth and development of SSI and the problems faced by the vital sector of Indian economy. The study revealed that various policy initiative taken by the Government of India since independence has helped this sector to grow considerably. Some of the policies of the Government of India may however, not be highly helpful in increasing the efficiency of units in this sector as number of non- viable units is increasing steadily. The study revealed that various policy initiative with regard to financial concessions and lending, reservation of items exclusively for manufacturing in SSI sector, infrastructure and technology support given by the Government of India points to an equity and social justification. However, it was suggested that Government should understand that India is a diverse country with huge population and many social, cultural and political problems, which can have a considerable impact on the economy as well. The consequences of not providing support to SSI sector can be disastrous for India. Therefore, the Government support to SMEs is because ‘they are there’ can have some validity for SSI sector in India.

Bhavani T. A. (2002), studied the ongoing changes in the business environment and analysed their implications for small-scale units. Specifically, it looked at possible ways of improving the competitive strength and commercial viability of small scale units in the changing context. The study indicated that while liberalisation has exposed all industrial units including small units to market competition to a greater extent, globalisation intensifies market competition by allowing imports and multinational corporations into India relatively easily. In order to withstand competition, Indian industrial units especially the smaller ones need to improve their productivity and quality, to reduce costs (given the higher qualities) and to go for higher performance of products and better services. This means substantial improvement in various dimensions of technology, namely, transformation (mechanisation), organisation and information. Small units not only need to upgrade their technologies immediately but should also keep track of the changes in technologies. There seems to be a perceptible increase in the number of registered small scale units after the mid-sixties. The total number of registered small units receiving assistance from the commercial banks is estimated to be 2,33,221 and the net value added by them in the year 1976-77 is Rs 1,395 crore.

Rajaram D. (2002), advocated a new approach to priority sector lending. The study found that among other things the reduction of mandatory credit to a larger number of sectors and sections, including marginal farmers, cottage industries, small trade and services and low income housing was required. There is need of Incentives to improve credit flow to SSI and food crop agriculture as well as temporary credit to assure credit to new industries and new professions by the non-poor section. Financial incentive in terms of tax concession, refinance at lower rate or in any other form needs to be given to the lender to induce credit flow to other credit-shy sectors. Incentive for SSI, food crop agriculture and housing has to be high as these perform important functions of employment generation.

Narayana M. R. (2004), focused on analysis of quality and cost of infrastructure facilities and business environment, and their impact on competitiveness of India's SSIs. Quality of business environment is indicated by duration of delay in obtaining Government permission and clearance. The study found that low quality and high cost transport facilities, power, water supply; lack of market information; inadequate credit facility; and low technology have minor effects on competitiveness of SSIs in

Bangalore region than in other regions in the state. The study concludes that there is considerable delay experienced by SSIs in getting credit sanctioned from banks, tax and duty-drawbacks, temporary and permanent registration, and clearances for exports, permission for power and water connections, expansion and diversification and clearance from pollution control board. Other things being equal, these delays reduce the competitiveness of SSIs by adding costs. Thus, elimination of these delays is beneficial to improve competitiveness from the cost side.

Syed V. H. (2004), studied that under WTO regime, competition will be increased and there would be a threat to many obsolete and uncompetitive small scale units leading to closure of many SSIs. If these units do not restructure, improve the quality of their products, adopt innovative marketing and management practices in the changed environment, then they would lose their market, both within as well as outside the country. It will be difficult for them to survive and there is a possibility of higher mortality rate in the short-run. For the survival of the industry in the world market, SSIs would have to lay greater emphasis on international standards with regard to quality, health and hygiene as well as in the variety of products to be offered by them. SSIs should prepare themselves to face the new challenges posed by globalisation of trade and services and adhere to the global norms of tariffs and trade, Intellectual Property Rights on patents, etc. and have greater awareness of all these issues.

Rao Ramachandra K. S., Abhiman D., and Arvind S. K. (2006), examined the trends in sectoral allocation of bank credit to the SSI vis-a-vis the non-SSI sector in the post-reform period. The study also makes an attempt to understand the variations in bank credit to the SSI sector across bank groups, and also the influence of the size and performance of banks on credit to the SSI sector. The study results signify that the high prevalence of bad loans arising out of SSI advances could be one of the reasons for the declining share of SSI loans of the commercial banks. The study covers the period from 1992 to 2003. The study covers 97 scheduled commercial banks, excluding regional rural banks (RRBs). These banks are classified into four groups, viz, State Bank of India and its associates (SBIA), Nationalised Banks (NB), Foreign banks (FB) and Other Scheduled Commercial Banks (OSCB). These banks are also classified broadly into three size classes based on the total assets as on March 31st 2003. The size classes are: (i) total assets of size less than Rs 5,000 crore (termed as small), (ii) total assets of Rs

5,000 to Rs 20,000 crore (medium) and (iii) total assets of Rs 20,000 crore and above (large). The univariate approach, a multivariate regression framework is employed to relate bank level determinants of SSI lending to bank characteristics.

Saibal G. (2007), employed a sample of selected Indian Manufacturing firms over the period 1995-2004 and examined the factors influencing the concentration of bank debt in total debt. The results indicate that the factors vary by firm size. Small and Medium sized firms have a high concentration of bank debt. The result support the reputation view that firm face differential debt choice as they grow larger. The study also revealed the need for evaluating bank regulations by policymakers considering the importance of the reputation building service which banks provide to businesses. The findings of the study are consistent with theories of bank debt concentration which observe that banks play an important role in lending to business because of information asymmetries. This assumes relevance for emerging economies like India where the financial system tends to be primarily bank based.

Koti R. (2008), discussed about the expenditure, output, employment, export generation, and the performance and growth rate of SSI before Ninth Plan. A decline trend has been observed in the net bank credit to the sector. A number of SSI units have fallen sick during the process of industrialization due to lack of coordination, non-availability of credit, inadequate physical infrastructure, irregular supply of electricity, poor condition of road transportation, adoption of import liberalisation, tariff on materials, etc. It was suggested that the support to the SSI sector needs to emphasize increasingly on promotional policies rather than protectionism. Policy makers must appreciate the importance of SSIs and do the needful to empower them to face competition.

Birajdar M. S. (2011), attempted to explode the present profile and economic contribution of small-scale industrial sector in the overall economic development. By following the convenience sampling method 20 small scale industries were selected. The study critically analyzes the policy implication of the small scale industrial sector in the regions of Kolhapur in Maharashtra. The study found that small industries are generally poor and there are no facilities of cheap credit, there is also absence of organized marketing: As market is not properly organized the helpless artisans are dependent upon the mercy of middlemen. The study suggested that Government should introduce insurance schemes to the small scale sector, both to the unit and employees. There is a need for Training, Support and consulted programmers for small scale sector. The study further suggested that Government should provide rural artisan support to grow and grab the global market opportunities for the handicrafts. Accountability and transparency need to be brought in the implantation of the government schemes to support aspiring entrepreneurs.

Hemanta S. (2012), analyzed the financial performance of small-scale industries in Assam. Eight major variables are taken into consideration to measure the levels of development of the SSIs, for preparing a composite index comprising all the states using Data Envelopment Analysis (DEA). Analysis indicates that the sustainability of the factor ratios are not up to the mark and productivity of the inputs, especially the labour is low as compared to capital. The choice among the modern technology is hard as the management and quality of the labour inputs are not good and the mobility of the inputs is small. In Assam, there is no immediate shortage of funds but there is shortage of immediate profitable opportunities. In SSIs, the native investors of Assam face difficulty in raising the funds and government can decide preference of technology for the public sector undertaking industries only and not for the private sector. But they can influence the price of the factors which affects the choice made by the private investors. However, firm level planning is equally important with the economic planning.

Ishu G. and Suraj W. (2012), highlighted the growth and contribution of MSME sector in post reform India. The study examined the performance of MSMEs in India. The growth of MSMEs is judged by Compounded Annual Growth Rate (CAGR). CAGR is computed through Ordinary Least Square (OLS) technique by fitting the exponential function to the available data. Government policy should promote MSMEs by helping them to increase their efficiency and competitiveness within a market driven economy. For this it is essential that these enterprises no longer follows a protectionary stance as that has already been shown to be harmful to the sector. In order to prevent the major sickness in MSME sector, new approaches like the cluster approach or harnessing the power of industry associations should be encouraged. The study confirmed that the significant growth of MSMEs have taken place over a period of time and this sector is the major donor to Gross Domestic Product (GDP), employment and exports in Indian economy.

Kumar S. (2012), Studied MSME units, selected on random method with seven variables considered for evaluation of procedures. These seven variables include support for project planning, processing time of application, formalities stipulated, processing fee, time for project appraisal and sanction, time for documentation and disbursement and attitude of officials. The terms and conditions imposed for seeking assistance are also evaluated using another set of seven variables such as promoters' share, security requirement, rate of interest, penalisation for default, pre-closure premium, restriction in second charge creation and repayment and recovery norms. T-test and Analysis of Variance (ANOVA) were used to analyse the average values of different variables among different sections of the data. The State Financial Corporation's (SFCs) and Small Industrial Cooperation's (SIDCs) at State level have been facing declining lending volumes and plummeting significance. The claims of the institutions regarding their change in attitude and industrial promotion outlook failed to deliver goods.

Mulimani A.A. , Belgaum M.S. and Morakar P.R. (2012), identified and examined the SSI units and their problems and prospects in Goa state. This study is based on the exhaustive secondary data collected. The collected information has been tabulated and suitable statistical techniques have been employed. The Pie diagram and Choropleth map was also prepared. The resource base and locational advantages and disadvantages are considered to identify the problems and prosperity of SSI units. It has been observed in the study region that the labourers are emerging as a technical password and are responsible for utilization of resources to the maximum extent in an optimal level and also skilled labourers have replaced the technical labourers. The industrial policy 2003 is not oriented towards the prospering of such units due to the lack of geographical aspects. Therefore, the study has suggested the effective planning strategy for further development of SSI units to be prepared and executed.

Prashant S. (2012), found that the opportunities and challenges faced by MSMEs have made them realise that they cannot grow until and unless they develop internal resources and market strengths. Banks operating in India have developed strategies and developed internal capabilities and competencies to manage the changing trends. Banks need to leverage these strengths by giving extra value to MSMEs so that the risks are reduced and banks become partner in MSMEs growth, thus completing the RBI norms and increasing profits for both (Banks and MSMEs). Standard Chartered Bank launched its SME Banking World Debit Card, a cash management tool that provides convenience, savings and relationship rewards for Small and Medium Enterprise (SME) customers. This debit card is offered to all MSME customers having a transactional account with the Bank. The card has the feature of being the first to market proposition of enabling different limits for different cardholders, thus, mitigating the risk due to multiple cards. The card also has a high daily cash withdrawal and spending limit of up to a maximum of Rs. 5 lakh to support business spends.

Sharma R. (2012), in the paper titled “Problems and Prospects of Small Scale Industrial Units (A Case Study of Exporting and Non – Exporting Units in Haryana)” developed sufficient insight, leading to formation of appropriate institutional arrangement to strength economic viability of small scale industrial units in Haryana and elsewhere in country. It has been found that sole proprietorship is the most dominant form of ownership/organization in exporting and non-exporting small scale units. The study tried to find out the differences between problems and prospects of exporting and non-exporting units. Majority of units (65percent) belonging to non-exporting are young (six to ten years) in age. In general, a positive relationship is seen between age of the firm and their asset size of exporting and non-exporting units in Haryana. The study reveals the basic marketing problems related to exporting and non-exporting units. Interpretation of Problems faced by SSI units show that finance problem is largely faced by non-exporting units while exporting units have to face the problems like executive inefficiency, technological lag, problems relating to export etc.

Singh R. V. and Bimal Anjum O. P. (2012), analyzed the performance of Small Scale Industry in India and focus on policy changes which have opened new opportunities for this sector. The study is based upon secondary information collected from various annual reports of MSME and SSI. Some information is also collected from different issues of economic surveys published by Government of India and certain other important books and journals. The collected data has been presented in tabular form and various mathematical and statistical tools like percentage, average, standard deviation, coefficient of variance and combined growth rate have been used for data interpretation. This study revealed that after economic reforms the number of units had increased but the production level is not increased according to the proportionate increase in number of units. The total number of the persons employed in this sector has gone up but the annual increase in employment has come down.

Biswajit B. (2013), delineated the need of greater attention on the financing requirement of MSME sector. The firms require credit assistance at different stages of their life cycle. The unique features of this type of firms imply that their credit needs deserve persistent attention. Therefore, financial institutions and the banks have the greater responsibility to offer such credit products and financing schemes which meet the requirements of MSME sector. While meeting this financing requirement, problems may occur with respect to asset quality of the financial institutions. In order to endorse this sector, there is a need to create an enabling environment which can ensure credit flow and at the same time attend to concerns regarding management of credit made to the sector. The NPA of banks resulting from lending to this sector is also very high. The setting up of Credit Information Bureau of India Limited (CIBIL) can strengthen the credit information infrastructure.

Nagaraju and Kavitha Vani S. D. (2013), attempted to understand the commercial banks lending to priority sector and non priority sector and to identify problems and prospects of SME lending. Study found that it becomes difficult for the banks to evaluate the repayment capacity of MSMEs and to assess the credit risk associated. Moreover, commercial banks in India do not have necessary competence to differentiate between good and bad risk. Banks have not yet developed adequate expertise in SME lending risk assessment. Major concern of the bank is the recovery of the amount lent to this sector. Lending to SME sector looked as a non- profitable banking activity, as lending to SME sector is under priority sector lending.

Sanjeev K. S. and Basudeb S. (2013), examined the role of MSMEs in the economic development of India as well as in generation of employment. The study further analysed the role of commercial banks in financing credit to MSMEs and the problems faced by MSMEs due to globalization. The study revealed that MSMEs play a vital role in our country where poverty and unemployment is a serious problem. MSMEs of today may be the MNCs of tomorrow. Therefore top priority should be given to this sector. The total credit to MSMEs by schedule Commercial banks has been increasing, but only 5.18% of the MSMEs units availed finance through institutional sources, 2.05% from non-institutional sources and 92.77% had no finance or depended on self finance. Therefore, financial institution like commercial banks has to play a significant role to provide credit to this sector to facilitate balanced economic growth of the Indian economy. The study suggested that Government both Central and States as well as NGO's should adopt proper steps for marketing of products both domestically as well as globally.

Abbas M. and K Ramesha (2014), using historical data from the website of the Reserve Bank of India (RBI), examined the supply of credit from domestic bank to MSMEs in two phases; Pre and Post Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. The study observed that despite of great potential of MSMEs, a number of problems often constrain these units with respect to access to adequate and timely credit at affordable cost. These constraints are responsible for sickness and failure among many units. The findings of the study reveal that the flow of credit to the sector has improved during the post MSMED Act period. The improvement is further supported by the fact that growth of credit extended to MSMEs is greater in quantitative terms compared to credit extended to SSIs before the enactment. Moreover, share of the sector in net bank credit and priority sector credit by public sector and private sector banks have increased since the enactment. The above finding remained true for both public and private sector banks in terms of lending pattern.

Nishanth P. and Zakkariya K. A., (2014), identified the various barriers faced by MSME units in raising finance and also tried to identify the various sources of finance other than banks. The study was based upon primary data from the MSME owners in Kozhikode District of Kerala. The study found that, major portion of respondents (69.89%) availed credit from public sector banks only a meagre portion (2.74%) of respondents availed credit from private sector banks. It is also found that only 11% of the respondents availed multiple loans from banks and 81% of respondents used both owned and borrowed fund in their capital. Further, it was observed that 8.43% of firms use relatives as their sources of borrowed fund and 74.70 % of respondents use bank as their sources of borrowed fund. From these findings, the study recommended that

District Industries Centre must give proper training regarding the maintaining of accounts, getting various licenses and clearances which will help the MSME units to increase the managerial capacity of owner of these units. Further, banks must provide details regarding various credit schemes. They must also conduct more campaign to attract more customers.

Srinivas K T (2014), studied the financial assistance provided to MSMEs in Karnataka by Canara bank. The data was collected for the period of 5 years and it is analyzed based on the information provided by bank officials and available annual reports. The study found that government is continuously supporting the MSMEs to grow, however, it should consider the present business environment and exposure level of the entrepreneur in the country and focus should be made on increasing the lending of banks to MSMEs, which are one of the traditional and trusted ways to finance the business.

Harish N. (2015), found that despite the increase in financing to the MSME sector, there is still a considerable credit gap which needs to be bridged. Therefore, access to adequate and timely credit at a reasonable cost is the most critical problem faced by MSMEs. Over the years, there has been a considerable rise in credit extended to the MSME sector by the banks. Despite the increase in credit outstanding to the sector, the financial requirements of MSMEs have not been adequately and passably addressed by formal financial institutions. The statistics compiled in the fourth census of MSME sector, revealed that the extent of financial inclusion in the MSME sector is high. The study suggested that the government should also take necessary steps to promote the MSMEs' product in the market by arranging trade fairs, export shows etc. There is a need for the government, banks or financial institution to promote MSME development by providing policy support, adequate and timely finance and other required facilities to address the issue of poverty, unemployment, financial inclusion and inclusive growth.

Harsha T. and Hegde Desai P.(2015), in the paper titled “Lending to Micro Small and Medium Enterprises:An Analysis of Bank Approaches and Risk Perceptions” attempted to identify the approaches used by banks to finance MSME sector thereby finding out whether these approaches differ across banks, type of units and loan types. The study also identifies and evaluates important criteria in different lending approaches. The study found that in Public and Private sector banks the lending is based on the financial data, however, the lending based on the relationship has been given equal importance. For Micro enterprises, the character based lending has been considered the most important evaluation technique after financials. In character based lending, Quality of Management has been identified as the most essential factor. In relationship lending, the track record with the bank and intended purpose of the loan are the two most important factors identified and in financial lending, business plan and financial performance of the company are the most significant factors considered in MSME lending.

Meena K. (2015), identified the sources of finance and their effectiveness for MSMEs. The study also examined the importance of MSMEs, their growth constraints, financial sources, role of venture capital in meeting financial requirements, measures to channelize venture capital funds to MSME sector and suitability of venture capital finance as a source of finance to MSMEs. The findings of the study indicated that the sector faces great difficulty in obtaining adequate and timely finance during its early stages. Venture capital has an important role to play in effectively meeting the early stage requirement as bank finance is not forthcoming due to various constraints. The study suggested that government should take measures such as promotion of SME exchanges to provide better exit environment, relaxation of regulatory norms, fiscal incentives and promote development of business angle network through public private participation.

Thangavel N. and Hariharan V. (2015), identified the various problems faced by MSMEs and analysed the constraints and gap in financing MSME sector. Lack of availability of credit, limited equity capital in the capital structure, lack of technical knowhow, risk premium charged by the banks, lack of collateral or third party guarantee is identified as some of the constraints in MSME finance. The study found that despite government initiative, MSME sector still needs support from banks and financial institutions to have timely and adequate amount of credit requirement. There is a finance gap of approximately 20 trillion rupees for the MSME sector. The gap is vast for the government to fill up. Banks generally can lend only the prescribed amount to this sector as mentioned under priority sector lending obligations but not the full amount. Another most important problem that MSMEs face in accessing credit from banks is absence of collateral security. Banks usually require collateral security for MSME lending and it becomes a huge hurdle for MSMEs in securing credit from banks.

Viswanatha Reddy C. (2015), analysed the flow of credit in terms of sanction and disbursements and assistance to MSMEs. The district-wise and region-wise distribution of lending towards MSMEs in terms of number of units, amount sanctioned and disbursed was studied with trend analysis using regression model. ANOVA: Single factor was used to highlight the difference between assistance given to MSMEs and others. Few suggestions were offered for strengthening the position of MSMEs in the newly formed Andhra Pradesh. The analysis of the assistance sanctioned to MSMEs in three regions during the study period revealed that the Telangana Region received a larger share of assistance, followed by Coastal Andhra and Rayalaseema regions. It was therefore appeared that, neither Coastal Andhra nor Rayalaseema regions have been given the bulk number of MSMEs sanctioned by the Andhra Pradesh State Financial Corporation (APSFC). The study suggested that the industrially backward districts of the state need special consideration from the APSFC while financing the MSMEs to promote balanced regional development in the State. APSFC should also decentralize its activities and multiple holding by one entrepreneur with the help of assistance from the Corporation should be avoided.

Ravindra B. G. and Ashutosh G. (2017), took the literature reviews of the financial management practices to generate insight into untouched and neglected area of Micro, Small and Medium Enterprises (MSMEs). The previous research studies identified the positive relationship between the financial management practices and MSMEs but no clear relationship established between various component of financial management practices viz working capital, capital structure and investment practices with profitability. The study focused on the financial management practices which are essential and critical for the survival, growth and profitability of MSMEs. The study concludes that accounting and financial knowledge, capabilities in interpreting the financial statements, owner-managers attitudes and their level of participation in financial aspects of business are mainly responsible for the success or failure of MSMEs.

2.4 IDENTIFICATION OF RESEARCH PROBLEM

MSME sector has contributed significantly to the State's economy, despite of this the sector finds it difficult to seek adequate finance and high cost with heavy collateral makes entrepreneurship difficult in the state of Goa (Kamat R.S., TOI, 2015). The policymakers have also for a long time voiced concerns about MSMEs' lack of access to bank finance. The Government of India and Reserve Bank of India has from time to time reviewed policy measures to ensure that the assistance from the banking system is flowing in an increasing manner to the MSME sector. The concept of priority sector lending was also evolved to ensure that finance is provided to the vital sectors of the economy according to the national priorities. As the banks and financial institutions are providing finance to the MSME sector for quite some time now, it is of paramount importance to have an empirical evaluation of its performance so that the problem can be identified and programmes could be improved.

It is being learned from the literature review that number of studies have been carried out on MSMEs in general and promotional and developmental activities undertaken by the Government and various developmental agencies in particular. Studies are also been found investigating; MSMEs' constraints to access finance, issues in financing working and fixed capital of MSMEs but much has not been highlighted on financial problems in terms of requirement, accessibility and utilization of finance by MSMEs in Goa. There has been ample research done on the banking sector especially in terms of its lending practices and constraints in providing and managing finance. However, no research has been found in the area of banks experience in lending to MSMEs and credit management of MSMEs by banks in Goa.

Hence, there is a need for a comprehensive study on understanding the financial requirements of MSMEs and banks experience in lending to MSMEs as a whole in the state of Goa. An in-depth study of the problems pertaining to constraint to access bank finance as perceived by the entrepreneurs and by the banks at the state level is very much lacking. The present study, thus makes an attempt in bridging this knowledge gap through a financial analysis of MSMEs in terms of its requirements, financing pattern and effective utilization of finance by MSMEs in the State of Goa and the experience of banks in lending to MSMEs and their credit management by banks in the State.

2.5 CHAPTER SUMMARY

The issues and concepts that emerged from Review of Literature are employment, productivity, marketing support, quality products, product innovation, economic growth, entrepreneurial skills, poverty alleviation, relative cost efficiency, growth rate, managerial skills, competent staff, product promotion, technological improvement, labour productivity, utilization of resources, marketing problems, professionalism and better management, financial constraints, stringent loan procedure etc.

Data collected/obtained was presented using Bar graph, Pie Chart and Line graph. Several studies analysed data using different Statistical Techniques such as: Arithmetic Mean, Percentages, Ranking order, Frequency distributions, Growth rates, Least-squared Methods, Correlation, Regression, Chi-square Test, Ratios, Time-series analyses, ANOVA, Structural Equation Modelling.

The studies suggested changes in policy measures, incentives schemes, business environment, legal environment, training programmes, infrastructure, support and assistance programmes. Number of studies also suggested strengthening, monitoring and evaluation of existing programmes introduced by Central and State Government at various levels.

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CHAPTER III

RESEARCH METHODOLOGY

Sr. No. **Contents**

3.1 INTRODUCTION

This is an empirical study on financial analysis of MSMEs in Goa with specific reference to financial requirements, the pattern of financing and effective utilization of finance by MSMEs and the experience of selected Banks in financing MSMEs and Credit Management of MSMEs by these selected banks in Goa. The study also focuses on identifying consensus among the users and the suppliers of funds. In studies of this nature, coherent and logical arrangement of material is vital. For the resolute and focused direction, the entire study is divided into two major areas of research i.e.

i) **Analysis of financial requirements, the pattern of financing and effective utilization of finance by MSMEs in Goa**

ii) **Analysis of banks' experience in lending to MSME and credit management of MSMEs in Goa.**

In the first major areas of research, the researcher studies the responses given by MSME owner/manager on various financial requirements, the pattern of financing, effective utilization of funds and its constraint to access bank finance in Goa. The second major area of research is based on the responses of the bank branch managers, their experience in lending to MSMEs, credit management of MSMEs and consensus on the constraint to access bank finance for MSMEs in Goa. The justification for the entire research methodology adopted to achieve the said objectives and test the hypotheses is given in this chapter. Adequate care and weightage is given to all the aspects while drafting the research methodology to achieve the desired objectives.

This chapter embodies as a blueprint of the entire research study and gives an in-depth knowledge for a better understanding of the whole study. This chapter deals with the description of procedures adopted in carrying out the study. It describes the research objectives, research design, Universe and Sample, Sources of Data, Sampling and Data Collection Technique, Structure and Validation of Questionnaire, Reliability and validation of instrument, Period of Study and Data Analytical Tools.

3.2 RESEARCH OBJECTIVES

The main objective of this study is to analyze the financial constraints for MSMEs and examine the Banks' experience in lending to MSMEs in Goa. However, the specific objectives of the study are as follows;

1. To study the various financial requirements and to examine the pattern of financing by MSMEs in Goa.
2. To evaluate the effective utilization of finance by MSMEs.
3. To analyze the experience of selected banks in financing MSMEs.
4. To examine credit management of MSMEs by the selected banks.
5. To study the consensus among the users and suppliers of funds.

3.3 RESEARCH HYPOTHESES

In order to analyse the aforesaid objectives, the following hypotheses are framed and tested to arrive at the concrete results and findings. However, the sub-hypotheses of the study are being framed and tested in the respective chapters.

- $Ho_{1(a)}$: There is no statistically significant difference in financial requirements of MSMEs in Goa.
- $Ho_{1(b)}$: There is no statistically significant association between the firm's characteristics and the patterns of financing short term, medium term, long term requirements of MSMEs in Goa.
- Ho_2 : There is no effective utilization of finance by MSMEs in Goa.
- Ho_3 : There is no significant difference with regard to banks experience in lending to MSMEs across type of banks, years of experience of banks in lending to MSMEs and district wise location of banks in Goa.
- Ho_4 : There is no significant influence of precautionary, corrective and recovery measures on credit management by banks in Goa.
- Ho_5 : There is no significant consensus among the users and suppliers of funds.

3.4 SCOPE OF THE STUDY

The scope of this research study is limited to MSMEs which are registered and operating in the State of Goa as on July 2016. The study considered only MSMEs engaged in manufacturing activities, service sector units are not covered for the purpose of this study. The study laid emphasis only on financial requirements, pattern of financing and effective utilization of finance by MSMEs in Goa.

Further, only commercial and co-operative bank branches operating in the state of Goa are selected and studied. The study focused only on analysing banks' experience in lending to MSMEs and credit management of MSMEs by banks in Goa.

The study of consensus among the users and suppliers of funds was restricted to four constraints in accessing bank finance for MSMEs in Goa.

3.5 RESEARCH DESIGN AND METHODOLOGY

A quantitative approach is adopted to quantify the problem relating to banks lending to MSMEs in Goa and attempts to know, how prevalent these problems are by looking at the derived results. The quantitative approach is more explorative in nature, which helps in exploring the causes of the potential problems that may exist. In order to, explore the financial requirements, the pattern of financing and effective utilization of finance by MSMEs on one hand and the banks' experience and credit management of MSMEs by banks in Goa on the other, this approach is found to be most appropriate. Further, the results of quantitative research are interpreted in an almost similar manner by all experts. The outcome of this study aims to contribute to the existing knowledge in the area of banks' lending to MSMEs in Goa.

In order to effectively conduct the research study and test the proposed framework, the quantitative research approach is adopted and used. The research design adopted ensures the conceptual clarity and reveals the implication of different viewpoints of MSMEs' and Banks' in Goa.

Since, the study is conducted and analysed from the point of view of MSMEs and Banks, it uses different sources of data, which necessitate to divide the study into two major area of research. They are:

1. **Analysis of financial requirements, the pattern of financing and effective utilization of finance by MSMEs in Goa**
2. **Analysis of banks' experience in lending to MSME and credit management of MSMEs by banks in Goa**

Following is the research methodology adopted for each of these major areas of research.

3.5.1 ANALYSIS OF FINANCIAL REQUIREMENTS, PATTERN OF FINANCING AND EFFECTIVE UTILIZATION OF FINANCE BY MSMEs IN GOA

RESEARCH METHODOLOGY

This major area of research is based on the responses derived from MSME managers/owners with regards to financial requirements, the pattern of financing and effective utilization of finance by MSMEs in Goa. The study also relied on the MSMEs response with regards to constraints in accessing bank finance. The following objectives are analysed in this major area of research:

1. To study the various financial requirements and to examine the pattern of financing by MSMEs in Goa.
2. To evaluate the effective utilization of finance by MSMEs.

Further, to carry out this part of the research, following hypotheses are framed.

- $Ho_{1(a)}$ **-** There is no statistically significant difference in financial requirements of MSMEs in Goa
- $Ho_{1(b)}$ – There is no statistically significant association between the firm's characteristics and patterns of financing short term, medium term, long term requirements of MSMEs in Goa
- Ho_2 : There is no effective utilization of finance by MSMEs in Goa.

3.5.1.1 Universe and Sample Size

a. Universe

There are 7793 MSMEs registered, as on 31st December 2015 in the State of Goa (Economic Survey, 2015-16, Govt. of Goa). Out of these, 2793 are manufacturing units (Directorate of Industry, Trade and Commerce, Government of Goa 2015-16). Hence, these 2793 units are considered as the universe for this study.

b. Sample Size

For the purpose of this research, a sample of 358 Micro, Small and Medium manufacturing industries located in the State of Goa are studied, the above 358 MSMEs are selected from both the districts i.e. North Goa and South Goa. Further, units that are registered with the Directorate of Industry Trade and Commerce (DITC) and are located in the Industrial Estate as well as outside the industrial estate are selected.

The above sample size of 358 MSMEs is determined using the following criteria;

1. Sample size determination formula developed by R.V. Krejcie and D. W. Morgan, 1960 which is as follows.

   $s = X^2 NP (1- P) \div d^2 (N-1) + X^2 P (1- P)$

   where,

   s = required sample size.

   X^2= the table value of Chi-square for 1 degree of freedom at the desired confidence level (3.841).

   N = the population size.

   P = the population proportion (assumed to be .50 since this would provide the maximum sample size).

   d =the degree of accuracy expressed as a proportion (0.05)

   Therefore, the required sample for the population size up to 2800 a minimum sample size of 338 is required at the 5% level of significance.

2. As per the sample size calculator online (Survey System-https://www.Survey system.com/sscalc.htm and Check Market- https://www.checkmarket.com/sample-size-calculator/) at the Confidence Level of 95% and Confidence Interval of 5% with the Population of 2793 a Sample size needed is 338.

Considering the above two criteria a sample size of 358 is considered to be adequate for the present study.

The above sample size determined is used to collect data from MSMEs located in the State of Goa.

3.5.1.2 Sources of Data

The source of data for this area of the research study is collected from both primary and secondary sources.

The primary data was collected through a well designed structured questionnaire, administered to MSME owners/managers located in the State of Goa.

The secondary data is collected from online and printed published sources such as books, research papers, articles, annual reports of MSME, Government of India, annual reports of RBI and newspapers.

3.5.1.3 Sampling and Data Collection Technique

Since the sample is distributed over wide area, the accessibility is difficult. Therefore, convenience and snowball sampling techniques for data collection for this area of study is adopted.

The required data for this area of the research study is collected by a structured questionnaire distributed personally to the owner/manager of MSMEs in the State of Goa. A total of 370 questionnaires were administered to the respondents. Out of these, 358 questionnaires were found to be complete and valid.

3.5.1.4 Structure and Validation of Questionnaire

The effective and impartial data collection is necessary to maintain the objectivity and to achieve the desired outcome. Thus, to make the questionnaire more engaging, relevant and appealing, the entire questionnaire was divided into four sections.

Section-I deals with characteristics of the firm which includes; Chief promoter’s gender, chief promoter’s education, type of unit, type of product, the form of ownership, turnover and size of the unit.

Section-II deals with questions related to financial planning practices, short term, medium term and long term financial requirements, sources of finance and pattern of financing.

Section-III comprises of responses towards various statements related to financial management practices. Total 43 statements drawn from the relevant literature are considered in this section. These statements are studied by five points scale.

Section-IV deals with questions regarding consensus among MSMEs' on disbursement time, interest rate, collateral for loan and documentation and procedures as constraints to access bank finance in Goa.

The content validity of the Questionnaire is carried out with the help of pilot studies at various stages of research. The face validity of the questionnaire was determined by consulting academicians and industry executives viz. Nandakumar Mekoth, Former Dean, Dept. of Management Studies, Goa University, Neelesh S. Subhedar**,** Dy. General Manager – Finance, Schiffer & Menezes India Pvt. Ltd. and Damodar Kochkar, President, Verna Industrial Estate.

3.5.1.5 Reliability and Validation of Instrument

Joppe (2000), states that the research instrument is reliable when the results are consistent and are representative of the total population.

The cronbach's alpha statistics is considered to be an appropriate tool for determining the reliability of the scale used in the study. An alpha value of 0.70 is the minimum acceptable standard for demonstrating the internal consistency of the instrument (Kennedy et al, 2002).

The reliability of the scale for this part of the study is measured by using Cronbach's alpha statistics.

The instrument was found reliable with Cronbach's alpha values of 0.734 for 29 items in section- I, 0.819 for 23 items in section- II, 0.946 for 43 items in section- III and 0.820 for nine items in section- IV.

3.5.1.6 Period of Study

The survey was carried out during the period from May 2016 to June 2017. Hence, this period of the survey is considered as period of study.

3.5.1.7 Data Analytical Tools

Statistical methods and analyses are often used to communicate research findings and to support hypotheses and give credibility to research methodology and conclusion. It is important to identify and employ suitable, relevant and reliable analytical tools so that it helps to evaluate the credibility, inform the usefulness of the information and help in making appropriate decisions.

The following statistical tools are used for analysing the objectives and hypotheses pertaining to this major area of research.

i. **Chi-square test**, also written as X^2 test, is used to determine whether there is significant difference between the expected frequency and observed frequency in one or more categories. It is the test of association. In the present study, Chi-square test is used to find the association between firm's characteristics and regularity in financial planning practices, people involved in financial planning, type of financial plans prepared and the basis of estimation of financial requirements adopted by MSMEs in Goa.

ii. **The Fisher exact** test of significance is used in place of chi-square test for the responses which fall in only one cell or where the dichotomous level of measurement of the variables is assumed. It considered best when there are two nominal variables and the study tries to find out whether the proportion for one variable is different among values of the other variable.

The chi-square and fisher exact test are found to be more suitable statistical tools to test the association between financial planning practices and pattern of financing with firm's characteristics. The study has attempted to find, whether financial planning practices which determine the financial requirements of MSMEs have any significant association with firm's characteristics such as chief promoter's gender, education, type of unit, type of product, the form of ownership, turnover and size of the unit. The study also analysed whether the sources of finance preferred by MSMEs to meet short term, medium term and long term financial requirements have any association with the firm's characteristics.

The chi-square and fisher exact test are used to test hypotheses Ho_{1a}, $Ho_{1(a)(i)}$, $Ho_{1(a)(ii)}$, $Ho_{1(a)(iii)}$, $Ho_{1(a)(iv)}$, $Ho_{1(b)}$, $Ho_{1(b)(i)}$, $Ho_{1(b)(ii)}$ and $Ho_{1(b)(iii)}$.

iii. **Multinomial Logit model** is used to model relationships between a polytomous response variables and a set of regressor variables. Multinomial logistic regression is a simple extension of binary logistic regression that allows for more than two categories of the dependent or outcome variable. It is suggested by Mc Fadden (1974) and called it as discrete choice model. The multinomial logistic regression model compares a number of dichotomies and uses maximum likelihood estimation to evaluate the probability of categorical membership.

The present study uses the Multinomial regression model to test the relationship of Period, Quantum and Frequency of short term, medium term and long term financial requirements with the size of unit. The Multinomial regression model is found to be a suitable statistical tool to test hypothesis $Ho_{1a\ (v).}$

iv. **Bar Graph** is the best option when there is comparative data which would be represented through chart. Bar graph in this study is used to represent the sources of finance preferred by MSMEs to meet short term, medium term and long term financial requirements. The bar graph has helped to present and compare the financial requirements of MSMEs with different sources of finance available to MSMEs and present the data visually and interpret the result.

v. **Confirmatory Factor Analysis (CFA)** is used to test how well measured variables represent constructs. CFA is performed to assess fitness, reliability and validity of latent constructs. The CFA process determines whether the hypothesized structures provide a good fit to the data, or in the other words, that a relationship exists between the observed variables and their underlying latent or unobserved, constructs (Child, 1990).

In the present study, the measurement model for each of the construct i.e. The cash management practices, accounting information system, financial reporting and analysis, accounts receivable management, inventory management practices, financing and investment management are tested and found valid. The following model fit indices i.e. CMIN/DF, NFI, TLI, GFI, AGFI and RMSEA (Hair et al., 2007; Stephen P., 2008) are used to assess fitness, reliability and validity and are found within the acceptable limits.

vi. **Structural Equation Modelling** is a multivariate statistical analysis technique that is used to analyze structural relationships between two or more variables. This technique is a combination of factor analysis and multiple regression analysis. It is used to analyze the structural relationship between measured variables and latent constructs.

In this study, to identify the factors related to effective utilization of funds and to analyse their interrelationship, structural equation modelling is found to be an appropriate statistical tool. Cash management practices, accounting information system, financial reporting and analysis, accounts receivable management, inventory management practices, financing and investment management were identified as independent variables and Financial Management practices are considered as the dependent variable.

The hypotheses Ho_{2}, $Ho_{2(a)}$, $Ho_{2(b)}$ and $Ho_{2(c)}$, were tested using the SEM model.

3.5.2 ANALYSIS OF BANKS' EXPERIENCE IN LENDING TO MSME AND CREDIT MANAGEMENT OF MSMEs IN GOA

In this major area of research the responses derived from Bank managers/officers with regards to their experience in providing fund based and non fund based facilities to MSMEs, MSME response to MUDRA and CGTMSE schemes, attributes of MSME loan defaulters, factors responsible for NPAs in banks due to credit default by MSMEs, credit management measures adopted by banks in Goa and consensus among banks with regards to constraints for MSMEs in accessing bank finance.

The following research methodology is developed and adopted for analysing this part of the study.

The following objectives are analysed in this major area of research:

1. To analyze the experience of selected banks in financing MSMEs.

2. To examine credit management of MSMEs by the selected banks.
3. To study the consensus among the users and suppliers of funds.

Further, to analyse the above objectives following hypotheses are framed and studied:

- Ho_3: There is no significant difference with regard to banks' experience in lending to MSMEs across type of banks, years of experience of banks in lending to MSMEs and district wise location of banks in Goa.
- Ho_4 : There is no significant influence of precautionary, corrective and recovery measures on credit management by banks in Goa.
- Ho_5 : There is no significant consensus among the users and suppliers of funds.

3.5.2.1 Universe and Sample Size

i. Universe

There are 41 Commercial banks and 15 Cooperative banks functioning in the State of Goa as on 31st December, 2015. These commercial banks have a network of 644 bank branches and cooperative banks have a network of 164 bank branches (Economic Survey, 2015-16, Govt. of Goa).

These 41 Commercial banks and 15 Cooperative banks together having a network of 808 bank branches represent the universe of the study.

ii. **Sample Size**

For the purpose of this research study, a total of 100 bank branches, both from Commercial and Co-operative banks are selected and studied. The sample size for the above population is based on the following criteria:

- The sample size considered by various previous International and National level research studies conducted on the bank finance to MSMEs are: Sample size- 63, Carlo C. et al. 1995; Sample Size-65, Wasswa G., 2011; Sample Size-70, M. O. Okoth,2013 and Sample Size-80, Sukirat Kaur,2014.

Based on the literature survey, a sample size of 100 bank branches is considered to be adequate.

- The online sample size calculator recommends a sample size of 84 bank branches for the population of 808 bank branches at 5% margin of error.

- As per Niles (2006), for a 95% confidence level (which means that there is only a 5% chance of sample result differing from the true population average), a good estimate of the margin of error (or confidence interval) is given by $1/\sqrt{N}$, where N is the number of participants or sample size.

For the sample size of 100 respondents, the margin of error is 5%, which means even if 60% of the respondent reported positive response; there would be a 95% probability that between 50 to 70% of the total population have a positive response.

3.5.2.2 Sources of Data

The data source for this part of the area of research is both Primary and Secondary sources.

The primary data is derived from the response to the well designed open ended and close ended questionnaire administered on Bank Managers. The result of semi structured interviews conducted on bank managers is used as supplementary data for those obtained from the questionnaire.

Secondary data is collected from the internet, books, research papers, research articles and newspapers.

3.5.2.3 Sampling and Data Collection Technique

In order to collect the data, the study uses a convenience sampling technique. Convenience sampling involves selecting those cases which are easier to obtain for the sample in a given study (Saunders et al, 1997). However, the researcher has taken adequate care in selecting a minimum 10% representation from each type of banks. It is thus assured that there is representation with an equal proportion of the Private sector, Public sector and Co-operative banks.

The required data is collected through a structured questionnaire personally administered on bank managers/officials. Out of the total 120 questionnaires administered, 100 questionnaires were found to be complete and valid.

3.5.2.4 Structure and Validation of Questionnaire

Negligence in questionnaire construction and not realising the promises made to respondents are both major factors in causing the poor reputation of the questionnaire (Smith 1995). It is ensured that great attention was provided in the formation of the questionnaire. The questionnaire was divided into four sections.

Section – I consists of basic information of the banks like name of the bank, location of bank, year of starting the branch, years of experience in MSME loan.

Section – II include questions related to Banks experience in lending to MSMEs with regards to fund based, non-fund based facilities, loan documents required, response to Government schemes, attributes of MSMEs' defaulters in Goa.

Section – III comprises of measures adopted by banks in the credit management of MSMEs.

Section – IV deals with questions regarding consensus among banks on disbursement time of loan, interest rate, collateral for loan and documentation and loan procedure as constraints to access finance to MSMEs' in Goa.

The content and face validity is done at every stage of research study through the pilot study and in consultation with expert and professionals from the concerned subject area. Shivani Vishwas Nayak, Lead District Manager-South Goa, carried out the face validation of a questionnaire for Banks and gave valuable inputs. Vasudeva Rao, Asst. General Manager, SBI did the content validity and helped in administering the questionnaire to all Bank managers providing loan to MSMEs in Goa.

3.5.2.5 Reliability and Validation of Instrument

Reliability determines the consistency of the respondents in their responses. The reliability of the quantitative research is measured by the reliability test using cronbach's alpha statistics.

The reliability and content validation of an instrument for this part of the study is tested separately for each section. With cronbach's alpha value of 0.741 for nine items in section- I, 0.811 for 32 items in section-II, 0.922 for 21 items in section-III and 0.720 for nine items in section-IV, the Instrument was found reliable as the results of reliability test meets the cut-off criteria.

3.5.2.6 Period of Study

This part of the study is survey based. The survey was conducted from March 2016 to May 2017. Hence, the period of survey is considered as period of study.

3.5.2.7 Data Analytical Tools

The following statistical tools are used for analyses of data and testing of hypotheses.

i. **ANOVA** is the analysis of variance used to compare the means of two groups on the dependent variables (Green & Salkind, 2012).

The ANOVA test is used to analyse the significant difference in the fund based and non fund based facilities provided by banks and documents required to be submitted by MSMEs in Goa. Further, fund based, non fund based facilities and documents required are considered as dependent variables. Whereas, type of banks, district wise location of banks and years of experience of banks in lending to MSMEs as independent variables.

ANOVA test is also used to analyse the significant difference in the consensus among the users and suppliers of funds on constraints in accessing bank finance.

The significance is tested using p-value and F-value. The following Hypotheses i.e. Ho_3, $Ho_{3(a)}$, $Ho_{3(b)}$, $Ho_{3(c)}$, Ho_5, $Ho_{5(a)}$, $Ho_{5(b)}$ and $Ho_{5(c)}$ were tested using ANOVA.

ii. **One sample t-test** is also conducted as an inferential statistical technique. This test at 95% confidence interval and 5% level of significance is carried out to compare the means of two major Government schemes namely MUDRA and CGTMES schemes. The study analyzed the banks' experience on MSMEs response to these two schemes. The one sample test with test value three is applied and result is obtained. The hypothesis $Ho_{3(j)}$ is tested using one sample t-test.

iii. **The Pearson's chi-square and fisher exact test** are the tests of association. These two tests are found suitable in testing the hypotheses $Ho_{3(e)}$, $Ho_{3(f)}$, $Ho_{3(g)}$. These hypotheses test, the association between attributes of MSME defaulters and types of banks, district wise location of banks and years of experience of banks in lending to MSMEs.

iv. **Factor Analysis** is a multi- variable tool to reduce the enormous number of the variable into predominant factors. It groups the like-minded variables into a unique factor with variables loading assigned in the form of Karl Pearson coefficient of correlation. In this context, factor analysis by Principal Component Method along with Varimax Rotation is performed on nine variables of factor responsible for NPAs in banks. The justification of Factor Analysis on the sampling domain with adequate numbers is significant using Kaiser-Meyer-Oklin measure of sampling adequacy along with Bartlett's Test of Sphericity where the value greater than 0.5 is acceptable. The values between 0.5 and 0.7 are considered mediocre. The values between 0.70 and 0.80 are considered good whereas, 0.80 to 0.90 are considered excellent (Malhotra,2002). The Eigen value equal to or more than one criterion has been used to determine the number of components to be extracted for further analysis (Stewart,1981 and Alfansi and Sergeant, 2000).

v. **Regression** is the determination of the statistical relationship between two or more variables. In simple regression, two variables are used. One variable (independent) is the cause of the behaviour of another one (dependent). Regression analysis is concerned with the derivation of an appropriate mathematical expression for finding the values of dependent variables by using independent variables.

Further, regression analysis is used to test the influence of three factors responsible for NPAs in bank due to credit default by MSMEs i.e. Inefficiency at the bank level, Mismanagement of funds by MSMEs and Inadequate Government support and Difficulty in loan recovery. In this study, the dependent variable is difficulty in loan recovery. Independent variables are factors responsible for NPAs which are grouped as Inefficiency at the bank level, Mismanagement of funds by MSMEs and Inadequate Government support. Hypotheses $Ho_{3(h)}$ was tested using regression analysis.

vi. **Confirmatory Factor Analysis** is used to provide a confirmatory test to the measurement theory. It is a way of testing how well measured variables represent a construct. To assess fitness, reliability and validity of latent construct, CFA is performed. There is no distinction between exogenous and endogenous construct. Hence, it is an interdependence technique.

Thus, in order to test the constructs' convergent and discriminant validity of measures in the measurement model, CFA through maximum likelihood procedure is estimated for precautionary measures, corrective measures and recovery measures constructs. The result indicates that the model fit was found acceptable up to the recommended level as the fit indices CMIN/DF, NFI, TLI, GFI, AGFI and RMSEA are within the acceptable limits (Hair et al., 2007; Stephen P., 2008).

vii. **Structural Equation Modelling** assesses the simultaneously fitness of the measurement models and the structural model, where measurement models tests relationship (i.e. paths) between the measured (manifest) variables and the construct, i.e., latent variables. The structural model specifies the relationship between latent variables of interest (composite measures).

The study through SEM, analyses the relationship between the Precautionary, Corrective and Recovery measures and its influence on Credit Management of MSMEs by banks. To examine the goodness of fit and testify that the model is acceptable, following model fit indices are calculated; The Root Mean Squared Approximation of Error (RMSEA) is calculated where; 0.01, 0.05, and 0.08 to indicate excellent, good, and mediocre fit, respectively. The other fit indices are

Root Mean square Residual (RMR) ≥ 0.05, Confirmatory Factor Analysis (CFA) ≥ 0.05, (Adjusted) Goodness of Fit (AGFI) ≥0.90, Tucker-Lewis Index Goodness of Fit Index (GFI) ≥ 0.95 and commonly used $\chi 2$ statistic ($\chi 2$/df ratio of 3 or less) as proposed by Stephen Parry (2008). Hypothesis Ho_4 is tested using SEM analysis.

viii. **Mediation Analysis** test shows that how X exerts its effect on Y and frequently postulates a model in which one or more intervening variables M is located casually between variable X and variable Y. These intervening variables often called mediators, and are conceptualized as the mechanism through which X influences Y. That is, variation in X causes variation in one or more mediators M, which in turn causes variation in Y (Andrew F. H.,2013).

The present study analyses the influence of independent variable precautionary, corrective and recovery measures on dependent variable i.e credit management through the intervening variable online tracking which is considered as a mediator in the study.

In order to test the mediating effect, all the conditions described by Baron and Kenny (1986) are satisfied. These conditions are:

a) The relationship between independent variables and dependent variables should be significant
b) The relationship between independent and third variables. i.e. mediator should be significant
c) The relationship between mediator or third variable and outcome or dependent variable should also be significant
d) When the mediator is entered into the equation, the relationship between independent and dependent variables become insignificant. Mediation analysis is used to test hypotheses $Ho_{4(a)}$, $Ho_{4(b)}$, $Ho_{4(c)}$ and $Ho_{4(d)}$.

3.6 SIGNIFICANCE OF THE STUDY

The survival of any business depends on easy access to finance. However, MSMEs' lack of access to credit to start or expand business has often plagued this sector of the economy. The significance of this research lies in the attempt to examine and document the various financial requirements of MSMEs, the pattern of financing, effective utilization of funds by MSMEs and their constraints in accessing bank finance.

Thus, this research will help MSMEs to identify and adopt appropriate strategies and financial measures to strengthen its financial base, adopt the right methods and principles in the financial management of enterprise. This research would further contribute significantly in helping the various sponsoring agencies, specialized financial institutions and Banks, in designing their policy and lending schemes as per financial needs and requirements of MSMEs.

Since this study also focuses on analyzing the various initiatives and measures taken by banks in lending and in ensuring the free flow of credit to MSMEs, the study would be of great importance to MSMEs, in identifying the source of fund pertaining to their financial requirements. This study will make it easier for both policymakers and Industries to combine the best financial practices with an appropriate mix of policies and incentives to achieve the objectives set for MSMEs in Goa.

3.7 CHAPTERISATION

The Chapterisation given below illustrates the sequential order of the chapters covered in the thesis and provides a brief description of the content of each chapter of the thesis.

Chapter- I: Introduction to MSMEs and Banks lending to MSMEs in India

This chapter covers the history, definition, growth, development and importance of MSMEs in India. The study also provides details of banks lending to MSMEs in India and Goa.

Chapter – II Literature Review

This chapter consists of a review of literature of research papers, articles and theses on various aspects of MSMEs and banks lending to MSMEs. The identification of the research problem after a thorough review of literature is also presented in this chapter.

Chapter – III: Research Methodology

This chapter gives a detailed description of the research methodology adopted to achieve the stated objectives. It comprises of research objectives, hypotheses, sources of data, research design and methodology, statistical tools, the significance of the study and limitations of the study.

Chapter – IV: Analysis of Financial Requirements and Pattern of Financing by MSMEs in Goa

This chapter examines the financial requirement of MSMEs in terms of financial planning practices and short term, medium term and long term financial requirements of MSMEs. The study also analyses the source of finance and the pattern of financing of MSMEs in Goa.

Chapter – V: Analysis of Effective Utilization of Finance by MSMEs in Goa

This chapter evaluates the effective utilization of finance by MSMEs in Goa. The effective utilization of finance by MSMEs is evaluated by assessing the financial management practices i.e. Cash Management Practices, Accounting Information System, Financial Reporting and Analysis, Accounts Receivable Management, Inventory Management Practices, Financing and Investment Management followed by MSMEs in Goa.

Chapter – VI: Analysis of Selected Banks' Experience in Lending to MSMEs

This chapter analyses the experience of selected Banks in terms of fund based and non fund based facilities provided, documents required, MSMEs response to MUDRA and CGTMES schemes, attributes of the defaulters and reasons for NPAs in MSMEs in Goa.

Chapter – VII: Analysis of Credit Management of MSMEs by the Selected Banks

This chapter deals with the analyses of credit management of MSMEs by selected banks in Goa.

Chapter – VIII: Analysis of Consensus among the Users and Suppliers of Funds

This chapter analyses the consensus among the users and suppliers of funds. The consensus of MSMEs and Banks are evaluated on disbursement time of loan, Interest Rate, Collateral for Loan and documentation and loan procedure as constraints to access finance.

Chapter –IX: Findings, Conclusions and Suggestions

This chapter gives objective wise findings of the study. The conclusion derived from the study is also presented in this chapter. The suggestions provided by the study to the MSMEs, Banks and Government are also covered in this chapter.

3.8 LIMITATIONS OF THE STUDY

a. As the present study deals with the MSMEs' response on the financial aspect of the enterprise, some of the MSME owners/manager due to confidentiality of data were reluctant to provide the secondary data. Hence, study has exclusively relied on primary data.
b. The data used in the present study is a cross-sectional data which does not allow for comparison of the MSMEs' and Banks' responses over a different period of time.
c. In the present study, sample size was restricted to 358 MSMEs and 100 bank branches, which although a good sample size, higher sample size may give more robust results. This can further help in generalising the conclusion.

3.9 CHAPTER SUMMARY

This chapter presents the blueprint of the research methodology adopted for the entire empirical study. The study follows a quantitative research approach and uses cross-sectional data for analysis. The chapter gives details about the objectives of the study, hypotheses of the study and research design and methodology.

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CHAPTER –IV

ANALYSIS OF FINANCIAL REQUIREMENTS AND PATTERN OF FINANCING BY MSMEs IN GOA

Sr. No. **Contents**

4.1 INTRODUCTION

Finance is an indispensable part of every kind of business and hence it is rightly said to be the life blood of a business. Business finance is an activity concerned with the estimation, raising and administration of the funds to be used in business enterprises. MSMEs require finance for various purposes: for starting their business; to acquire fixed assets which comprise of land and building, plant and machinery, furniture and fixtures etc. Besides these, they also require funds to finance other fixed assets, which include goodwill, trade mark and other current and non-current assets. Each unit requires funds to maintain current assets which include cash, raw materials, and stock in progress, finished goods, sundry debtors and short term investment, and working capital. These requirements are met by MSMEs through owner's capital and drawings which are internal sources of finance. Equity capital can be one of the sources of finance in the case of medium size enterprises. In small enterprises run by proprietorship or partnership firms, the capital contribution is done by the proprietor or the partners. Part of the profit generated can also be ploughed back into the business. However, there is a need to study the process and the principles adopted by MSMEs in determining financial requirements and the pattern of financing adopted by MSMEs.

Thus, the present study analysis the process involved in determining financial requirements of MSMEs in Goa. However, the study focuses only on the financial planning practices adopted by MSMEs in determining financial requirements. Further, short term, medium term and long term financial requirements of MSMEs in terms of Period, Frequency and Quantum are also examined. The study identified the various sources of finance available for MSMEs and the pattern of financing adopted to meet short term, medium term and long term financial requirements by MSMEs in Goa.

4.2 FINANCIAL REQUIREMENTS OF MSMEs

While estimating the financial requirements of an enterprise, the first task of the financial manager/owner of the MSME is to estimate short term, medium term and long-term financial requirement of the business enterprise. For this purpose, he has to prepare a financial plan for present as well as future financial needs of an enterprise. The amount required for purchasing fixed assets as well as for working capital has to be ascertained. The estimation of financial requirements should be based on the sound financial principles so that neither there is inadequate nor excess of funds with the concern. The inadequacy will affect the working of the concern and excess funds may tempt the management to indulge in extravagant spending. The financial manager has to also decide about the capital structure of the enterprise. The capital structure refers to the kind and proportion of different securities for raising funds.

After deciding about the quantum of funds required, the kinds of securities that would be employed should be decided. A decision about the kind of securities to be employed and the proportion in which these should be used is an important decision which influences the short term, medium term and the long term planning of the enterprise. After preparing a capital structure and deciding the financial requirements, an appropriate source of finance is selected for meeting these requirements. If finance is needed for short period then bank credit, public deposits, loans from financial institutions may be appropriate. If long term finance is required then the share capital and debenture may be useful in case of medium enterprise. Once the required fund is procured then a decision about investment pattern is taken into consideration. The selection of investment pattern is related to the use of the funds.

4.2.1 Financial Planning

Financial planning and forecasting represents a blueprint of what a firm proposes to do in the future. So, naturally planning over such perspective tends to be fairly in aggregative terms. While there are considerable variations in the scope, degree of formality and level of sophistication in financial planning across firms, there is a need to focus on common elements which include regularity in planning, types of financial plan, people involved in financial planning, basis of estimating financial requirement and mode of financing the financial requirement and investments (Chandra, 2007).

In general usage, a financial plan can be a budget or a plan for spending and saving, future income. This plan allocates future income to various types of expenses, such as rent or utilities. Financial plan can also be an investment plan which allocates saving to various assets or projects expected to produce future income such as a new business or product line, shares in an existing business, or real estate (Khan, 1984).

4.2.2 Short-term Financial Plan

This is prepared for a maximum of one year period. This plan looks after working capital needs of the company. Short-term financial decisions ensure the firm's liquidity and are critical to the short-term survival of the business. A company will also make decisions on short term sources of financing its activities which is mainly the loans from commercial banks (Mudit, 2011). MSMEs develop short-term financial plans to meet budget and investment goals within one fiscal year. The degree of certainty is higher in case of Short term plans compared to long-term plans. Short-term plans often are amended, as financial and investment goals change. Enterprises use short-term plans to manage short-term cash deficits. When it becomes evident that severe cash shortage will occur, a cash-flow forecast becomes necessary. The forecast should assess total cash collections and total cash payments during each quarter. Differences between total collection and total payments have to be ascertained to know if there is a deficit in any quarter of the year. For each cash-inflow and outflow item, there is a need to account for all relevant increases and decreases. This includes early payment discounts from creditors, deferred expenses payment and cash sales (Davoren, 2009).

4.2.3 Medium- term Financial Plan

This is prepared for a period of two to five years. This plan focuses on replacement and maintenance of assets, research and development and so on. It mainly provides an intermediary between long term financial plans and the short term financial plans. The main objective is to ensure if the existing assets of companies bring value for money where by, the benefits of the assets exceed the costs of the same assets. It is through medium term financial planning that the firm will be able to identify assets that no longer bring value and make a decision to replace such assets depending on the positive cash flow position of the firm. Medium term financial planning also enables a firm to carry out research and development activities where, it plans the cost of the research and development. Many firms do not actually carry out medium term financial planning as they mostly focus on long term financial planning (Mudit, 2011).

4.2.4 Long-term Financial Plan

This is prepared for a period of more than five years. It looks after the long-term financial objectives of the company, its capital structure, expansion activities and so on. Long-term financial planning provides a strategy for the future financial growth and expansion of an enterprise. The strategy makes certain assumptions based on factors such as the future economic outlook, interest and inflation rates, product sales and revenue projections, and business environment assessments based on specific regulatory and tax structures. The purpose of establishing the plan is to set financial milestones that once achieved, results in successfully realizing long-term financial objectives. Both cash budgeting and long-term financial planning are focused on the financial health of an enterprise. In both the cases their objective is to maximize the efficient use of capital in order to create shareholder value and expand operations. Long-term plans are created for major strategic decisions made by a business such as take over and merger activity, expansion of capacity, development of new products and overseas expansion (Houston, 2000).

4.3 PATTERN OF FINANCING BY MSMEs

MSMEs are generally considered riskier than larger firms because they have lower survival rate, larger variance of profitability and growth (OECD,1998). As a result, MSMEs often suffer from credit rationing or higher interest rate. Financing constraints indeed limit their growth (Beck & Demirguc- Kunt, 2006). In the least developed country like Sub- Sahara Africa, access to finance is the most important obstacle to MSME entry and growth investment (Fjose, Grunfeld, & Green, 2010).

A financing strategy establishes the fundamental steps of how an organisation can achieve its financing targets, be it short term or long term. It involves a strategy must serve as a guideline for the employees of an organisation in conducting the day to day finances. An enterprise can finance its requirements by using the following financing strategies.

Conservative Approach: As per this financing strategy, the enterprise relies on the long-term funds to acquire permanent assets and a part of temporary assets. This financing strategy has less risk of a shortage of immediate funds as it uses long term funds. For working capital financing, this financing strategy requires an organisation to maintain high levels of current assets in relation to its sales. Such surplus current assets can integrate any changes in the sales and thus avoid commotion in the production plans.

Aggressive Approach: As per this financing strategy, the organisation uses its short-term funds to finance a part of its permanent assets. This is a very risky approach as there are chances that the firm might have a hard time dealing with its short-term obligations. However, many organisations use this financing strategy for its advantages of lower financing cost and higher profitability. For working capital financing, under this approach, the dependence is on short-term funds that are used for maintaining the current assets. These current assets are maintained only to meet the current liability and do not provide any cushion for the variation in working capital requirements.

According to a research conducted by VCCI (Vietnam Chamber of Commerce and Industry), 75% MSMEs would like to seek bank loans but only about 30% succeeded. It is not only because of complicated lending procedure but the rate of interest charged on MSMEs is also too high.

Previous research identified a significant effect of industry, firm, or product specific factors such as firm size, firm age, growth, ownership structure, and industry sector on MSMEs' access to and usage of different financing sources (Chittenden, Hall, and Hutchinson 1996; Ferrando and Griesshaber 2011; Hall, Hutchinson, Michaelas 2004; Mac an Bhaird and Lucey 2010).

4.4 CHARACTERISTICS OF FIRMS

Various researchers have pointed out that credit accessibility varies among firms according to Firm's specific characteristic, and its characteristics in return determines the best suited way for firms to approach credit. In particular, size of firms, which is one of the most reliable predictor of firms' financing obstacles also explains to firms' differential fund choices (Beck, 2007; Beck, Demirguc- Kunt, Laeven, & Maksimovic, 2006; Bernanke, Gertler, & Gilchrist, 1994; Devereux & Schiantarelli, 1990).

Age of a firm has also been reported to determine the choice of credit finance in many studies. Gertler, (1988) stated that information asymmetries are likely to be especially large for young and newly-established firms because creditors do not have enough time to monitor such firms and such firms also do not have enough time to build long-term relationships with suppliers of finance. This result was also empirically proved by many authors, such as Akoten, et al. (2006), Oliner & Rudebusch (1992) and Beck, et al. (2006). However, Rand (2007) found a negative relation between age and holding debts.

Literature has also revealed the diverse financing pattern across firm categories. Government-owned firms, which suffer less financing obstacles than others can have access to formal debts more easily since they receive direct budgetary support from the government and favorable treatment from government-owned financial institutions (Harrison, Love, & McMillan, 2004; Laeven, 2003).

4.5 ANALYSIS OF FINANCIAL REQUIREMENTS OF MSMEs IN GOA

In this section of the analysis, the study identifies the practices adopted by MSMEs in determining the financial requirements. The financial requirements are determined through financial planning. Thus, the study considers financial planning practices in term of regularity in financial planning of MSMEs, people involved in financial planning of MSMEs, type of financial plans prepared by MSMEs and basis of estimation of financial requirements adopted by selected MSMEs in Goa.

Further, firm's characteristics such as chief promoter's gender, chief promoter's qualification, form of ownership, type of unit, annual turnover, type of product and size of the unit are considered to test the association with financial planning practices of MSMEs in Goa.

4.5.1 Sample Size Description

The responses received from sample size of 358 MSMEs registered and operating in the State of Goa are considered for this analysis. Table 4.1 gives the description of the sample size considered for this part of the study.

Table 4.1 Profile of Selected MSMEs

Chief Promoters' Gender	**Frequency**	**%**
Male	309	86.3
Female	49	13.7
Total	**358**	**100.0**
District		
South Goa	259	72.3
North Goa	99	27.7

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Total	**358**	**100.0**
Type of product		
Food and Allied Industries	81	22.6
Wood and Wood Products	67	18.7
Paper Products	64	17.9
Other Chemicals and Chemical Products	18	5.0
Glass and Ceramics	85	23.7
Mechanical Engg. Equipments	43	12.0
Total	**358**	**100.0**
Education		
Below SSC	15	4.2
HSSC	89	24.9
Graduate	124	34.6
Post Graduate	69	19.3
Technically Qualified	61	17.0
Total	**358**	**100.0**
Form of Ownership		
Sole Trader	305	85.2
Partnership	53	14.8
Total	**358**	**100.0**
Types of unit		
Export oriented	4	1.1
Domestic oriented	266	74.3
Both Export & Domestic oriented	88	24.6
Total	**358**	**100.0**
Existence		
3 years – 5 years	50	14.0
>5 years – 10 years	25	7.0
>10 years	283	79.1
Total	**358**	**100.0**
Investment in Plant & Machinery		
Up to Rs. 25 lakhs	194	54.2
>25 lakhs upto Rs. 5 crore	146	40.8
> 5 crore upto Rs. 10 crore	18	5.0
Total	**358**	**100.0**

Source: Compiled from Primary Data

Table 4.1 shows that, out of the total sample size of 358 selected MSMEs, 86.3% are owned by Male entrepreneur and 13.7% are owned by Female entrepreneurs. 72.3% of the MSMEs are from South Goa, whereas, 27.7% are from North Goa. The MSMEs are selected from following product categories; 22.6% from Food and Allied Industries, 18.7% from Wood and Wood Products, 17.9% from paper products, 5% from chemicals and other chemical products. 23.7% from Glass and Ceramics and 12% from Mechanical Engg. Equipments. Among the selected MSMEs majority of chief promoters are Graduate (34.6%), 24.9% are HSSC, 19.3% are Post Graduate, 17.0% are technically qualified and 4.2% are below SSC. The majority of selected MSMEs are owned by Sole proprietor (85.2%) and 14.8% are Partnership firms. 74.3% of the selected MSMEs are domestic oriented, 24.6 are both export and domestic oriented and 1.1% are export oriented. Among the selected MSMEs majority of MSMEs are having the existence of more than 10 years, 14.0% are having the existence of more than 3 years up to 5 years and 7.0% are having the existence of more than 5 years up to 10 years. The majority of selected MSMEs are Micro enterprises (54.2%), 40.8% are Small and 5% are Medium enterprises.

The reliability of data is tested using Cronbach's Alpha and it is found reliable at 0.734, where the value of an alpha 0.7 is the minimum acceptable standard for demonstrating internal consistency (Kennedy et al, 2002). Further, the study uses Pearson's chi-square test and Fisher's exact test to test if there exist any association between the firm's characteristics and regularity in financial planning practices, people involved in financial planning, type of financial plans prepared and basis of estimation of financial requirements adopted by MSMEs in Goa.

Following hypotheses are framed to test the association between the above variables.

$Ho_{1(a)}$ - There is no statistically significant difference in financial requirements of MSMEs in Goa.

Sub- Hypotheses

$Ho_{1(a)(i)}$ – There is no statistically significant association between firm's characteristics and regularity of financial planning practices of MSMEs.

$Ho_{1(a)(ii)}$ – There is no statistically significant association between firm's characteristics and people involved in financial planning of MSMEs.

$Ho_{1(a)(iii)}$ – There is no statistically significant association between firm's characteristics and type of financial plans prepared by MSMEs.

$Ho_{1(a)(iv)}$ – There is no statistically significant association between firm's characteristics and basis of estimation of financial requirements by MSMEs.

The below Table 4.2 shows the result of association between firm's characteristics and regularity of financial planning practices of MSMEs in Goa. The regularity of financial planning practices of MSMEs is measured on the basis of semantic differential scale ranging from Always (5) to Never (1). However, the responses derived for the above variable vary between sometime to always.

Table No. 4.2: Association between Firm's Characteristics and Regularity of Financial Planning Practices of MSMEs

Firm's Characteristics		Regularity of Financial Planning Practices				Test Statistics
		Sometimes	Often	Always	Total	
Chief Promoters' Gender	Male	42 (13.59)	117 (37.86)	150 (48.54)	309 (100)	Chi-Square test =45.359, df= 2, p-value=.000
	Female	0 (0)	0 (0)	49 (100)	49 (100)	
	Total	42 (11.73)	117 (32.68)	199 (55.59)	358 (100)	
Chief Promoters' Qualification	Below SSC	0 (0)	0 (0)	15 (100)	15 (100)	Chi-Square test =54.588, df = 8, p-value=.000
	HSSC	23 (25.84)	29 (32.58)	37 (41.57)	89 (100)	
	Graduate	19 (15.32)	41 (33.06)	64 (51.61)	124 (100)	
	Post Graduate	0 (0)	19 (27.54)	50 (72.46)	69 (100)	
	Technically Qualified	0 (0)	28 (45.9)	33 (54.1)	61 (100)	
	Total	42 (11.73)	117 (32.68)	199 (55.59)	358 (100)	
Form of Ownership	Sole Trader	0 (0)	117 (38.36)	188 (61.64)	305 (100)	Fisher exact test p-value = .000
	Partnership	41 (78.85)	0 (0)	11 (21.15)	52 (100)	
	Total	42 (11.73)	117 (32.68)	199 (55.59)	358 (100)	
Type of Unit	Export	2 (50)	0 (0)	2 (50)	4 (100)	Chi-Square test = 16.5921, df = 2, p-value =.000
	Domestic	40 (15.04)	89 (33.46)	137 (51.5)	266 (100)	
	Both	0 (0)	28 (31.82)	60 (68.18)	88 (100)	
	Total	42 (11.73)	117 (32.68)	199 (55.59)	358 (100)	
Annual Turnover	Up to Rs. 1 crore	41 (25.95)	92 (58.23)	25 (15.82)	158 (100)	Fisher exact test

Cont...

	Above Rs. 1 crore up to Rs. 5 crore	0 (0)	25 (15.92)	132 (84.08)	157 (100)	p-value = .000
	Above Rs. 5 crore	0 (0)	0 (0)	42 (100)	43 (100)	
	Total	42 (11.73)	117 (32.68)	199 (55.59)	358 (100)	
Type of Product	Food and Allied Industries	10 (12.34)	30 (37.03)	41 (50.61)	81 (100)	Chi-Square tests=114.757 df = 4, p-value=.000
	Wood and Wood Products	6 (09.09)	27 (40.90)	33 (50)	66 (100)	
	Paper Products	8 (08)	12 (18.75)	44 (68.75)	64 (100)	
	Chemicals and Other Chemical Products	0 (0)	5 (27.78)	13 (72.22)	18 (100)	
	Glass and Ceramics	8 (09.41)	27 (31.76)	50 (58.82)	85 (100)	
	Mechanical Engg. Equipments	9 (20.93)	16 (37.20)	18 (41.86)	43 (100)	
	Total	41 (11.48)	117 (32.77)	199 (55.74)	357 (100)	
Size of the Unit	Up to Rs. 25 lakhs	39 (20.1)	32 (16.5)	123 (63.4)	194 (100)	Chi-Square tests=73.912 df = 4, p-value=.000
	Up to Rs. 5 crore	0 (0)	81 (55.5)	65 (44.5)	146 (100)	
	Up to Rs. 10 crore	3 (16.7)	4 (22.2)	11 (61.1)	18 (100)	
	Total	42 (11.7)	117 (32.7)	199 (55.6)	358 (100)	

Source: Computed from Primary Data

As shown in the Table 4.2 the result of Pearson's chi-square test and Fisher's exact test indicates that there is statistically significant association between financial planning being followed in selected MSMEs and firm's characteristics as the p- value of all the firm's characteristics is less than 0.05 and it is significant at 5% level of significance.

Thus, the null hypothesis i.e. **$Ho_{1(a)(i)}$ there is no statistically significant association between firm's characteristics and regularity of financial planning practices of MSMEs** is rejected and the alternate hypothesis is accepted.

It was noted that cent percent of the selected female entrepreneurs do financial planning regularly whereas, only 48.54% male entrepreneur do it on a regular basis. Selected entrepreneurs with higher educational qualifications are found to be more inclined towards financial planning as majority of entrepreneurs with post graduation (72.46%) and technically qualified (54.1%) are found to be regularly carrying out financial planning. MSMEs owned by selected sole traders (61.64%) frequently do financial planning compared to other forms of ownership. Selected MSME units manufacturing for both domestic and foreign market (68.18%) persistently do financial planning. Similarly, Selected MSME units with annual sales turnover of above Rs. 5 crore are found to be more committed towards periodically doing financial planning as compared to units with up to Rs. 1 crore and above Rs. 1 crore up to Rs. 5 crore. Further, selected MSME units manufacturing chemicals and other chemical products (72.22%) regularly carry out financial planning than those manufacturing other products. Also selected micro enterprises (34.4%) compared to small and medium enterprises carry out financial planning more regularly.

Thus, it can be inferred that from the selected MSME units, majority units owned by female entrepreneurs carry out financial planning regularly. Further, it was also found that respondents with post graduation or higher qualification, sole proprietorship concerns, units catering to domestic and foreign markets, units having annual turnover of above Rs. 5 crore, units manufacturing chemicals and other chemical products and micro enterprises are more inclined and consistent towards financial planning.

Table 4.3 below shows the result of association between firm's characteristics and people involved in financial planning. The people involved in carrying out financial planning in MSMEs can be the entrepreneur himself or employer and employee together or in consultation with professional consultants or chartered accountants.

Table No. 4.3: Association between Firm's Characteristics and People involved in Financial Planning

Firm's Characteristics		**People Involved in Financial Planning**			**Total**	**Test Statistics**
		Entrepreneur	**Employer and Employee together**	**Professional Consultants / Accountant**		
Chief Promoters' Gender	Male	24 (7.8)	112 (36.25)	173 (55.99)	309 (100)	Chi-Square test =34.77, df = 1, p = .000
	Female	0 (0)	0 (0)	49 (100)	49 (100)	
	Total	24 (6.7)	112 (31.28)	222 (62.01)	358 (100)	

Cont...

Chief Promoters' Qualification	Below SSC	0 (0)	15 (100)	0 (0)	15 (100)	Chi-Square test =81.76, df =4, p= .000
	HSSC	0 (0)	44 (49.44)	45 (50.56)	89 (100)	
	Graduate	0 (0)	16 (12.9)	108 (87.1)	124 (100)	
	Post Graduate	24 (34.78)	19 (27.53)	26 (37.68)	69 (100)	
	Technically Qualified	0 (0)	18 (29.51)	43 (70.49)	61 (100)	
	Total	24 (6.7)	112 (31.28)	222 (62.01)	358 (100)	
Form of Ownership	Sole Trader	14 (4.59)	89 (29.18)	202 (66.23)	305 (100)	Chi-Square test = 15.3798, df =1, p = .000
	Partnership	10 (19.23)	23 (44.23)	19 (36.54)	52 (100)	
	Total	24 (6.7)	112 (31.28)	222 (62.01)	358 (100)	
Type of Unit	Export	1 (25)	1 (25)	2 (50)	4 (100)	Chi-Square test = 15.83, df =2, p = .000
	Domestic	23 (8.64)	94 (35.34)	149 (56.02)	266 (100)	
	Both	0 (0)	18 (20.45)	70 (79.55)	88 (100)	
	Total	24 (6.7)	112 (31.28)	222 (62.01)	358 (100)	
Annual Turnover	Up to Rs. 1 crore	10 (6.37)	112 (70.89)	36 (22.78)	158 (100)	Chi-Square test = 185.87, df = 3 , p = .000
	Above Rs. 1 crore up to Rs. 5 crore	4 (2.55)	10 (8.92)	143 (91.08)	157 (100)	
	Above Rs. 5 crore	0 (0)	0 (0)	43 (100)	43 (100)	
	Total	24 (6.7)	112 (31.28)	222 (62.01)	358 (100)	
Type of Product	Food and Allied Industries	3 (3.70)	33 (40.74)	45 (55.56)	81 (100)	Chi-Square test =15.748, df =10, p=0.107
	Wood and Wood Products	5 (7.58)	22 (33.33)	39 (59.10)	66 (100)	
	Paper Products	7 (10.94)	14 (21.88)	43 (67.19)	64 (100)	
	Chemicals and Other Chemical Products	2 (11.11)	3 (16.67)	13 (72.22)	18 (100)	
	Glass and Ceramics	3 (3.53)	25 (29.41)	57 (67.06)	85 (100)	
	Mechanical Engg. Equipments	3 (3.53)	16 (37.21)	24 (55.81)	43 (100)	
	Total	24 (6.7)	112 (31.28)	222 (62.01)	357 (100)	
Size of the Unit	Up to Rs. 25 lakhs	9 (9.59)	22 (11.34)	163 (84)	194 (100)	Chi-Square test =101.187, df =4, p=.000
	Up to Rs. 5 crore	14 (9.59)	86 (58.90)	46 (31.51)	146 (100)	
	Up to Rs. 10 crore	1 (5.56)	4 (22.22)	13 (72.2)	18 (100)	
	Total	24 (6.7)	112 (31.28)	222 (62.01)	358 (100)	

Source: Computed from Primary Data

The above Table 4.3 shows the result of Pearson's chi-square test indicating the association between people involved in financial planning and firm's characteristic. The result shows that there exists a significant association between firm's characteristics and people involved in financial planning except with respect to type of product.

As the p- value of all the firm's characteristics is less than 0.05 and it is statistically significant the null hypothesis i.e. **$Ho_{1(a)(ii)}$ there is no statistically significant association between firm's characteristics and people involved in financial planning of MSMEs** is rejected except with respect to type of product and alternate hypothesis is accepted.

Result of the analysis shows that financial planning is an external function for selected female entrepreneur. It was observed that selected female entrepreneur (100%) prefer to consult professionals like chartered accountant and tax consultant for financial planning whereas, in case of selected male entrepreneur only a 55.99% prefer chartered accountant and tax consultant for doing financial planning. The selected entrepreneurs with higher qualifications prefer to consult professionals and experts for financial planning. Moreover, graduates (87.1%) and technically qualified (70.49%) entrepreneurs prefer financial planning in consultation with professionals and experts. The selected MSME units owned by sole proprietors (66.23%) consult professional and expert for financial planning than the other forms of ownership. With regards to MSME units catering to both domestic and foreign market have a tendency to consult professionals and experts for financial planning. Units with annual turnover above Rs. 5 crore (100%) consult professionals and experts for financial planning. The selected units manufacturing chemicals and other chemical products (72.22%) are doing financial planning in consultation with professionals and experts like chartered accountants and tax consultant. The selected micro enterprises (84%) compared to small and medium enterprises prefer to consult professionals for financial planning.

From the above result it can be articulated that from the selected MSME units, majority of selected female entrepreneurs prefer to consult professionals and experts for financial planning. Further, respondent with post graduation or higher qualifications, sole proprietorship firms, micro enterprises, units catering both domestic and foreign markets, units with annual sales turnover of above Rs. 5 crore, and units manufacturing chemicals and other chemical products require the assistance of experts like chartered accountants and tax consultants for financial planning.

Table 4.4 shows the result of association between firm's characteristics and types of financial plans prepared by MSMEs. There are basically three types of plan short term, medium term and long term. However, in this analysis the medium term and long term plan is consider together due to fewer responses to medium term plan. This may be because many firms do not actually carry out medium term financial planning as they mostly focus on long term financial planning (Mudit, 2011).

Table No. 4.4: Association between Firm's Characteristics and Types of Financial Plans Prepared by MSMEs

Firm's Characteristics		Types of Financial Plans Prepared				Test Statistics
		Short Term	Medium & Long Term	Both	Total	
Chief Promoters' Gender	Male	19 (6.15)	97 (31.39)	193 (62.46)	309 (100)	Chi-Square test =10.482, df = 2, p-value=.005
	Female	0 (0)	26 (53.06)	23 (46.94)	49 (100)	
	Total	19 (5.31)	123 (34.36)	216 (60.34)	358 (100)	
Chief Promoters' Qualification	Below SSC	0 (0)	0 (0)	15 (100)	15 (100)	Fisher exact test p-value = .000
	HSSC	0 (0)	44 (49.44)	45 (50.56)	89 (100)	
	Graduate	19 (15.32)	42 (33.87)	63 (50.81)	124 (100)	
	Post Graduate	0 (0)	19 (27.54)	50 (72.46)	69 (100)	
	Technically Qualified	0 (0)	18 (5.0)	43 (12.0)	61 (17.0)	
	Total	19 (5.30)	123 (34.36)	216 (60.34)	358 (100)	
Form of Ownership	Sole Trader	0 (0)	100 (32.79)	205 (67.21)	305 (100)	Fisher exact test p-value = .000
	Partnership	18 (34.62)	23 (44.23)	11 (21.15)	52 (100)	
	Total	1 (100)	0 (0)	0 (0)	1 (100)	
Type of Unit	Export	2 (50)	0 (0)	2 (50)	4 (100)	Fisher exact test p-value = .000
	Domestic	17 (6.39)	105 (39.47)	144 (54.14)	266 (100)	
	Both	0 (0)	18 (20.45)	70 (79.55)	88 (100)	
	Total	19 (5.31)	123 (34.36)	216 (60.34)	358 (100)	
Annual Turnover	Up to Rs. 1 crore	18 (11.39)	97 (61.39)	43 (27.22)	158 (100)	Fisher exact test p-value =

Cont...

	Above Rs. 1 crore up to Rs. 5 crore	0 (0)	26 (16.56)	131 (83.44)	157 (100)	.000
	Above Rs. 5 crore	0 (0)	0 (0)	42 (100)	42 (100)	
	Total	19 (5.31)	123 (34.36)	216 (60.34)	358 (100)	
Type of Product	Food and Allied Industries	5 (6.17)	37 (45.68)	39 (48.15)	81 (100)	Chi-Square test =10.482, df = 2, p-value=.005
	Wood and Wood Products	4 (6.06)	25 (37.88)	37 (56.06)	66 (100)	
	Paper Products	4 (6.25)	14 (21.88)	46 (71.88)	64 (100)	
	Chemicals and Other Chemical Products	0 (0)	2 (11.11)	16 (88.89)	18 (100)	
	Glass and Ceramics	3 (3.53)	29 (34.12)	53 (62.35)	85 (100)	
	Mechanical Engg. Equipments	2 (4.65)	16 (37.21)	25 (58.14)	43 (100)	
	Total	19 (5.31)	123 (34.36)	216 (60.34)	358 (100)	
Size of the Unit	Up to Rs. 25 lakhs	17 (8.8)	48 (24.7)	129 (66.5)	194 (100)	Chi-Square test =101.187, df = 4, p-value=.000
	Up to Rs. 5 crore	0 (0)	71 (48.6)	75 (51.4)	146 (100)	
	Up to Rs. 10 crore	2 (11.1)	4 (22.2)	12 (66.7)	18 (100)	
	Total	19 (5.3)	123 (34.4)	216 (60.3)	358 (100)	

Source: Computed from Primary Data

The result of Pearson's chi-square test and Fisher's exact test for association between types of financial plan and firm's characteristics is shown in Table 4.4.

Since the p-value for all the variables are less than 0.05 and it is statistically significant at 5% level of significance the null hypothesis i.e. **$Ho_{1(a)(iii)}$ there is no statistically significant association between firm's characteristics and type of financial plans prepared by MSMEs** is rejected and alternate hypothesis is accepted.

The result of the analysis shows that selected male entrepreneurs (62.46%) are meticulous in preparing financial plans as they are found to be preparing both type of financial plans i.e. short term, and medium term and long term plans. Whereas, only

46.94% of the female entrepreneurs prepare both type of financial plans. The selected MSME owner with higher qualifications i.e. post graduation (72.46%) have more likelihood of preparing both types of financial plans than with lower qualifications. The MSMEs owned by selected sole proprietors (67.21%) found preparing both types of financial plans than the other forms of ownership. The selected MSME units covering both domestics and foreign market (79.55%) are found preparing both financial plans than those catering only domestic markets or foreign markets. Units with annual turnover above of Rs. 5 crore (100%) are found to be preparing both types of financial plans. Further, the selected MSME units manufacturing chemicals and other chemical products (88.89%) are found to be preparing both types of financial plans than those units manufacturing other products. The selected medium enterprises (66.7%) compared to micro and small enterprises prepare both types of plans.

From the above findings, it can be concluded that majority of selected male entrepreneurs prepare both financial plans. It is also observed that units owned by entrepreneurs with higher qualifications, units with sole proprietorship concern, medium size enterprises, units catering to both domestic and foreign markets, units with annual turnover above of Rs. 5 crore and units manufacturing chemicals and other chemical products are more meticulous in preparing financial plan as they are seen to be preparing both types of financial plans i.e. short term and medium term and long term plans.

Table 4.5 represents the result of association between firm’s characteristics and basis of estimation of financial requirements by MSMEs. In the present analysis the sales statements, production statements and profit statements are considered as the basis of estimation of financial requirements by MSMEs in Goa.

Table No. 4.5: Association between Firm's Characteristics and Basis of Estimation of Financial Requirements

Firm's Characteristics		Basis of Estimation of Financial Requirements				Test Statistics
		Sales	Profit	Production	Total	
Chief Promoters' Gender	Male	80 (25.89)	31 (10.03)	198 (64.08)	309 (100)	Chi-Square test =17.474 df = 2, p-value=.000
	Female	26 (53.06)	0 (0)	23 (46.94)	49 (100)	
	Total	106 (29.61)	31 (8.66)	221 (61.73)	358 (100)	
Chief Promoters' Qualification	Below SSC	0 (0)	0 (0)	15 (100)	15 (100)	Chi-Square test =197.160 df = 8, p-value=.000
	HSSC	35 (39.33)	31 (34.83)	23 (25.84)	89 (100)	
	Graduate	64 (51.61)	0 (0)	60 (48.39)	124 (100)	
	Post Graduate	7 (10.14)	0 (0)	62 (89.86)	69 (100)	
	Technically Qualified	0 (0)	0 (0)	61 (100)	61 (100)	
	Total	42 (11.73)	117 (32.68)	199 (55.59)	358 (100)	
Form of Ownership	Sole Trader	106 (34.75)	8 (2.62)	191 (62.62)	305 (100)	Fisher exact test p-value = .000 (Private Omited)
	Partnership	0 (0)	23 (44.23)	29 (55.77)	52 (100)	
	Total	106 (29.61)	31 (8.66)	221 (61.73)	358 (100)	
Type of Unit	Export	0 (0)	0 (0)	4 (100)	4 (100)	Fisher exact test p-value = .000
	Domestic	95 (35.71)	31 (11.65)	140 (52.63)	266 (100)	
	Both	11 (12.5)	0 (0)	77 (87.5)	88 (100)	
	Total	106 (29.61)	31 (8.66)	221 (61.73)	358 (100)	
Annual Turnover	Up to Rs. 1 crore	21 (13.29)	31 (19.62)	106 (67.09)	158 (100)	Fisher exact test p-value = .000
	Above Rs. 1 crore up to Rs. 5 crore	85 (54.14)	0 (0)	72 (45.86)	157 (100)	
	Above Rs. 5 crore	0 (0)	0 (0)	42 (100)	42 (100)	
	Total	106 (29.61)	31 (8.66)	221 (61.73)	358 (100)	
Type of Product	Food and Allied Industries	28 (34.57)	6 (7.41)	47 (58.02)	81 (100)	Chi-Square test =9.113 df = 10 p-value=.521
	Wood and Wood Products	18 (27.27)	5 (7.58)	43 (65.15)	66 (100)	
	Paper Products	19 (29.69)	6 (9.38)	39 (60.94)	64 (100)	

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	Chemicals and Other Chemical Products	5 (27.78)	0 (0)	13 (72.22)	18 (100)	
	Glass and Ceramics	24 (28.24)	6 (7.06)	55 (64.71)	85 (100)	
	Mechanical Engg. Equipments	12 (27.91)	8 (18.6)	23 (53.49)	43 (100)	
	Total	106 (29.69)	31 (8.68)	220 (61.62)	357 (100)	
Size of the Unit	Up to Rs. 25 lakhs	48 (24.7)	29 (14.9)	117 (60.3)	194 (100)	Chi-Square test =25.566 df = 4 p-value=.000
	Up to Rs. 5 crore	53 (36.3)	0 (0)	93 (63.7)	146 (100)	
	Up to Rs. 10 crore	5 (27.8)	2 (11.1)	11 (61.1)	18 (100)	
	Total	106 (29.6)	31 (8.7)	221 (61.7)	358 (100)	

Source: Computed from Primary Data

As shown in Table 4.5 of Pearson's chi-square test and Fisher's exact test for association between use of forecast statements for financial requirements and firm's characteristics reveals that p-value for the entire firm's characteristics except for type of product is less than 0.05 and it is statistically significant at 5% level of significance.

Thus, the null hypothesis i.e. **$Ho_{1(a)(iv)}$ there is no statistically significant association between firm's characteristics and basis of estimation of financial requirements by MSMEs** is rejected and the alternate hypothesis is accepted.

Findings from the above result indicate that selected MSME units owned by male entrepreneurs (64.08%) prefer production statements as basis for estimating their financial requirements whereas, female entrepreneurs (53.06%) use sales statement. The selected MSMEs owners with post graduation (89.86%) and technically qualified (100%) prefer production statements as basis for estimating their financial requirements. On the other hand entrepreneurs having qualification of HSSC (39.33%) and graduation (51.61%) use sales statement. Units owned by the sole proprietors (62.62%) and partnership firms (55.77%) use production statement as basis for estimating their financial requirements.

It is observed that majority of selected units whether export oriented units (100%), domestic units (52.63%) or both (87.5%) use production statements as basis for estimating their financial requirements compared to other means of forecasting financial requirements. The selected units with annual turnover above Rs. 5 crore (100%) make use of production statements as basis for estimating their financial requirements. Whereas, MSME units with annual turnover of over Rs. 1 crore up to Rs. 5 crore (54.14%) prefer sales statement. The units manufacturing chemicals and other chemical products (88.89%) and wood and wood products (65.15%) prefer production statements as basis for estimating their financial requirements compared to units manufacturing other products. Majority of selected small enterprises (63.7%) make use of production statements as basis for estimating their financial requirements.

It can be thus inferred that majority of MSMEs make use of production statements as the basis for estimating their financial requirements. However, depending only on production statements for estimating financial requirements may not be the right approach, as it would only help in determining the financial requirements for future production and not the actual financial requirements of an enterprise as a whole.

4.6 ANALYSIS OF PERIOD, FREQUENCY AND QUANTUM OF SHORT TERM, MEDIUM TERM AND LONG TERM LOAN REQUIREMENTS OF MSMEs

After having examined the practices of determining financial requirements of MSMEs in Goa, it is necessary to know whether the financial requirements which are classified as short term, medium term and long term requirements differ across size of the unit.

It is noted that although there are number of incentive schemes formulated by Central and State Government exclusively for the growth and development of MSMEs there are no taker for these schemes. There are no specific incentive schemes of Government of Goa or any loan facility designed by banks considering financial requirements and size of the unit.

The study thus analysis if the size of the unit has any influence on Period, Frequency and Quantum of short term, medium term and long term financial requirements. The data was collected from the sample size of 358 selected MSMEs in Goa. The reliability of the data for this section of the analysis is tested using Cronbach's alpha and is found reliable as the value is above 0.7 i.e. 0.946. The response for the above variables are derived through continues data.

Multinomial Logistic Regression is used to analyze the influence of size of the unit on Period, Frequency and Quantum of short term, medium term and long term financial requirements. The Multinomial Logistic Regression is considered as the suitable statistical tool for analysing this part of the study as it not only identifies whether there is influence of size of unit on Period, Frequency and Quantum of short term, medium term and long term financial requirements but also compares the financial requirements of one type of unit with others considering it as the reference category.

The following hypothesis if framed to analyze if there exist any influence of size of the unit on Period, Frequency and Quantum of short term, medium term and long term loan with the size of the unit.

$Ho_{1(a)(v)}$ –There is no statistically significant influence of size of the unit on Period, Frequency and Quantum of short term, medium term and long term loan.

Table 4.6 shows the result of Model Fit Information for Multinomial Logistic Regression testing the significance of the model for determining the influence of size of the unit on Period, Frequency and Quantum of short term, medium term and long term loan requirements.

Table No. 4.6: Result of Model Fit Information for Multinomial Logistic Regression for Period, Frequency and Quantum of Short Term, Medium Term and Long Term Loan Requirements

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	514.660			
Final	318.837	195.824	18	.000

Source: Computed from Primary Data

The ‘Final’ row represents information on whether all the coefficients of the model are Zero. Since the p-value is 0.000, it indicates that the full model is statistically significant and predicts the dependent variable better than the intercept-only model alone. Values of pseudo R-square for Cox and Snell Nagelkerke and McFadden are 0.421, 0.516 and 0.322 respectively showing the proportion of variance that can be explained by the model.

Table 4.7 shows the result of Likelihood Ratio Test of Multinomial Logistic Regression for Period, Frequency and Quantum of short term, medium term and long term loan requirements determining whether there is an influence of size of the unit on Period, Frequency and Quantum of short term, medium term and long term loan requirements.

Table No. 4.7: Result of Likelihood Ratio Test of Multinomial Logistic Regression for Period, Frequency and Quantum of Short Term, Medium Term and Long Term Loan Requirements

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
Intercept	330.179	11.342	2	.003
Short Term Loan Period	**331.501**	**12.665**	**2**	**.002**
Medium Term Loan Period	**326.078**	**7.242**	**2**	**.027**
Long Term Loan Period	**346.681**	**27.844**	**2**	**.000**
Frequency of Short Term Loan	**324.997**	**6.161**	**2**	**.046**
Frequency of Medium term Loan	319.570	.734	2	.693
Frequency of Long Term Loan	**326.928**	**8.091**	**2**	**.018**
Quantum of Short Term Loan	**407.959**	**89.122**	**2**	**.000**
Quantum of Medium Term Loan	**338.539**	**19.702**	**2**	**.000**
Quantum of Long Term Loan	319.513	.677	2	.713
The chi-square statistic is the difference in -2 log-likelihoods between the final model and a reduced model. The reduced model is formed by omitting an effect from the final model. The null hypothesis is that all parameters of that effect are 0.				

Source: Computed from Primary Data

Above Table 4.7 indicates that Period for short term loan, medium term loan, long term loan, Frequency of short term loan and long term loan, Quantum of short term loan and medium term loan are found to be statistically significant.

Hence, the null hypothesis $Ho_{1a(v)}$ is rejected with respect to Frequency for medium term loan and Quantum of long term loan and alternate hypothesis i.e.

H1$_{1(a)(v)}$ there is statistically significant influence of size of the unit on Period for short term, medium term and long term loan, Frequency for short term and long term loan, Quantum of short term, and medium term loan is accepted.

The above result implies that the size of the unit i.e. micro, small and medium enterprise influences the Period for short term, medium term and long term loan, Frequency for short term and long term loan and Quantum of short term and medium term loan.

Thus, it can be inferred that size of the unit influences the Period for short term, medium term and long term loan as the period for loan can last for any length of time depending on the purpose for which the loan is required and the firm's ability to pay off the loan, (J. Pritchard, 2018). The period of loans also depends on the length of time the lender and borrower are willing to agree on. Small and medium enterprises may get better terms on loan period over micro enterprises.

Frequency for short term loan depends on the firm's day to day business operations/activities and source of meeting those requirements. Similarly, Frequency for long term loan reflects firm's ability to grow and expand business. Frequency of long term loan may be more for medium enterprises than the micro and small enterprises.

Quantum of short term loan and medium term loan differ for each type of enterprise depending on the purpose for which it is required. The micro enterprises may require it to meet day today expenses or purchase the machinery, on the other hand, small and medium enterprises may require the same quantity of short term loan and medium term loan to repair or replace the machinery.

Hence, it would be appropriate to design the loan facilities or incentive scheme considering the size of the unit which would suite the specific financial requirements of MSMEs in Goa.

Table 4.8 shows the result of Parameter Estimates of Multinomial Logistic Regression for Period, Frequency and Quantum of short term, medium term and long term loan requirements.

The Multinomial Logistic Regression analysis further test the of influence on Period, Frequency and Quantum of short term, medium term and long term loan requirements of micro and small enterprises when compared to medium enterprises which is considered as the reference category.

Table No. 4.8: Parameter Estimates of Multinomial Logistic Regression for Period, Frequency and Quantum of Short Term, Medium Term and Long Term Loan Requirements

Parameter Estimates							
Size of the Unit		B	Std. Error	Wald	df	Sig.	Exp(B
Up to Rs. 25 lakhs (Micro Enterprise)	Intercept	8.320	2.490	11.164	1	.001	
	Short Term Loan Period	.162	.132	1.520	1	.218	1.176
	Medium Term Loan Period	**.970**	**.470**	**4.264**	**1**	**.039**	**2.638**
	Long Term Loan Period	-.012	.029	.159	1	.690	.989
	Frequency of Short Term Loan	-.817	.328	6.212	1	.130	.442
	Frequency of Medium term Loan	-.142	.365	.153	1	.696	.867
	Frequency of Long Term Loan	-.401	.629	.407	1	.524	.670
	Quantum of Short Term Loan	**.000**	**.000**	**20.341**	**1**	**.000**	**1.000**
	Quantum of Medium Term Loan	.000	.000	2.343	1	.126	1.000
	Quantum of Long Term Loan	.000	.000	.415	1	.520	1.000
Up to Rs. 5 crore (Small Enterprise)	Intercept	6.759	2.363	8.185	1	.004	
	Short Term Loan Period	-.111	.135	.680	1	.409	.895
	Medium Term Loan Period	.437	.466	.881	1	.348	1.548
	Long Term Loan Period	**-.119**	**.038**	**10.021**	**1**	**.002**	**.888**
	Frequency of Short Term Loan	-.596	.313	3.631	1	.057	.551
	Frequency of Medium term Loan	-.251	.361	.482	1	.487	.778
	Frequency of Long Term Loan	.694	.646	1.153	1	.283	2.002
	Quantum of Short Term Loan	.000	.000	1.158	1	.282	1.000
	Quantum of Medium Term Loan	.000	.000	.280	1	.597	1.000
	Quantum of Long Term Loan	.000	.000	.110	1	.740	1.000
The reference category is: Up to Rs. 10 crore							

Source: Computed from Primary Data

In the above model, the reference category is a medium enterprise. The model considers preference of micro enterprise over medium enterprise. Positive coefficient of regressors indicate increased odds for micro enterprise over medium enterprise keeping other regressors constant. Similarly, negative coefficient of regressors suggest odds for Medium enterprises are greater than small enterprises.

The Period of medium term loan is found to be statistically significant when compared with reference category.

Thus, from the above Table 4.8 it is clear that Period of medium term loan for medium enterprises is higher compared to micro enterprises holding other variables constants. The Quantum of short term loan is found to be statistically significant when compared with reference category. Indicating requirement of Quantum of short term loan is higher to medium enterprises compared to micro enterprises. (Only three digits are considered therefore the value in above Table 4.8 is zero).

In case of medium enterprises, long term loan Period is significantly lower compared to small enterprises. From the above analysis, it is noted that for micro enterprise and small enterprise Period, Frequency and Quantum for short term, medium term and long term loan taken differ significantly in comparison with medium enterprises. It can be thus concluded that size of the unit i.e. micro, small and medium enterprises does determine the Period, Frequency and Quantum of short term, medium term and long term loan requirement of MSMEs.

Thus, the null hypothesis Ho_{1a} is rejected and the alternate is accepted.

4.7 ANALYSIS OF SOURCES AND PATTERN OF FINANCING SHORT TERM, MEDIUM TERM AND LONG TERM REQUIREMENTS OF MSMEs

This section of the study identifies the different sources of finance available to MSMEs in Goa and the sources of finance preferred by MSMEs in financing short term, medium term and long term requirements.

The study further analyses whether there exist any association between firm's characteristic and pattern of financing of MSMEs in Goa

The sources of finance considered for this section of the study are own fund, family/friends, private banks, public banks, co-operative banks and Government schemes. Firm's characteristics such as chief promoter's gender, chief promoter's qualification, form of ownership, type of unit, annual turnover and size of the unit are considered to test the association with pattern of financing short term, medium term and long term requirements by MSMEs in Goa.

The selected sample size of 358 MSMEs operating in the State of Goa are considered for the analysis. The reliability of data tested using Cronbach's Alpha is found reliable with value 0.820.

The Bar Graph is used to present the sources of finance preferred by MSMEs to finance short term, medium term and long term financial requirements.
Statistical tool such as Pearson's chi-square test and Fisher's exact test is used to test if there exist any association between the firm's characteristics and pattern of financing short term, medium term and long term requirements by MSMEs in Goa.

The following hypothesis is framed to analyze if there exist any association between the firm's characteristics and pattern of financing short term, medium term and long term requirements by MSMEs in Goa.

$Ho_{1(b)}$ – There is no statistically significant association between firm's characteristics and patterns of financing short term, medium term, long term requirements of MSMEs in Goa

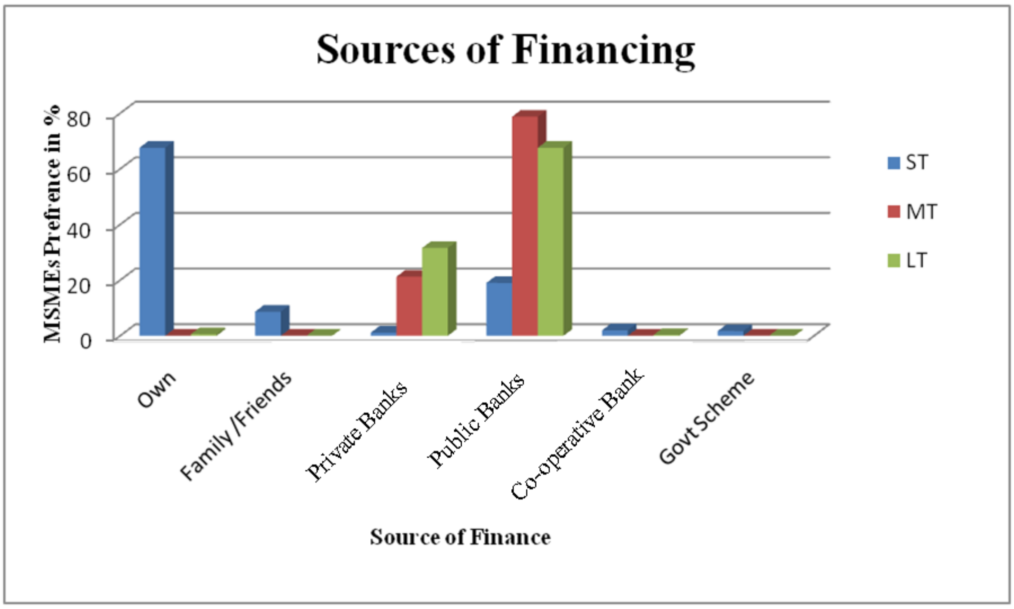
Table 4.9 and figure 4.1 represent the source of finance preferred for financing short term, medium term and long term requirements by MSMEs in Goa.

Table No. 4.9: Sources of Financing Short Term, Medium Term and Long Term Requirements of MSMEs

Sources	Short Term	Medium Term	Long Term
Own	242 (67.6)	(0)	2 (0.56)
Family /Friends	31 (8.66)	(0)	(0)
Private Banks	4 (1.12)	76 (21.23)	113 (31.56)
Public Banks	68 (18.99)	282 (78.77)	242 (67.6)
Co-operative Banks	7 (1.96)	(0)	1 (0.28)
Govt. Scheme	6 (1.68)	(0)	(0)
Total	358 (100)	358 (100)	358 (100)

Source: Computed from Primary Data

Figure No. 4.1 Sources of Finance used to meet Short Term (ST), Medium Term (MT) and Long Term (LT) Requirements by MSMEs in Goa



Source: Drawn from Primary Data

The above Table 4.9 and Figure 4.1depicts the source of finance preferred for financing the short term, medium term and long term requirements by MSMEs in Goa. It is observed that majority of MSMEs in Goa prefer owned funds (67.6%) for meeting the short term requirements compared to the other sources. Whereas, public sector banks are considered as the best means of financing medium term (78.77%) and long term financial requirements (67.6%) by MSMEs in Goa. It is noted that private sector banks are also preferred as a source of finance by MSMEs to meet their medium term (21.23%) and long term financial requirements (31.56%). The major finding from this analysis is that there is little contribution of co-operative banks (1.96%) and Government schemes (1.68%) in meeting the financial requirements of MSMEs in Goa. Table 4.10 shows the result of Fisher's exact test analyzing the association between firm's characteristics and pattern of financing short term requirement.

Table No. 4.10: Association between Firm's Characteristics and Pattern of Financing Short Term Requirements

Firm's Characteristics		Pattern of financing short term requirements							Test Statistics
		Own funds	Family /Friends	Private sector Banks	Public sector Banks	co-operative Banks	Govt. Scheme	Total	
Chief Promoters' Gender	Male	193 (62.46)	31 (10.03)	4 (1.29)	68 (22.01)	7 (2.27)	6 (1.94)	309 (100)	Fisher exact test. p-value=.000
	Female	49 (100)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	49 (100)	
	Total	242 (67.6)	31 (8.66)	4 (1.12)	68 (18.99)	7 (1.96)	6 (1.68)	358 (100)	
Chief Promoters' Qualification	Below SSC	14 (93.33)	1 (6.67)	0 (0)	0 (0)	0 (0)	0 (0)	15 (100)	Fishers exact test. p-value=.000
	HSSC	32 (35.96)	30 (33.71)	2 (2.25)	15 (16.85)	7 (7.87)	3 (3.37)	89 (100)	
	Graduate	106 (85.48)	0 (0)	2 (1.61)	16 (12.9)	0 (0)	0 (0)	124 (100)	
	Post Graduate	55 (79.71)	0 (0)	0 (0)	13 (18.84)	0 (0)	1 (1.45)	69 (100)	
	Technically Qualified	35 (57.38)	0 (0)	0 (0)	24 (39.34)	0 (0)	2 (3.28)	61 (100)	
	Total	242 (67.6)	31 (8.66)	4 (1.12)	68 (18.99)	7 (1.96)	6 (1.68)	358 (100)	
Form of Ownership	Sole Trader	212 (69.51)	9 (2.95)	4 (1.31)	68 (22.3)	7 (2.3)	5 (1.64)	305 (100)	Fishers exact test. p-value=.000
	Partnership	30 (56.60)	22 (42.31)	0 (0)	0 (0)	0 (0)	1 (1.92)	53 (100)	
	Total	242 (67.6)	31 (8.66)	4 (1.12)	68 (18.99)	7 (1.96)	6 (1.68)	358 (100)	
Type of Unit	Export	4 (100)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	4 (100)	Fishers exact test. p-value=.000
	Domestic	187 (70.3)	31 (11.65)	3 (1.13)	32 (12.03)	7 (2.63)	6 (2.26)	266 (100)	
	Both	51 (57.95)	0 (0)	1 (1.14)	36 (40.91)	0 (0)	0 (0)	88 (100)	
	Total	242 (67.6)	31 (8.66)	4 (1.12)	68 (18.99)	7 (1.96)	6 (1.68)	358 (100)	
Annual Turnove	UptoRs. 1 crore	86 (54.43)	31 (19.62)	2 (1.27)	28 (17.72)	7 (4.43)	4 (2.53)	158 (100)	Fishers exact

Cont...

r	Above Rs. 1 crore upto Rs. 5 crore	115 (73.25)	0 (0)	2 (1.27)	40 (25.48)	0 (0)	0 (0)	157 (100)	test. p-value=.000
	Above Rs. 5 crore	41 (95.34)	0 (0)	0 (0)	0 (0)	0 (0)	2 (4.76)	43 (100)	
	Total	242 (67.6)	31 (8.66)	4 (1.12)	68 (18.99)	7 (1.96)	6 (1.68)	358 (100)	
Size of the Unit	Up to Rs. 25 lakhs	143 (73.71)	21 (10.82)	2 (1.03)	25 (12.89)	0 (0)	3 (1.55)	194 (100)	Fishers exact test. p-value=0 .007
	Up to Rs. 5 crore	87 (59.59)	9 (6.16)	2 (1.37)	38 (26.03)	7 (4.79)	3 (2.05)	146 (100)	
	Up to Rs. 10 crore	12 (66.67)	1 (5.56)	0 (0)	5 (27.78)	0 (0)	0 (0)	18 (100)	
	Total	242 (67.6)	31 (8.66)	4 (1.12)	68 (18.99)	7 (1.96)	6 (1.68)	358 (100)	

Source: Computed from Primary Data

Result of Fishers exact test shown in Table 4.10 indicates that there is a statistically significant association between firms' characteristics and pattern of financing of MSMEs as the p-value for chief promoter's gender, education, form of ownership, type of unit, annual turnover and size of the unit is less than 0.05 and it is significant at 5% level of significance.

Thus, the null hypothesis $Ho_{1(b)}$ is rejected with respect to pattern of financing short term requirements.

From the above result it is found that majority of selected female entrepreneurs (100%) and male entrepreneurs (62.46%) use owned funds to finance short term requirements. The majority of selected MSME owners with qualification below SSC (93.33%) are found using owned funds for meeting their short term requirements than the MSME owners with HSSC and higher qualifications. The selected MSME units owned by sole proprietor (69.51%) prefer owned funds to finance their short term requirements compared to other forms of ownership. The selected MSME units catering domestic market (70.3%) make use of owned funds to meet their short term requirements than export oriented and other units. The selected MSME units with annual turnover of above Rs. 5 crore (95.24%) utilize owned funds to meet their short term requirements. Majority of selected micro enterprises (73.71%) found to be using owned funds for meeting their short term requirements compared to small and medium enterprises in Goa.

The above finding reveals that majority of selected MSME units owned by female entrepreneur use own funds for financing short term requirements. MSME owners with qualification below SSC, units owned by sole proprietor, micro enterprises, units catering domestic market, MSME units with annual turnover of above Rs. 5 crore use owned funds for financing short term requirements.

Table 4.11 shows the result of Pearson's chi-square test and Fisher's exact test testing the association between firm's characteristics and pattern of financing medium term requirements.

Table No. 4.11: Association between Firm's Characteristics Pattern of Financing Medium Term Requirements

Firm's Characteristics		**Pattern of financing medium term requirements**			**Test Statistics**
		Private sector Banks	**Public sector Banks**	**Total**	
Chief Promoters' Gender	Male	76 (24.6)	233 (75.4)	309 (100)	Chi-Square test =15.300a df = 1 p-value=.000
	Female	0 (0)	49 (100)	49 (100)	
	Total	76 (21.23)	282 (78.77)	358 (100)	
Chief Promoters' Qualification	Below SSC	0 (0)	15 (100)	15 (100)	Chi-Square test =45.355a df = 4 p-value=.000
	HSSC	23 (25.84)	66 (74.16)	89 (100)	
	Graduate	46 (37.1)	78 (62.9)	124 (100)	
	Post Graduate	7 (10.14)	62 (89.86)	69 (100)	
	Technically Qualified	0 (0)	61 (100)	61 (100)	
	Total	76 (21.23)	282 (78.77)	358 (100)	
Form of Ownership	Sole Trader	34 (11.15)	271 (88.85)	305 (100)	Fishers exact test. p-value=.000
	Partnership	41 (78.85)	11 (21.15)	52 (100)	
	Private Ltd	1 (100)	0 (0)	1 (100)	
	Total	76 (21.23)	282 (78.77)	358 (100)	
Type of Unit	Export	3 (75)	1 (25)	4 (100)	Fishers exact test.

Cont...

	Domestic	73 (27.44)	193 (72.56)	266 (100)	p-value=.000
	Both	0 (0)	88 (100)	88 (100)	
	Total	76 (21.23)	282 (78.77)	358 (100)	
Annual Turnover	Up to Rs. 1 crore	41 (25.95)	117 (74.05)	158 (100)	Chi-Square test =17.152a df = 3 p-value=0.000
	Above Rs. 1 crore up to Rs. 5 crore	34 (21.66)	123 (78.34)	157 (100)	
	Above Rs. 5 crore	1 (2.33)	42 (97.68)	43 (100)	
	Total	76 (21.23)	282 (78.77)	358 (100)	
Size of the Unit	Up to Rs. 25 lakhs	39 (20.1)	155 (79.9)	194 (100)	Chi-Square test = .650a df = 2 p-value=0.722
	Up to Rs. 5 crore	32 (21.92)	114 (78.08)	146 (100)	
	Up to Rs. 10 crore	5 (27.78)	13 (72.22)	18 (100)	
	Total	76 (21.23)	282 (78.77)	358 (100)	

Source: Computed from Primary Data

The result of Pearson's chi-square test and Fisher's exact test showing association between pattern of financing medium term requirements and firm's characteristic is shown in Table 4.11.

Since, the p-value for chief promoter's gender, education, form of ownership, type of unit and annual turnover is less than 0.05 and it is statistically significant, the null hypothesis Ho_{1b} is rejected except with respect to size of units. Thus, the alternate hypothesis is accepted.

The selected female entrepreneurs (100%) and male entrepreneurs (75.40%) prefer public sector banks for financing their medium term financial requirements. The selected MSME owner with qualification below SSC (100%) compared to other higher qualifications chooses public sector banks for financing medium term requirements. The selected units owned by sole proprietors (88.85%) than the other form of ownership opt for public sector banks than private sector banks to finance their medium term requirements. Public sector banks are preferred more for financing medium term requirements by the selected MSME units catering for both domestic and foreign market (100%). The selected units with annual turnover above Rs. 5 crore (97.68 %)

consider public sector banks over private sector banks for financing medium term requirements.

From the above findings, it can be concluded that majority of selected MSME units owned by female entrepreneurs prefer public sector banks for financing medium term requirements. Further, MSME owners with qualification below SSC, units owned by sole proprietor, units catering domestic and foreign market and units having turnover of over Rs. 5 crore opt for public sector banks for financing medium term requirements.

Table 4.12 shows the result of Fisher's exact test analyzing the association between firm's characteristics and pattern of financing long term requirements.

Table No. 4.12: Association between Pattern of Financing Long Term Requirements and Firm's Characteristics

Firm's Characteristics		**Pattern of financing Long term requirements**					**Test Statistics**
		Own funds	**Private sector Banks**	**Public sector Banks**	**co-operatives Banks**	**Total**	
Chief Promoters' Gender	Male	2 (0.65)	113 (36.57)	194 (62.78)	0 (0)	309 (100)	Fishers exact test. p-value=.000
	Female	0 (0)	0 (0)	48 (97.96)	1 (2.04)	49 (100)	
	Total	2 (0.56)	113 (31.56)	242 (67.6)	1 (0.28)	358 (100)	
Chief Promoters' Qualification	Below SSC	0 (0)	0 (0)	15 (100)	0 (0)	15 (100)	Fishers exact test. p-value=0.006
	HSSC	1 (1.12)	23 (25.84)	65 (73.03)	0 (0)	89 (100)	
	Graduate	0 (0)	57 (45.97)	66 (53.23)	1 (0.8)	124 (100)	
	Post Graduate	0 (0)	19 (27.54)	50 (72.46)	0 (0)	69 (100)	
	Technically Qualified	1 (1.64)	14 (22.95)	46 (75.41)	0 (0)	61 (100)	
	Total	2 (0.56)	113 (31.56)	242 (67.6)	1 (0.28)	358 (100)	
Form of Ownership	Sole Trader	2 (0.66)	90 (29.51)	212 (69.51)	1 (0.33)	305 (100)	Fishers exact test. p-value=0.507
	Partnership	0 (0)	23 (44.23)	29 (55.77)	0 (0)	52 (100)	
	Private Ltd	0 (0)	0 (0)	1 (100)	0 (0)	1 (100)	
	Total	2 (0.56)	113 (31.56)	242 (67.6)	1 (0.28)	358 (100)	
Type of Unit	Export	0 (0)	0 (0)	4 (100)	0 (0)	4 (100)	Fishers exact test.

Cont...

	Domestic	2 (0.75)	99 (37.22)	164 (61.65)	1 (0.38)	266 (100)	p-value=0.007
	Both	0 (0)	14 (15.91)	74 (84.09)	0 (0)	88 (100)	
	Total	2 (0.56)	113 (31.56)	242 (67.6)	1 (0.28)	358 (100)	
Annual Turnover	Up to Rs. 1 crore	1 (0.63)	58 (36.71)	99 (62.66)	0 (0)	158 (100)	Fishers exact test. p-value=0.001
	Above Rs. 1 crore up to Rs. 5 crore	0 (0)	55 (35.03)	101 (64.33)	1 (0.64)	157 (100)	
	Above Rs. 5 crore	1 (2.33)	0 (0)	42 (97.67)	0 (0)	43 (100)	
	Total	2 (0.56)	113 (31.56)	242 (67.6)	1 (0.28)	358 (100)	
Size of the Unit	Up to Rs. 25 lakhs	1 (0.52)	48 (24.74)	144 (74.23)	1 (0.52)	194 (100)	Fishers exact test. p-value=0.1246
	Up to Rs. 5 crore	1 (0.68)	58 (39.73)	87 (59.59)	0 (0)	146 (100)	
	Up to Rs. 10 crore	0 (0)	7 (38.89)	11 (61.11)	0 (0)	18 (100)	
	Total	2 (0.56)	113 (31.56)	242 (67.6)	1 (0.28)	358 (100)	

Source: Computed from Primary Data

Table 4.12 shows the result of Fisher's exact test analyzing association between pattern of financing long term requirements and firm's characteristics. Since the P-value for chief promoter's gender, education, type of unit and annual turnover is less than 0.05 and it is statistically significant at 5% level of significance.

Thus, the null hypothesis, $Ho_{1(b)}$ is rejected except with respect to form of ownership and size of the unit and the alternate hypothesis is accepted with respect to chief promoter's gender, chief promoter's education, type of unit and annual turnover.

The majority of selected female entrepreneurs (97.96%) and male entrepreneurs (62.78%), prefer public sector banks for financing their long term requirement. The selected MSME owners with qualification below SSC (100%) than the owners with other qualifications prefer public sector banks for financing long term requirements. The selected units owned by sole proprietor (69.51%) compared to other form of ownership opt for public sector banks than private sector banks to finance their long term requirements. Public sector banks are preferred more for financing long term requirements by selected units catering for both domestic and foreign market (84.09%).

The selected units with annual turnover above Rs. 5 crore (97.62%) consider public banks for financing long term requirements compared to units with annual turnover up to Rs. 1 crore (62.66%) and above Rs. 1 crore up to Rs. 5 crore (64.33%).

From the above findings, it can be concluded that the selected MSME units owned by female entrepreneurs prefer public sector banks for financing long term requirements. Further, MSME owners with qualification below SSC, units owned by sole proprietor, units catering both domestic and foreign markets and units with annual sales turnover of above Rs. 5 crore opt for public sector banks for financing long term requirements.

4.8 CHAPTER SUMMARY

This chapter examine the financial requirements of MSMEs by analysing the extent of financial planning practices and the pattern of financing adopted by MSMEs in Goa. Firm characteristics such as chief promoters' gender, educational qualifications, form of ownership, type of unit, annual turnover, type of product and size of the unit are considered to find if there is any association with financial planning practices and pattern of financing of MSMEs in Goa.

Financial planning practices have statistically significant association with all the firm's characteristics except for type of product. Pattern of financing also has statistically significant association with the firm's characteristics except for size of the unit. MSMEs units, owned by female entrepreneurs, owner with post graduation or higher qualification, units owned by sole proprietor, units supplying goods for both domestic and foreign markets, units with annual turnover of above Rs. 5 crore, Medium enterprises and units manufacturing chemicals and chemical other products are more inclined and regular in doing financial planning. Similarly, MSMEs in Goa finance their short term requirements by short term sources of funds like owned funds and medium and long term requirements by long term sources of funds i.e. public and private sector banks.

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CHAPTER V

ANALYSIS OF EFFECTIVE UTILIZATION OF FINANCE BY MSMEs IN GOA

Sr. No. **Contents**

5.1 INTRODUCTION

Financial Management cannot be addressed without first designing a strategy to ensure the proper utilization of finance. This helps to avoid the situations in which funds remain idle or lack of profitable utilization of funds in hand. The imperative of sound financial management in all type of organizations is to guarantee efficient use of all resources. Research reveals that many MSMEs liquidate because of mismanagement of funds and not, as it is commonly believed, because of obsolete technology or lack of skilled labour. Financial management is designed and customized according to different client needs to optimize output from the assigned fund input. In a situation, where resources seem scarce and the demand for funds is high, proper financial management is an absolute necessity.

Financial management is concerned with all areas of management which involve finance – not only the sources and uses of finance in the enterprise, but also the financial implications of investment, production, marketing, personnel decisions and the total performance of the enterprise. Financial management is concerned with raising of funds needed to finance the assets and activities of enterprises, the allocation of these scarce funds between competing uses and ensuring that the funds are used effectively and efficiently in achieving the enterprise’s goals.

However, efficient and effective utilization of finance by Micro, Small and Medium Enterprises (MSMEs), in this area of study, is limited to a financial management framework of seven specific areas:

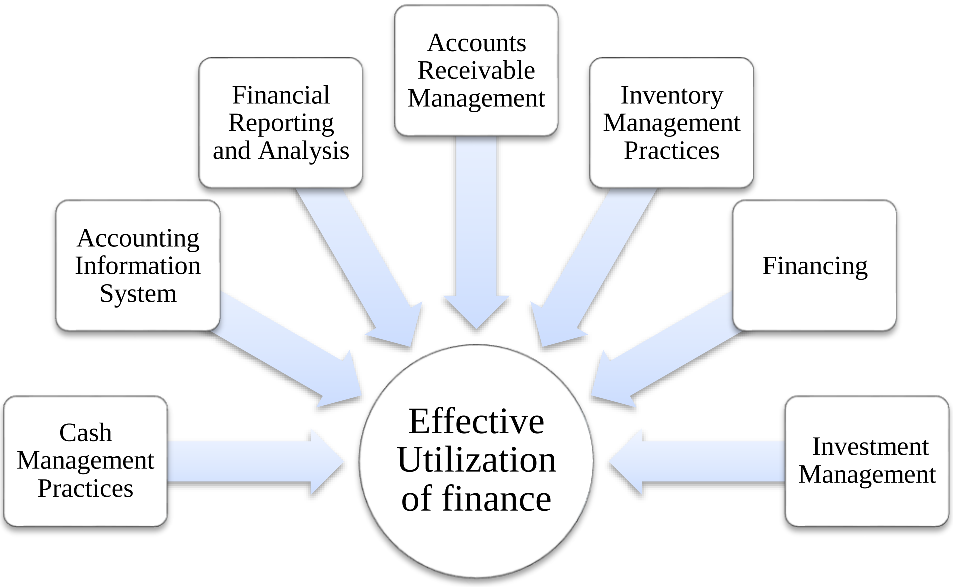
1. Cash Management Practices
2. Accounting Information System
3. Financial Reporting and Analysis
4. Accounts Receivable Management
5. Inventory Management Practices
6. Financing
7. Investment Management

Therefore, these focus areas are considered necessary and appropriate in the present study to measure effective utilization of finance by MSMEs in Goa. Further, more information is available on each specific areas of Financial Management.

5.2 FRAMEWORK FOR ANALYSIS OF EFFECTIVE UTILIZATION OF FINANCE

Figure 5.1 shows the variables considered for analysing the effective utilization of finance by MSMEs in Goa. The variables required for this area of research study are retrieved from operational definitions suggested by competent authority.

Figure No. 5.1 Variables for Effective Utilization of finance by MSMEs in Goa



Source: Drawn by Researcher

5.3 EFFECTIVE UTILIZATION OF FINANCE

With the growth of business boundaries to the global area, the role of finance manager is become more complex, technical and more important in steering the organisation wheels in a proper direction. One of the roles of finance manager includes the effective utilization of funds. He has to select an investment pattern that is related to the appropriate use of funds. The finance manager has to estimate the financial requirements of the company. The manager should determine the sources from which capital can be raised and determined how effectively and judiciously these funds are put into use so that repayment can be done in time.

Financial management handles everything from procuring the funds to effective utilization of the same. Effective management of finance involves calculation of risk, cost and control and maintaining the cost of funds at a minimum. This is done with the intent of establishing a proper balance between the involved risk and the optimized control.

5.4 FINANCIAL MANAGEMENT

Financial Management practice is termed as a discipline that deals with how organisations make decisions relating to various financial aspects and the instruments used (Lasher, 2010). Similarly, according to Management Study Guide (2012), financial management practice is the process of acquiring financial resources and measures to enhance the financial performance in firms. Byoun, (2010) defined financial management practices as all aspects dealing with money circulations and money control in all business transactions. It relates to the arrangements and optimal use of financial resources for current and future opportunities in order to improve financial operations. The most common financial management practices employed by organisations include Cash Management Practices, Accounting Information System, Financial Reporting and Analysis, Accounts Receivable Management, Inventory Management Practices, Financing, Investment Management.

5.4.1 Cash Management Practices – Cash Management Practice is, the efficient collection, disbursement, and investment of cash in an organization while maintaining the company's liquidity (Enow & Kamala, 2016). Cash management is the movement of funds through financial institutions to optimize liquidity. Cash management uses the knowledge of funds movement through the banking system, coupled with banking services and other financial products, to optimize liquidity (Oluoch O. J. 2016).

5.4.2 Accounting Information Systems – The emergence of the Accounting Information System discipline arises primarily from the application of information and communication technology in the accounting and auditing environment. The nature and purpose of Accounting Information System is financial records, bookkeeping, cost accounting and use of computers in financial record keeping and financial management (Ferguson C. & Seow S. P., 2011).

5.4.3 Financial Reporting and Analysis – The nature, frequency and purpose of Financial Reporting and Analysis is financial reporting, auditing, analysis and interpretation of financial performance (Muinde C., 2013). Financial Reporting and Analysis is the process of assessing the financial position of a company by analyzing its stability, viability and profitability. One of the primary objectives of financial analysis is to recognize changes in financial trends, to help measure the progress made by an enterprise and identify a relationship to draw a logical conclusion on the performance of the company (Sultan S. A., 2014). Another major aspect of a financial analysis is comparing the performance of the company with its competitors (Laitinen, 2002).

5.4.4 Accounts Receivable Management - Accounts receivables management entails managing the firm's inventory and receivables in order to achieve a balance between risk and returns and thereby contribute positively to the creation of a firm's value. Excessive investment in inventory and receivables reduces the profit, whereas, too little investment increases the risk of not being able to meet commitments as and when they become due (Kennedy 2014).

5.4.5 Inventory Management - Inventory management is the supervision of non-capitalized assets (inventory) and stock items. A component of supply chain management, inventory management supervises the flow of goods from manufacturers to warehouses and from these facilities to point of sale. A key function of inventory management is to keep a detailed record of each new or returned product as it enters or leaves a warehouse or point of sale (Atnafu D. & Balda A. 2017).

5.4.6 Financing – Financing activities are transactions with creditors or investors used to fund either enterprises' operations or expansions. Financing is a field that is concerned with the allocation of assets and liabilities over space and time, often under conditions of risk or uncertainty (Senior A. 2012).

5.4.7 Investment Management - Investment management is a term that refers to the buying and selling of investments within a portfolio, and can also include banking and budgeting duties, as well as taxes. The term most often refers to portfolio management and the trading of securities to achieve a specific investment objective (Kaur S. 2014). Investment management, also called money management and asset management refers to the process of investment analysis involving portfolio management, budget making, banking, tax planning, and investment risk assessment.

The importance that the financial management practices have on the organisation is imperative as most challenges facing MSMEs may be prevented by proper financial management practices (Uluyol, 2013). All the above financial management practices when properly integrated in the MSMEs' operations is aimed at improving their financial performance. This enables the MSMEs to be conducted in an effective way using appropriated financial decisions so as to maximize the company's resources (Mc Mahon, 1995).

5.5 ANALYSIS OF EFFECTIVE UTILIZATION OF FINANCE BY MSMEs IN GOA

After analyzing the financial requirements and pattern of financing by MSMEs in Goa, it is necessary to know if MSMEs in Goa ensure effective utilization of finance. Hence, this part of the study analyses the effective utilization of finance by MSMEs in Goa.

The sound financial management helps in the effective utilization of finance and avoids the funds remaining idle or unutilized.

The effective utilization of finance by MSMEs in this study is analyzed with respect to seven specific areas of financial management. The seven areas of financial management covered in this study are Cash Management Practices, Accounting Information System, Financial Reporting and Analysis, Accounts Receivable Management, Inventory Management Practices, Financing and Investment Management.

The variables for the above seven areas of financial management is derived through an extensive literature review. The following research papers and theses are reviewed for identifying the variables pertaining to the above seven areas of financial management. Table below gives the details of the number of items identified for each of the seven areas of financial management.

Table 5.1 List of Items for each of the Seven Major Areas of Financial Management

Areas of financial management	No. of items	Sources
Cash Management Practices	08	Gilbert Y., 2015; Enow and Kamala, 2016; Oluoch O. J., 2016; Muthama R. A., 2016.
Accounting Information System	06	Hilton, RW, Gordon L.,1988; Haldma and Laats, 2002; Ystrom A., 2010; Ferguson C. and Seow S. P., 2011;
Financial Reporting and Analysis	06	Laitinen, 2002; Muinde C., 2013; Sultan S. A., 2014; S. Selvanayaki, S.D. Sivakumar, A. Rohini and K. Mani, 2016.
Accounts Receivable Management	08	Nguyen M. K.,2001; Muinde C., 2013; Kennedy 2014.
Inventory Management Practices	08	Fariza A. M., Rushami Z. Y. and Rohaizah S. 2004; Atnafu D. and Balda A. 2016; Hong S., Qiang D., Rebecca L., Simon W.,2017.
Financing	07	Senior A. 2012;
Investment Management	09	Olawale F., 2012; Kaur S. 2014; Enow and Kamala, 2016;

The scale items are finalized after reviewing the above-mentioned literature, detailed discussion with subject experts and academicians. These scale items are then used for collecting requisite information from the MSMEs in Goa. The information is collected on seven areas of financial management namely cash management practices, accounting information system, financial reporting and analysis, accounts receivable management, inventory management practices, financing, investment management.

The questionnaire comprised of total 52 items, out of which eight pertained to cash management practices, six items related to accounting information system and financial reporting and analysis each, eight items of accounts receivable management and inventory management practices each, seven items of financing and nine items of investment management.

The scale used for the analysis is a semantic differential scale measured on five points rating where, five denote always and one denotes never.

The data is collected from 358 MSMEs registered and operating in the State of Goa and is analyzed by using Structural Equation Modeling.

The reliability of data used in this part of the study is tested using Cronbach's alpha statistics. The alpha value with reference to 52 variables is found reliable demonstrating high internal consistency. The following are the alpha values for each construct. Cash management practices is 0.903, Accounting information system is 0.759, Financial reporting and analysis is 0.758, Accounts receivable management is 0.854, Inventory management practices is 0.846, Financing is 0.847 and Investment management is 0.904.

In the present study, Confirmatory Factor Analysis is used to test if the measured variables represent constructs (CFA). The CFA process determines if the hypothesized structures provide a good fit to the data, or in other words, that a relationship exists between the observed variables and their underlying latent or unobserved, constructs (Child, 1990).

In the present study, CFA is carried out construct-wise to restrict the number of indicators. In the process of conducting CFA nine items from the latent constructs having standard regression weights below 0.50 were deleted (Hair et al., 2009).

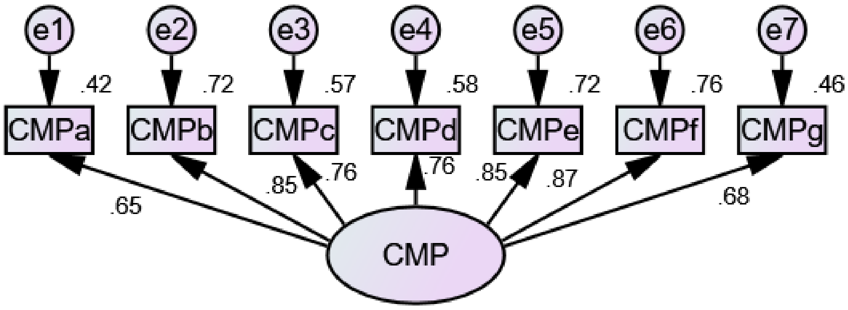
All the CFA models i.e. cash management practices, accounting information system, financial reporting and analysis, accounts receivable management, inventory management practices, financing and investment management fulfilled the necessary condition of identification, according to which there must be at least three manifest variables for each construct so that it can have enough degrees of freedom to estimate all free parameters.

To examine the goodness-fit of each construct of financial management practices, CFA was carried out. As proposed by Stephen Parry (2008), the following model fit indices are calculated; the Normed Fit Index (NFI) considered a value between 0.90 and 0.95 as marginal, above 0.95 as good. The Root Mean Squared Approximation of Error (RMSEA) is calculated where; 0.01, 0.05, and 0.08 to indicate excellent, good, and mediocre fit, respectively. The other fit indices are (Adjusted) Goodness of Fit (AGFI) $\geq$0.90, Tucker-Lewis Index (TLI) $\geq$ 0.95, Goodness of Fit Index (GFI) $\geq$ 0.95 and commonly used $\chi2$ statistic ($\chi2$/df ratio of 3 or less).

This confirmed the unidimensionality of the constructs and provided strong empirical verification of their validity.

The following are the individual CFA calculated for each construct.

Figure No. 5.2 CFA for Cash Management Practices



Source: Drawn from Primary Data

CMPa - Business operates a bank account regularly, CMPb - Business has a way to pre-determine cash shortage/surplus, CMPc - Business sells goods on cash basis, CMPd - There is the involvement of owner/manager in preparation of the cash budget, CMPe - Cash budget is useful in decision making, CMPf - There is monthly reconciliation of cashbook with the bank, CMPg - The business reviews the cash budget.

The CFA (Figure 5.2) is performed for cash management practices construct which constituted of eight items. Among eight items, one was deleted as it was not meeting the criteria i.e. SRW's > .50. After deleting one item, CFA produces a good fit.
Table 5.2 gives the result of fit indices of the CFA for cash management practices.

Table No. 5.2: Fit Indices of the CFA for Cash Management Practices

Construct	df	X^2	p	NFI	TLI	GFI	AGFI	RMSEA	alpha
Cash Management Practices	14	117.117	0.000	0.928	0.904	0.902	0.805	0.144	0.914

Source: Computed from Primary Data

The CFA result shown in Table 5.2 produces a good fit as GFI is 0.902, AGFI is 0.805, NFI is 0.928, TLI is 0.904 and RMSEA I 0.144.

The model has been found to be valid and reliable. The alpha value is 0.914, thereby indicating that all items are reliable. The model has been proved valid. The construct validity also stands established as all the indicators have factor loading above 0.50.

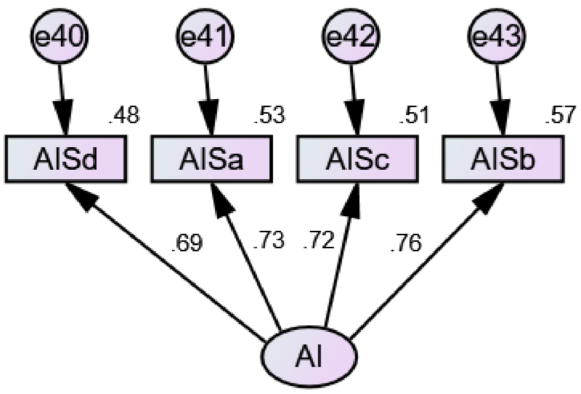
Table No. 5.3: CFA loadings Cash Management Practices [CMP]

Cash Management Practices [CMP]			Estimate
Business operates a bank account regularly. [CMPa]	<---	CMP	0.65
Business has a way to pre-determine cash shortage/surplus. [CMPb]	<---	CMP	0.85
Business sells goods on cash basis. [CMPc]	<---	CMP	0.76
There is the involvement of owner/manager in preparation of the cash budget. [CMPd]	<---	CMP	0.76
Cash budget is useful in decision making. [CMPe]	<---	CMP	0.85
There is monthly reconciliation of cashbook with the bank. [CMPf]	<---	CMP	0.87
The business reviews the cash budget [CMPg]	<---	CMP	0.65

Source: Computed from Primary Data

The above table 5.3 illustrates the CFA loadings for each item. The result indicates that in Cash Management practices; the monthly reconciliation of cashbook with the bank, the use of cash budget in decision making and business has a way to pre-determine cash shortage/surplus are more influential practices amongst MSMEs as they have a comparatively higher loading of 0.87, 0.85 and 0.85 respectively. Whereas, other practices like operating bank account regularly, review of cash budget, selling goods and services on cash basis and involvement of owner/ manager in preparation of cash budget are found to be less influential practices as loadings for these practices are 0.65, 0.65, 0.76 and 0.76 respectively, which are comparatively less than other variables.

Figure No. 5.3 CFA for Accounting Information System



Source: Drawn from Primary Data

AISa - The owner is in charge of recording transactions, AISb - The business accounting system is informal, AISc - The business uses computer assisted software in recording transactions, AISd - The business makes decisions, including producing managerial reports and financial statements using AIS

The CFA (Figure 5.3) is performed for the accounting information system construct which constituted of six items. Among six items, two were deleted as they were not meeting the criteria i.e. SRW's > .50. After deleting two items, CFA produces a good fit.

Table 5.4 gives the result of fit indices of the CFA for the accounting information system.

Table No. 5.4: Fit Indices of the CFA for Accounting Information System

Construct	df	X^2	p	NFI	TLI	GFI	AGFI	RMSEA	alpha
Accounting Information System	2	4.689	0.096	0.99	0.982	0.993	0.966	0.062	0.814

Source: Computed from Primary Data

The result shown in Table 5.4 reveals that the model fit statistics are within recommended levels i.e. GFI is 0.993, AGFI is 0.966, NFI is 0.99, TLI is 0.982, RMSEA is 0.062 indicating the model is valid.

The value of Cronbach's alpha is 0.814 and all items loading is above 0.50 as shown in Table 5.4. Thus, validity and reliability got established.

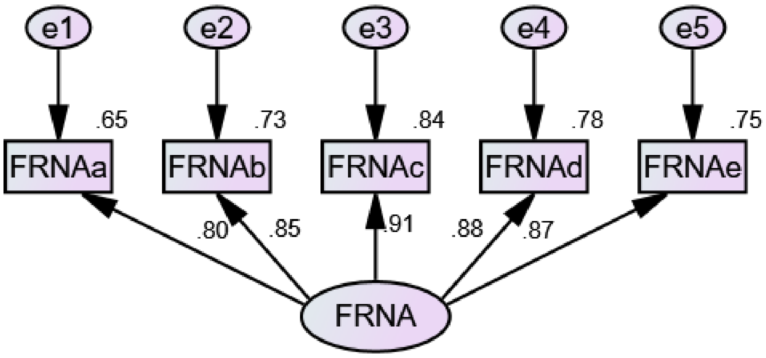
Table No. 5.5: CFA loadings for Accounting Information System [AIS]

Accounting Information System [AIS]			Estimate
The owner is in charge of recording transactions. [AISa]	<---	AIS	0.73
The business accounting system is informal. [AISb]	<---	AIS	0.76
The business uses computerised accounting system in recording transactions. [AISc]	<---	AIS	0.72
AIS is used for decision making, preparation of managerial reports and financial statements. [AISd]	<---	AIS	0.69

Source: Computed from Primary Data

CFA loadings for each item of Accounting Information System given in Table 5.5 indicate that, having an informal business accounting system and owner/manager being in-charge of recording transactions are found to be more influencing practices followed under Accounting Information System as the loading for these items are 0.76 and 0.73 respectively. Whereas, loading for other practices like, the business uses a computerised accounting system in recording transactions and AIS is used for decision making, preparation of managerial reports and financial statements, has a lower loading of 0.72 and 0.69 respectively.

Figure No. 5.4: CFA for Financial Reporting and Analysis



Source: Drawn from Primary Data

FRNAa - The manager/owner is involved in preparing financial statements, FRNAb - The business prepares the income statement, FRNAc - The business prepares the cash flow statement, FRNAd - The business follows accounting principles, FRNAe - The business prepares the balance sheet.

Figure 5.4 shows the CFA executed on financial reporting and analysis which constituted six items. Among six items one was deleted as it was having the standard regression weight below 0.50. The remaining five items are contributors to financial reporting and analysis construct.

After deleting the one item, CFA produces a good fit. Table 5.6 gives the result of the fit indices of the CFA for financial reporting and analysis.

Table No. 5.6: Fit Indices of the CFA for Financial Reporting and Analysis

Construct	df	X^2	p	NFI	TLI	GFI	AGFI	RMSEA	alpha
Financial Reporting and Analysis	5	16.903	0.005	0.989	0.984	0.981	0.943	0.082	0.935

Source: Computed from Primary Data

A perusal of values of indices shown in Table 5.6 calculated for the financial reporting and analysis construct indicates that GFI is 0.981, AGFI is 0.943, NFI is 0.989, TLI is 0.984 and RMSEA is 0.082. The alpha value is 0.935. Thus, the model fit indices meet the cut-off criteria; the value of TLI, NFI, GFI, AGFI should be ≥ 9 and more specifically the value of RMSEA should be below 0.05.

Hence, the model has been found to be valid and reliable. The reliability is also confirmed through Cronbach's alpha value which is measured to be 0.935. So it is appropriate to conclude that the scale is reliable. Also each item loading is greater than 0.50 as shown in Table 5.6, which provides empirical support for the convergent validity of the construct.

Table 5.7 gives the factor loading for each factor of financial reporting and analysis.

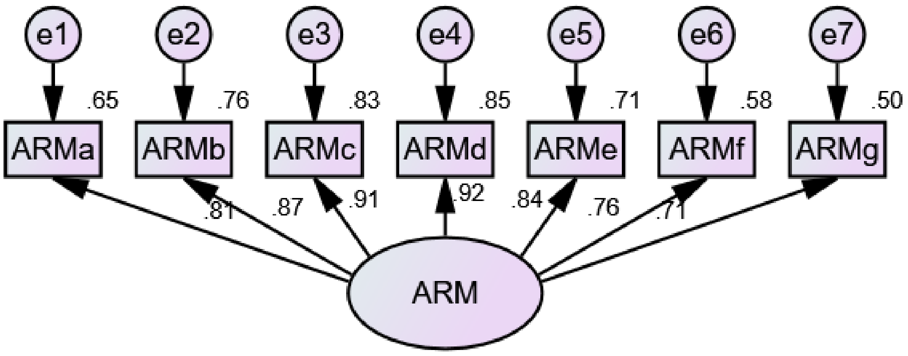
Table No. 5.7: CFA loading for Financial Reporting and Analysis [FRNA].

Financial Reporting and Analysis. [FRNA]			Estimate
The manager/ owner is involved in preparing financial statements. [FRNAa]	<---	FRNA	0.80
The business prepares the income statement. [FRNAb]	<---	FRNA	0.85
The business prepares the cash flow statement. [FRNAc]	<---	FRNA	0.91
The business follows accounting principles. [FRNAd]	<---	FRNA	0.88
The business prepares the balance sheet. [FRNAe]	<---	FRNA	0.87

Source: Computed from Primary Data

Table 5.7 indicates the CFA loading for financial reporting and analysis practices of MSMEs in Goa. Financial Reporting and Analysis practices like preparation of cash flow statements, following of accounting principles and preparation of balance sheet has shown higher loading with values of 0.91, 0.88 and 0.87 respectively thereby demonstrating higher influence over practices of Financial Reporting and Analysis.

Figure No. 5.5: CFA for Accounts Receivable Management Practices



Source: Drawn from Primary Data

ARMa - The business sells goods/services on credit, ARMb - There is control over sales to employees, ARMc - The sales are reconciled with inventory change, ARMd - There is periodic preparation of aging schedule, ARMe - The business reviews the levels of percentage of bad debts, ARMf - There is control over collections of written-off receivables, ARMg -The business has set credit policy in place.

Figure 5.5 depicts the CFA executed on accounts receivable management which consisted of eight indicators. Each indicator of the construct is measured using a five point scale. While running CFA one item got deleted as it was not meeting the criteria. The remaining indicators have contributed and produced a good fit. Table 5.8 shows the result of fit indices conducted for accounts receivable management construct.

Table No. 5.8: Fit Indices of the CFA for Accounts Receivable Management Practices

Construct	df	X^2	p	NFI	TLI	GFI	AGFI	RMSEA	alpha
Accounts Receivable Management	2	155.336	0.000	0.931	0.905	0.881	0.863	0.169	0.942

Source: Computed from Primary Data

The result shown in Table 5.8 reveals that the model fit statistics are within recommended levels i.e. GFI is 0.881, AGFI is 0.863, NFI is 0.931, TLI is 0.905, RMSEA is 0.169 indicating the model is valid.

The value of Cronbach's alpha is 0.938 and all items loading is above 0.50 as shown in Table 5.9. Thus the validity and reliability got established.

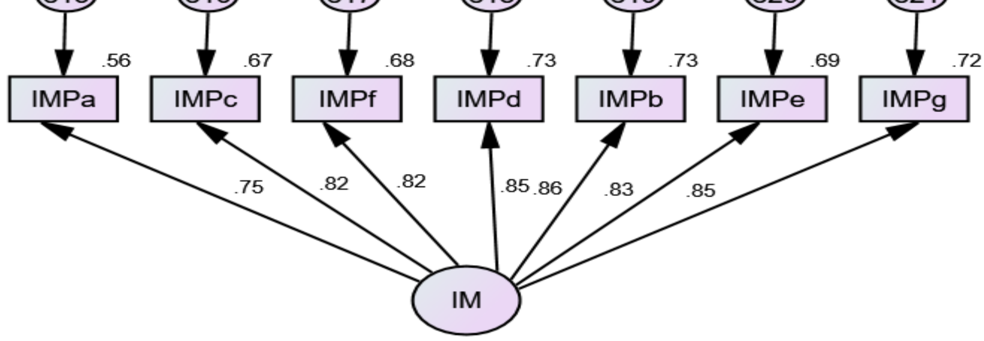
Table No. 5.9: CFA loading for Accounts Receivable Management Practices [ARM]

Accounts Receivable Management [ARM]			Estimate
The business sells goods/services on credit. [ARMa]	<---	ARM	0.81
There is control over sales to employees. [ARMb]	<---	ARM	0.87
The sales are reconciled with inventory change. [ARMc]	<---	ARM	0.91
There is a periodic preparation of aging schedule. [ARMd]	<---	ARM	0.92
The business reviews the levels of percentage of bad debts. [ARMe]	<---	ARM	0.84
There is control over collections of written-off receivables. [ARMf]	<---	ARM	0.76
The business has set credit policy in place. [ARMg]	<---	ARM	0.71

Source: Computed from Primary Data

In Table 5.9 CFA loading for practices like, reconciling sales with inventory change, periodic preparation of aging schedule, control of sales by employee and review of the percentage of bad debts with values of 0.92, 0.91, 0.87 and 0.84 each respectively, has shown higher influence on Accounts Receivable Management practices. Whereas, practices like selling goods on credit, control over written-off receivables and setting credit policy of the business in place had lower CFA loading with 0.81, 0.76 and 0.71each.

Figure No. 5.6: CFA for Inventory Management Practices



Source: Drawn from Primary Data

IMPa - There is a physical safeguard of inventory against theft, IMPb = Inventory levels are determined based on owner's experience, IMPc - Business has computerised inventory management practices, IMPd - Business uses Economic Order Quantity (EOQ) to determine quantity and quality of purchase, IMPe - Periodic summaries of inventory usage are prepared and used, IMPf - There is periodic valuation of inventory, IMPg - There is a practice of inventory requisitions.

The CFA (Figure 5.6) is performed for inventory management practices construct which constituted of eight variables. Among the eight variables one was deleted as the standard regression weight was less than 0.50. After deleting CFA produced a good fit.

Table 5.10 gives the result of the fit indices of the CFA for inventory management practices construct.

Table No. 5.10: Fit Indices of the CFA for Inventory Management Practices

Construct	df	X^2	p	NFI	TLI	GFI	AGFI	RMSEA	alpha
Inventory Manageme nt Practices	14	137.846	0.000	0.932	0.907	0.881	0.762	0.158	0.937

Source: Computed from Primary Data

The CFA result shown in Table 5.10 produces a good fit as GFI is 0.881, AGFI is 0.762, NFI is 0.932, TLI is 0.907 and RMSEA is 0.158.

The model has been found to be valid and reliable. The alpha value is 0.937, thereby indicating that all items are reliable. The model has been proved valid. The construct validity also stands established as all the indicators have factor loading above 0.50.

Table No. 5.11: CFA loading for Inventory Management Practices [IMP]

Inventory Management Practices [IMP]			Estimate
There is a physical safeguard of inventory against theft. [IMPa]	<---	IMP	0.75
Inventory levels are determined based on owner's experience. [IMPb]	<---	IMP	0.86
Business has computerised inventory management practices. [IMPc]	<---	IMP	0.82
Business uses Economic Order Quantity (EOQ) to determine quantity and quality of purchase [IMPd]	<---	IMP	0.85
Periodic summaries of inventory usage are prepared. [IMPe]	<---	IMP	0.83

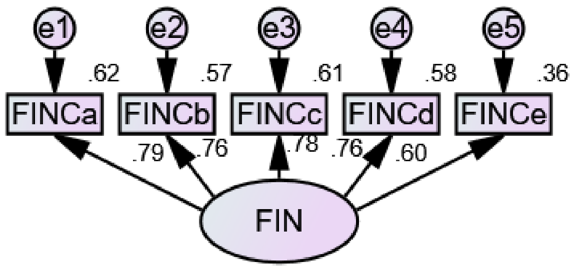
Cont...

There is periodic valuation of inventory. [IMPf]	<---	IMP	0.82
There is a practice of inventory requisitions. [IMPg]	<---	IMP	0.85

Source: Computed from Primary Data

Inventory Management practices with CFA loading are shown in Table 5.11. Practice of determining inventory levels based on owner's experience with loading of 0.86, practice of inventory requisitions, use of Economic Order Quantity (EOQ) to determine quantity and quality of purchase with loading of 0.85 and preparation of periodic summaries of inventory with loading of 0.83 has shown greater influence towards Inventory Management practices as they have higher loadings. Whereas, using computerised inventory management practices, periodic valuation of inventory have loading of 0.82 each and physical safeguards of inventory against theft with loading 0.75 has less influence on Inventory Management practices of MSMEs in Goa.

Figure No. 5.7: CFA for Financing Practices



Source: Drawn from Primary Data

FINCa - The business uses internally generated cash sources, FINCb – The business has easy access to bank loans, FINCc - The business do not uses borrowed funds., FINCd - The business sets the capital structure based on the theory., FINCe - The business maintains proper balance between profitability and liquidity.

Figure 5.7 shows the CFA conducted for Financing construct which constituted of seven variables. Among the seven variables two were deleted as the standard regression weight was less than 0.50. After deleting two items CFA produced a good fit.

Table 5.12 gives the result of the fit indices of the CFA for inventory management practices construct.

Table No. 5.12: Fit Indices of the CFA for Financing Practices

Construct	df	X^2	p	NFI	TLI	GFI	AGFI	RMSEA	alpha
Financing	5	37.752	0.000	0.951	0.913	0.958	0.875	0.136	0.849

Source: Computed from Primary Data

The CFA result shown in Table 5.12 produces a good fit as GFI is 0.958, AGFI is 0.875, NFI is 0.951, TLI is 0.913and RMSEA is 0.136. The model has been found to be valid and reliable.

The alpha value is 0.937, thereby indicating that all items are reliable. Model has been proved valid. The construct validity also stands established as all the indicators have factor loading above 0.50.

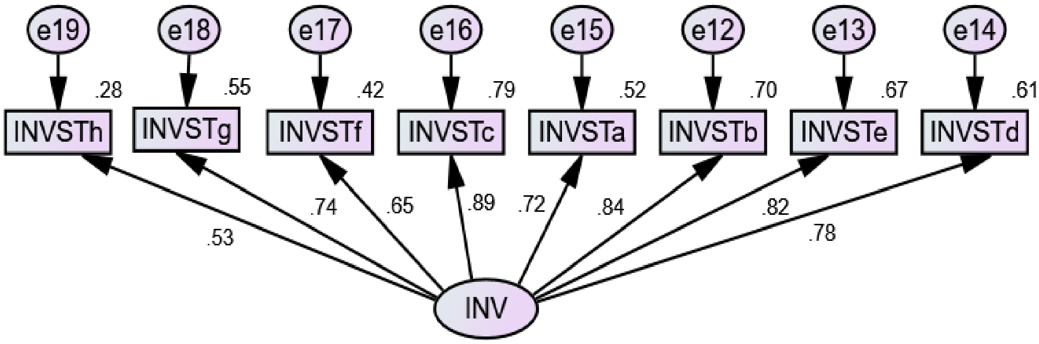
Table No. 5.13: CFA loading for Financing Practices [FINC]

Financing [FINC]			Estimate
The business uses internally generated cash sources. [FINCa]	<---	FINC	0.79
The business has easy access to bank loans. [FINCb]	<---	FINC	0.76
The business do not uses borrowed funds. [FINCc]	<---	FINC	0.78
The business sets the capital structure based on the theory. [FINCd]	<---	FINC	0.76
The business maintains proper balance between profitability and liquidity. [FINCe]	<---	FINC	0.60

Source: Computed from Primary Data

Table 5.13 illustrates CFA loading for financing practices of MSMEs in Goa. The loading value extracted indicates that financial practices like the use of internally generated cash sources and not using borrowed funds are more influential practices as they have higher CFA loading of 0.79 and 0.78 respectively than other practices. Easy access to bank finance and setting the capital structure based on the theory with a loading of 0.76 each and practice of maintaining a proper balance between profitability and liquidity with factor loadings 0.60 has shown less influence towards financing practices.

Figure No. 5.8: CFA for Investment Management



Source: Drawn from Primary Data

INVSTa - The business has cash for investment in long term projects, INVSTb - The business invests in non current assets, INVSTc - The business utilizes fully the non currents assets, INVSTd - The business uses net present value to assess the investment, INVSTe - The business uses Pay back period (PBP) to assess the investment, INVSTf - The business invests without evaluating the investment, INVSTg - The business invests in real estate, INVSTh - The business reviews the investment projects after a certain period.

Figure 5.8 depicts CFA performed on Investment Management construct which consisted of nine indicators. Each indicator of the construct is measured using a five point scale. While running CFA, one item got deleted as it was not meeting the criteria. The result of the model fit statistics for recovery measures with eight variables is given in Table 5.14.

Table No. 5.14: Fit Indices of the CFA for Investment Management Practices

Construct	df	X^2	p	NFI	TLI	GFI	AGFI	RMSEA	alpha
Investment Management Practices	20	136.777	0.000	0.922	0.906	0.909	0.837	0.128	0.907

Source: Computed from Primary Data

The result of the goodness of fit indices for investment management practices construct shown in Table 5.14 reveals that the model fit statistics are within recommended levels i.e. GFI is 0.909, AGFI is 0.837, NFI is 0.922, TLI is 0.906, RMSEA is 0.128 indicating the model is valid.

The value of Cronbach's alpha is 0.907 and all items loading is above 0.50 as shown in Table 5.14. Thus, validity and reliability got established.

Table No. 5.15: CFA loading for Investment Management Practices [INVST]

Investment Management [INVST]			Estimate
The business has cash for investment in long term projects. [INVSTa]	<---	INVST	0.72
The business invests in non current assets. [INVSTb]	<---	INVST	0.83
The business utilizes fully the non currents assets. [INVSTc]	<---	INVST	0.89
The business uses net present value to assess the investment. [INVSTd]	<---	INVST	0.77
The business uses Pay back period (PBP) to assess the investment. [INVSTe]	<---	INVST	0.81
The business invests without evaluating the investment. [INVSTf]	<---	INVST	0.64
The business invests in real estate. [INVSTg]	<---	INVST	0.73
The business reviews the investment projects after a certain period. [INVSTh]	<---	INVST	0.55

Source: Computed from Primary Data

As depicted in Table 5.15, full utilization of non-current assets, investment in non-current assets and use of payback period to assess the investment are more influential practices followed in Investment Management as loading for these factors was 0.891, 0.839 and 0.819 respectively, which are higher than other practices. Use of net present value to assess the investment, investment in real assets, use of cash for investment in long term projects, investment without evaluating the investment and review of the investment project after a certain period has the lower loading with values of 0.779, 0.739, 0.72, 0.649 and 0.53.

Thus, as proposed by Stephen Parry (2008), the fit indices for each construct are within the acceptable limit and indicate the overall good fit for each construct.

The following hypotheses are framed to test the influence of all the above constructs i.e. cash management practices, accounting information system, financial reporting and analysis, accounts receivable management, inventory management practices, financing and investment management on financial management practices of MSMEs in Goa.

Ho_2 – There is no effective utilization of finance by MSMEs in Goa.

Sub Hypotheses

$Ho_{2(a)}$- There is no significant influence of financial management practices followed by MSMEs to ensure effective utilization of finance.

$Ho_{2(b)}$- There is no significant influence of financial management practices followed by Micro enterprises to ensure effective utilization of funds.

$Ho_{2(c)}$- There is no significant influence of financial management practices followed by Small Enterprises to ensure effective utilization of funds.

Structural Equation Modelling (SEM) is a multivariate statistical analysis technique that is used to analyze structural relationships between two or more variables. This technique is a combination of factor analysis and multiple regression analysis. It is used to analyze the structural relationship between measured variables and latent constructs (Hair et al.2009).

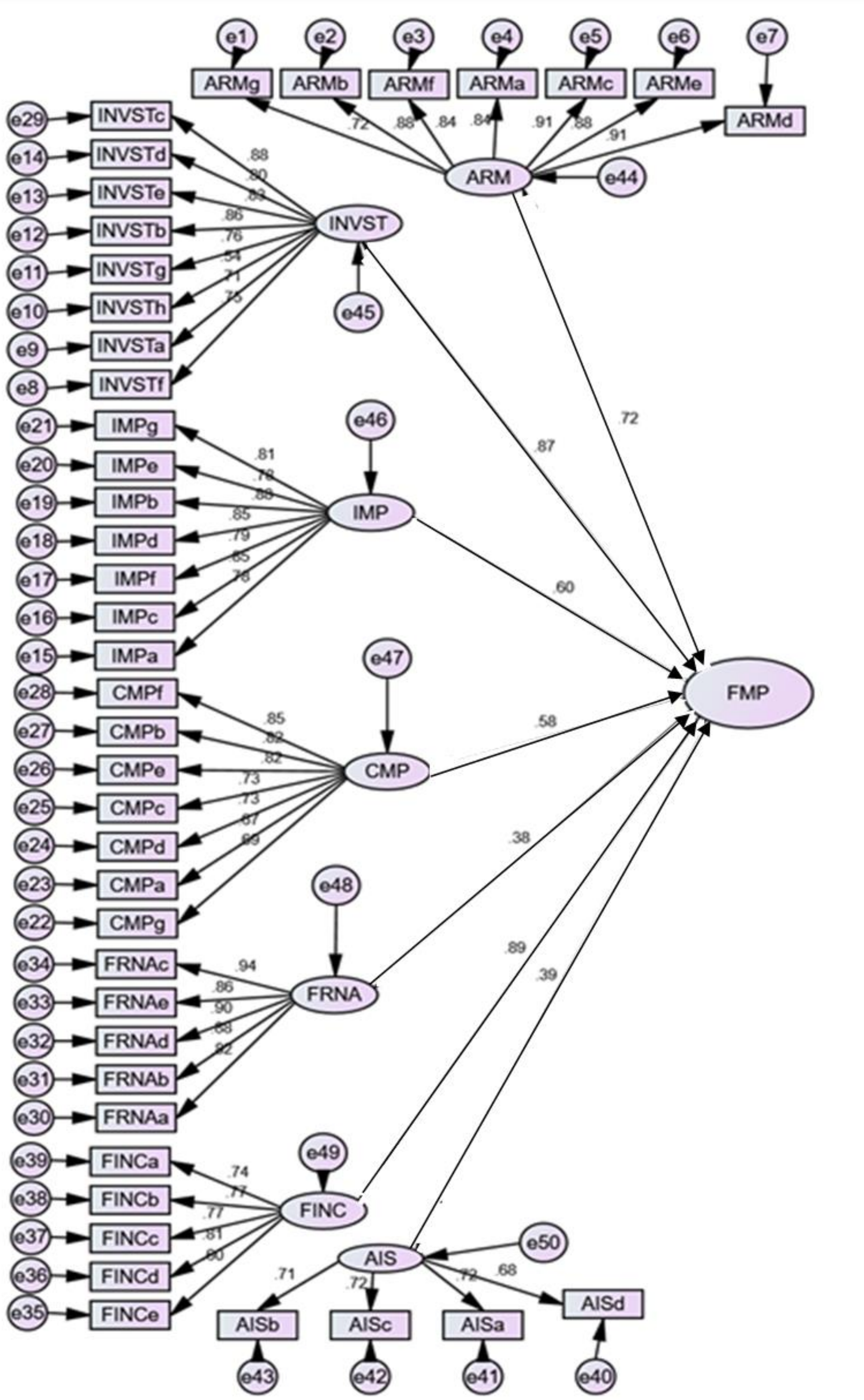
SEM represents the theory with a set of structural equations and is usually depicted through a visual diagram. It is the only multivariate procedure for testing both construct validity and theoretical relationships among a set of concepts represented by multiple measured variables. Thus, when SEM techniques are used to test a structural theory, it is equivalent to carrying out factor analysis and regression analysis in one step (Hair et al.2009).

In this study, to identify the factors related to effective utilization of finance and to analyse their interrelationship, structural equation modelling is found to be an appropriate statistical tool. Cash management practices, accounting information system, financial reporting and analysis, accounts receivable management, inventory management practices, financing and investment management were identified as independent variables and Financial Management practices is considered as the dependent variable.

To examine the goodness-fit and testify that the model is acceptable, following model fit indices are calculated; The Root Mean Squared Approximation of Error (RMSEA) is calculated where; 0.01, 0.05, and 0.08 to indicate excellent, good, and mediocre fit, respectively. The other fit indices are Root Mean square Residual (RMR) $\geq$ 0.05, Confirmatory Factor Analysis (CFA) $\geq$ 0.05, (Adjusted) Goodness of Fit (AGFI) $\geq$0.90, Tucker-Lewis Index Goodness of Fit Index (GFI) $\geq$ 0.95 and commonly used $\chi 2$ statistic ($\chi 2$/df ratio of 3 or less) as proposed by Stephen Parry (2008).

Further, with the objective of testing the above hypotheses, a Structural Equation Model was developed with the above constructs. The results are shown in Table 5.16 and Figure. 5.9.

Figure No. 5.9: Financial Management Practices (FMP) model for MSMEs in Goa



Source: Drawn from Primary Data

Table No. 5.16: Model fit indices for Financial Management of MSMEs in Goa

Chi-square	D.F.	Probability level	CMIN/DF	GFI	AGFI	RMR	RMSEA	CFI
1913.528	853	0.000	2.125	0.794	0.772	0.033	0.059	0.918

Source: Computed from Primary Data

The model fit result of SEM for financial management given in Table 5.16 shows that Chi-square is 1913.528, D.F. is 853, p-value is 0.000, CMIN/DF is 2.125, GFI is 0.794, AGFI is 0.772, RMR is 0.033, RMSEA is 0.059 and CFI 0.918.

All the above indices shown in table 5.16 testify that the model is acceptable. The model provides good fit to the data, as the result meets the cut –off criteria.

The Table 5.17 gives the result of estimated parameters in structural model for financial management of MSMEs in Goa.

Table No. 5.17: Result of the estimated parameters in Structural model for Financial Management of MSMEs in Goa (regression weights)

Constructs and Measures			Estimate	S.E.	C.R.	P- value
FMP	<---	ARM	1.2	0.215	5.572	***
FMP	<---	INVST	1.562	0.277	5.63	***
FMP	<---	IMP	1.587	0.289	5.502	***
FMP	<---	CMP	1.101	0.218	5.054	***
FMP	<---	FRNA	0.907	0.211	4.308	***
FMP	<---	FINC	1.507	0.272	5.533	***
FMP	<---	AIS	0.982	0.124	7.922	***
ARMf	<---	ARM	1.117	0.079	14.099	***
ARMa	<---	ARM	1.189	0.08	14.926	***
ARMd	<---	ARM	1.316	0.078	16.968	***
INVSTf	<---	INVST	1			
INVSTa	<---	INVST	1.023	0.082	12.529	***
INVSTh	<---	INVST	0.893	0.094	9.479	***
INVSTg	<---	INVST	1.031	0.08	12.834	***
INVSTb	<---	INVST	1.133	0.081	13.93	***
INVSTe	<---	INVST	1.092	0.079	13.846	***
INVSTd	<---	INVST	1.097	0.083	13.203	***
IMPa	<---	IMP	1			

Cont...

IMPc	<---	IMP	1.064	0.065	16.4	***
IMPf	<---	IMP	0.983	0.06	16.31	***
IMPd	<---	IMP	0.992	0.058	17.022	***
IMPb	<---	IMP	1.133	0.066	17.083	***
IMPe	<---	IMP	1.105	0.068	16.354	***
IMPg	<---	IMP	1.016	0.06	16.849	***
CMPg	<---	CMP	1			
CMPa	<---	CMP	0.891	0.077	11.493	***
CMPd	<---	CMP	1.153	0.087	13.288	***
CMPc	<---	CMP	1.112	0.084	13.178	***
CMPe	<---	CMP	1.303	0.09	14.522	***
CMPb	<---	CMP	1.261	0.086	14.594	***
CMPf	<---	CMP	1.348	0.091	14.848	***
INVSTc	<---	INVST	1.215	0.084	14.552	***
FRNAa	<---	FRNA	1			
FRNAb	<---	FRNA	1.095	0.058	18.979	***
FRNAd	<---	FRNA	1.045	0.053	19.858	***
FRNAe	<---	FRNA	0.983	0.051	19.359	***
FRNAc	<---	FRNA	0.996	0.048	20.945	***
FINCe	<---	FINC	1			
FINCd	<---	FINC	1.126	0.098	11.449	***
FINCb	<---	FINC	1.045	0.094	11.158	***
FINCa	<---	FINC	1.019	0.089	11.421	***
AISd	<---	AIS	1			
AISa	<---	AIS	0.975	0.085	11.509	***
AISc	<---	AIS	0.99	0.086	11.472	***
AISb	<---	AIS	0.972	0.083	11.744	***
FINCc	<---	FINC	0.971	0.084	11.49	***
ARMe	<---	ARM	1.228	0.079	15.484	***
ARMc	<---	ARM	1.336	0.08	16.695	***
ARMg	<---	ARM	1			
ARMb	<---	ARM	1.275	0.079	16.211	***

Source: Computed from Primary Data (note: *** sig at 0.001)

The significance test is the critical ratio (CR), which represent the parameter estimate divided by its standard error. The parameter estimate is significant at 5% level with $p \leq 0.05$ and value of C.R. is > 1.96. Seven significant structural paths among the exogenous and endogenous latent variables are found to be significant.

The results shown in Table 5.17 indicate that Cash Management Practices, Accounting Information System, Financial Reporting and Analysis, Accounts Receivable Management, Inventory Management Practices, Financing and Investment have a positive and significant effect on Financial Management Practices. Thus, the null hypothesis $Ho_{2(a)}$ is rejected and the alternate hypothesis there is, significant influence of financial management practices followed by MSMEs on the effective utilization of finance is accepted.

Table No. 5.18: Standardized Regression Weights influence of FMP on effective utilization of finance by MSMEs- (MSMEs - Default model)

Constructs and Measures			Estimate
FMP	<---	ARM	0.716
FMP	<---	INVST	0.82
FMP	<---	IMP	0.651
FMP	<---	CMP	0.518
FMP	<---	FRNA	0.343
FMP	<---	FINC	0.881
FMP	<---	AIS	0.396
ARMf	<---	ARM	0.765
ARMa	<---	ARM	0.809
ARMd	<---	ARM	0.921
INVSTf	<---	INVST	0.671
INVSTa	<---	INVST	0.732
INVSTh	<---	INVST	0.539
INVSTg	<---	INVST	0.753
INVSTb	<---	INVST	0.828
INVSTe	<---	INVST	0.822
INVSTd	<---	INVST	0.778
IMPa	<---	IMP	0.754
IMPc	<---	IMP	0.827
IMPf	<---	IMP	0.823
IMPd	<---	IMP	0.853
IMPb	<---	IMP	0.856
IMPe	<---	IMP	0.825
IMPg	<---	IMP	0.846
CMPg	<---	CMP	0.684

Cont...

CMPa	<---	CMP	0.655
CMPd	<---	CMP	0.766
CMPc	<---	CMP	0.759
CMPe	<---	CMP	0.846
CMPb	<---	CMP	0.851
CMPf	<---	CMP	0.868
INVSTc	<---	INVST	0.873
FRNAa	<---	FRNA	0.806
FRNAb	<---	FRNA	0.855
FRNAd	<---	FRNA	0.881
FRNAe	<---	FRNA	0.866
FRNAc	<---	FRNA	0.914
FINCe	<---	FINC	0.612
FINCd	<---	FINC	0.775
FINCb	<---	FINC	0.747
FINCa	<---	FINC	0.773
AISd	<---	AIS	0.706
AISa	<---	AIS	0.724
AISc	<---	AIS	0.721
AISb	<---	AIS	0.745
FINCc	<---	FINC	0.78
ARMe	<---	ARM	0.84
ARMc	<---	ARM	0.906
ARMg	<---	ARM	0.71
ARMb	<---	ARM	0.879

Source: Computed from Primary Data

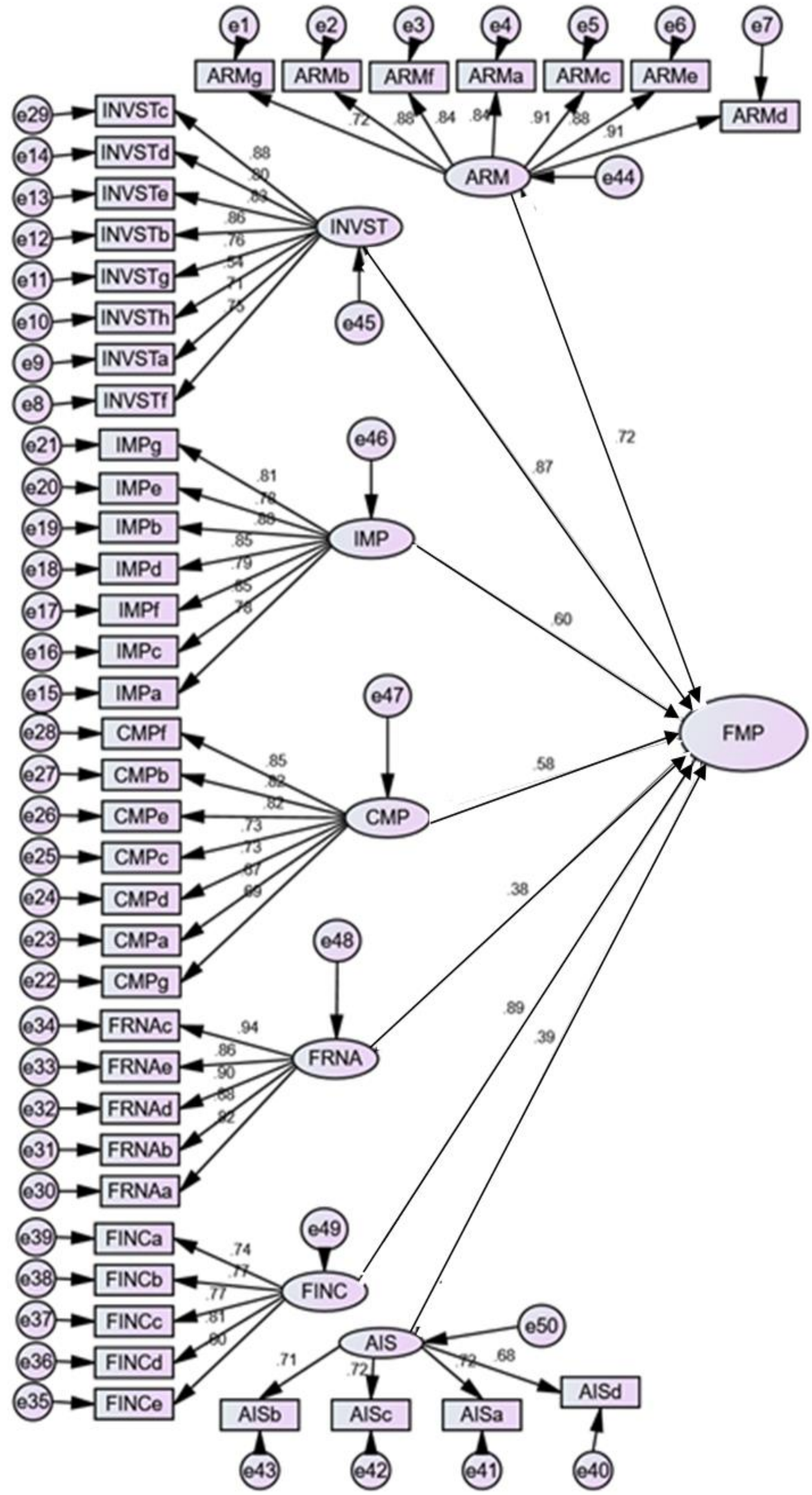
Standardised regression weights as depicted in table 5.18 were used to evaluate the relative contribution of each predictor variable to each outcome variable. As shown in above Table 5.18 Financing, Investment and Accounts Receivable Management practices having standardised regression values of 0.88, 0.82 and 0.72 each respectively are found to be more influential factors for financial management practices amongst MSMEs in Goa. Further, Inventory Management, Cash Management, Accounting Information System, Financial Reporting and Analysis Practices with standardised regression weight values of 0.65, 0.52, 0.40, and 0.34 respectively, are found to be less influential practices towards financial management.

After analysing the influence of financial management practices on effective utilization of finance by MSMEs in Goa, it is necessary to know whether these financial management practices differ across size of the unit as these enterprises differ in term of their investment in plant and machinery.

Thus, the researcher further used SEM analysis to examine whether; the financial management practices of MSMEs differ across size of the unit in Goa. However, in the present study SEM model including all indicators are tested separately only for Micro and Small enterprises. Since, the sample size of Medium enterprises is 18 a separate SEM model could not be run for these enterprises.

The results of SEM for Micro enterprises are shown below in Figure 5.10 and Table 5.19.

Figure No. 5.10: Financial Management Practices model for Micro Enterprises in Goa



Source: Drawn from Primary Data

Table No. 5.19: Model fit indices for Financial Management Practices of Micro Enterprises in Goa

Chi-square	D.F.	Probability level	CMIN/DF	GFI	AGFI	RMR	RMSEA	CFI
1600.734	853	0.000	2.125	0.717	0.686	0.033	0.068	0.917

Source: Computed from Primary Data

The model fit result of SEM for financial management practices is given in Table 5.19 shows Chi-square is 1600.734, D.F. is 853, p-value is 0.000, CMIN/DF is 2.125, GFI is 0.717, AGFI is 0.686, RMR is 0.033, RMSEA is 0.068 and CFI is 0.917.

All the above indices shown in table 5.19 testify that the model is acceptable. The model provides good fit to the data, as the result meets the cut –off criteria.

Table No. 5.20: Result of the estimated parameters in Structural model for Micro Enterprises (regression weights)

Constructs and Measures			Estimate	S.E.	C.R.	P- value
FMP	<---	ARM	1.316	0.328	4.017	***
FMP	<---	INVST	1.99	0.478	4.163	***
FMP	<---	IMP	1.709	0.439	3.893	***
FMP	<---	CMP	1.319	0.35	3.771	***
FMP	<---	FRNA	1.062	0.321	3.311	***
FMP	<---	FINC	1.675	0.422	3.968	***
FMP	<---	AIS	0.976	0.122	3.006	***
ARMf	<---	ARM	1.267	0.11	11.537	***
ARMa	<---	ARM	1.277	0.111	11.542	***
ARMd	<---	ARM	1.317	0.104	12.652	***
INVSTf	<---	INVST	1			
INVSTa	<---	INVST	0.919	0.091	10.046	***
INVSTh	<---	INVST	0.785	0.105	7.449	***
INVSTg	<---	INVST	0.973	0.089	10.93	***
INVSTb	<---	INVST	1.076	0.086	12.556	***
INVSTe	<---	INVST	1.036	0.086	12.022	***
INVSTd	<---	INVST	1.043	0.091	11.457	***
IMPa	<---	IMP	1			

Cont...

IMPc	<---	IMP	1.032	0.079	13.088	***
IMPf	<---	IMP	0.845	0.071	11.848	***
IMPd	<---	IMP	0.896	0.068	13.109	***
IMPb	<---	IMP	1.09	0.079	13.714	***
IMPe	<---	IMP	0.92	0.079	11.671	***
IMPg	<---	IMP	0.848	0.069	12.241	***
CMPg	<---	CMP	1			
CMPa	<---	CMP	0.871	0.101	8.603	***
CMPd	<---	CMP	1.059	0.113	9.35	***
CMPc	<---	CMP	0.995	0.107	9.336	***
CMPe	<---	CMP	1.225	0.118	10.406	***
CMPb	<---	CMP	1.167	0.112	10.405	***
CMPf	<---	CMP	1.28	0.119	10.749	***
INVSTc	<---	INVST	1.175	0.092	12.82	***
FRNAa	<---	FRNA	1			
FRNAb	<---	FRNA	1.053	0.07	14.98	***
FRNAd	<---	FRNA	1.087	0.07	15.499	***
FRNAe	<---	FRNA	0.956	0.066	14.513	***
FRNAc	<---	FRNA	1.059	0.064	16.628	***
FINCe	<---	FINC	1			
FINCd	<---	FINC	1.191	0.139	8.581	***
FINCb	<---	FINC	1.062	0.128	8.315	***
FINCa	<---	FINC	0.949	0.117	8.091	***
AISd	<---	AIS	1			
AISa	<---	AIS	0.976	0.122	8.006	***
AISc	<---	AIS	0.977	0.123	7.96	***
AISb	<---	AIS	0.982	0.124	7.922	***
FINCc	<---	FINC	0.884	0.107	8.268	***
ARMe	<---	ARM	1.245	0.103	12.093	***
ARMc	<---	ARM	1.403	0.112	12.562	***
ARMg	<---	ARM	1			
ARMb	<---	ARM	1.294	0.106	12.185	***

Source: Computed from Primary Data (note: *** sig at 0.01)

The results shown in Table 5.20 indicate that Cash Management Practices, Accounting Information System, Financial Reporting and Analysis, Accounts Receivable Management, Inventory Management Practices, Financing and Investment have a positive and significant effect on Financial Management Practices followed by Micro enterprises in Goa.

Thus, the null hypothesis $Ho_{2(b)}$ is rejected and the alternative hypothesis, there is a significant influence of financial management practices followed by Micro enterprises on the effective utilization of finances is accepted.

Table No. 5.21: SEM result of influence of FMP on effective utilization of finance by Micro Enterprises- Standardized Regression Weights: (Micro Enterprises-Default model)

Constructs and Measures			Estimate
FMP	<---	ARM	0.722
FMP	<---	INVST	0.873
FMP	<---	IMP	0.601
FMP	<---	CMP	0.58
FMP	<---	FRNA	0.38
FMP	<---	FINC	0.886
FMP	<---	AIS	0.388
ARMf	<---	ARM	0.837
ARMa	<---	ARM	0.837
ARMd	<---	ARM	0.915
INVSTf	<---	INVST	0.751
INVSTa	<---	INVST	0.709
INVSTh	<---	INVST	0.538
INVSTg	<---	INVST	0.764
INVSTb	<---	INVST	0.861
INVSTe	<---	INVST	0.83
INVSTd	<---	INVST	0.796
IMPa	<---	IMP	0.78
IMPc	<---	IMP	0.851
IMPf	<---	IMP	0.787
IMPd	<---	IMP	0.852
IMPb	<---	IMP	0.882
IMPe	<---	IMP	0.778
IMPg	<---	IMP	0.808
CMPg	<---	CMP	0.69

Cont...

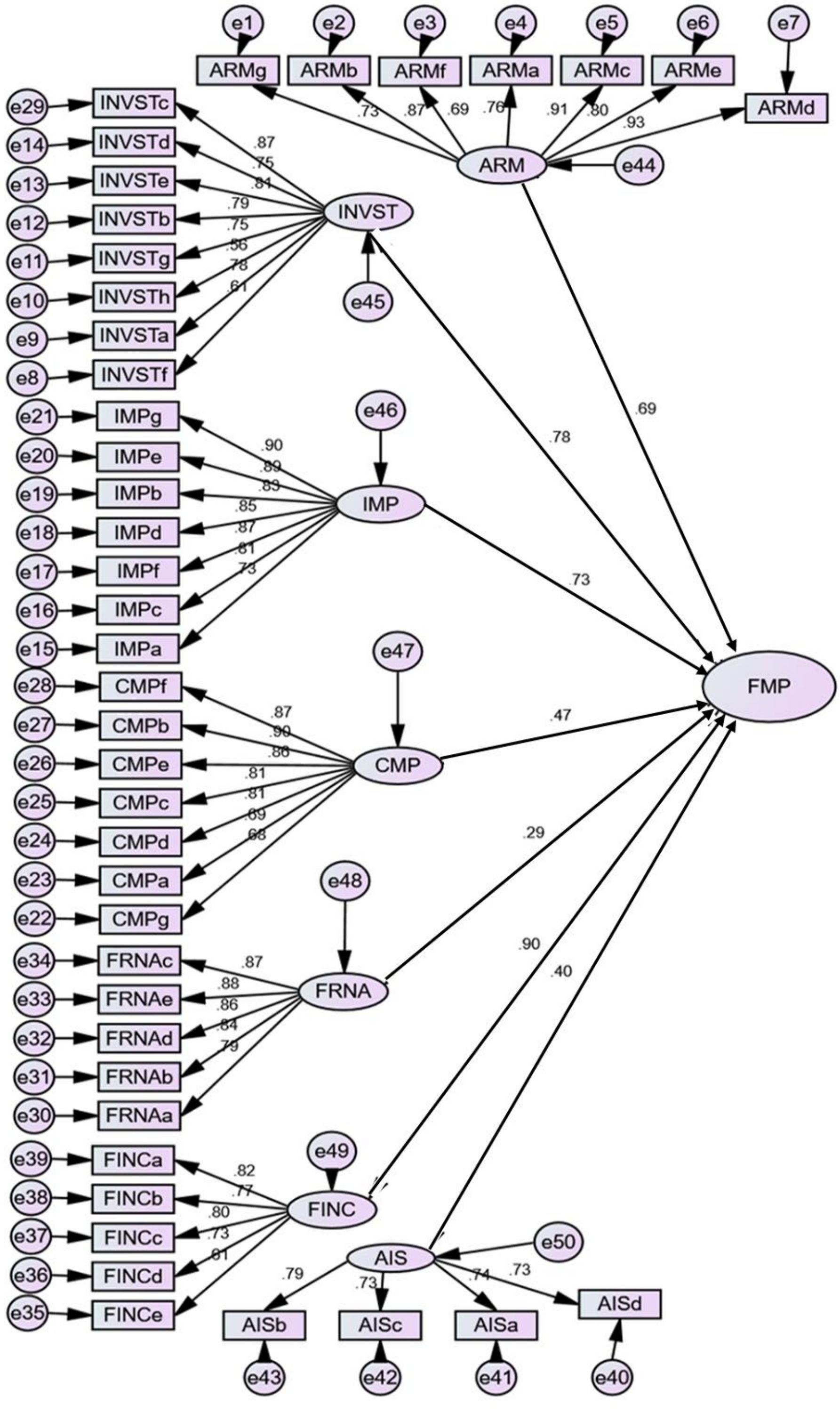
CMPa	<---	CMP	0.669
CMPd	<---	CMP	0.731
CMPc	<---	CMP	0.73
CMPe	<---	CMP	0.822
CMPb	<---	CMP	0.822
CMPf	<---	CMP	0.853
INVSTc	<---	INVST	0.877
FRNAa	<---	FRNA	0.817
FRNAb	<---	FRNA	0.878
FRNAd	<---	FRNA	0.897
FRNAe	<---	FRNA	0.86
FRNAc	<---	FRNA	0.937
FINCe	<---	FINC	0.604
FINCd	<---	FINC	0.813
FINCb	<---	FINC	0.774
FINCa	<---	FINC	0.743
AISd	<---	AIS	0.683
AISa	<---	AIS	0.722
AISc	<---	AIS	0.716
AISb	<---	AIS	0.711
FINCc	<---	FINC	0.767
ARMe	<---	ARM	0.875
ARMc	<---	ARM	0.908
ARMg	<---	ARM	0.718
ARMb	<---	ARM	0.882

Source: Computed from Primary Data

Table 5.21 Financing, Investment and Accounts Receivable Management practices having standardised regression values of 0.89, 0.87 and 0.72 respectively are found to be more influential factors for financial management practices in Micro Enterprises than Inventory Management, Cash Management, Accounting Information System, Financial Reporting and Analysis Practices with standardised regression weight values of 0.60, 0.58, 0.39 and 0.38 each respectively among Micro enterprises in Goa.

Further, the results of SEM for Small enterprises are shown below in Figure 5.11 and Table 5.22.

Figure No. 5.11: Financial Management Practices model for Small Enterprises in Goa



Source: Drawn from Primary Data

Table No. 5.22: Model fit indices for Small Enterprises in Goa

Chi-square	D.F.	Probability level	CMIN/DF	GFI	AGFI	RMR	RMSEA	CFI
1478.089	853	0.000	2.115	0.7	0.667	0.033	0.068	0.916

Source: Computed from Primary Data

The result shown in Table 5.22 reveals that the model fit statistics are within recommended levels i.e. Chi-square is 1478.089, D.F. is 853, p-value is 0.000, CMIN/DF is 2.115, GFI is 0.7, AGFI is 0.667, RMR is 0.033, RMSEA is 0.068 and CFI is 0.916.

All the above indices shown in Table 5.22 testify that the model is acceptable. The model provides good fit to the data, as the result meets the cut –off criteria.

Table No. 5.23: Result of the estimated parameters in Structural model for Financial Management of Small Enterprises (regression weights)

Constructs and Measures			Estimate	S.E.	C.R.	P- value
FMP	<---	ARM	1.119	0.303	3.697	***
FMP	<---	INVST	1.256	0.347	3.621	***
FMP	<---	IMP	1.526	0.408	3.737	***
FMP	<---	CMP	0.942	0.293	3.211	0.001
FMP	<---	FRNA	0.711	0.279	2.546	0.011
FMP	<---	FINC	1.333	0.362	3.678	***
FMP	<---	AIS	1			
ARMf	<---	ARM	0.91	0.108	8.414	***
ARMa	<---	ARM	1.023	0.11	9.29	***
ARMd	<---	ARM	1.246	0.107	11.603	***
INVSTf	<---	INVST	1			
INVSTa	<---	INVST	1.155	0.153	7.535	***
INVSTh	<---	INVST	1.05	0.178	5.888	***
INVSTg	<---	INVST	1.09	0.148	7.34	***
INVSTb	<---	INVST	1.185	0.155	7.648	***
INVSTe	<---	INVST	1.088	0.14	7.766	***
INVSTd	<---	INVST	1.124	0.152	7.381	***
IMPa	<---	IMP	1			
IMPc	<---	IMP	1.1	0.111	9.911	***
IMPf	<---	IMP	1.191	0.11	10.782	***

Cont...

IMPd	<---	IMP	1.097	0.105	10.468	***
IMPb	<---	IMP	1.157	0.114	10.186	***
IMPe	<---	IMP	1.359	0.123	11.04	***
IMPg	<---	IMP	1.249	0.112	11.116	***
CMPg	<---	CMP	1			
CMPa	<---	CMP	0.972	0.124	7.812	***
CMPd	<---	CMP	1.25	0.14	8.958	***
CMPc	<---	CMP	1.281	0.143	8.985	***
CMPe	<---	CMP	1.351	0.143	9.481	***
CMPb	<---	CMP	1.372	0.139	9.843	***
CMPf	<---	CMP	1.38	0.144	9.614	***
INVSTc	<---	INVST	1.189	0.146	8.141	***
FRNAa	<---	FRNA	1			
FRNAb	<---	FRNA	1.168	0.103	11.306	***
FRNAd	<---	FRNA	0.987	0.085	11.667	***
FRNAe	<---	FRNA	1.049	0.087	12.027	***
FRNAc	<---	FRNA	0.929	0.077	11.995	***
FINCe	<---	FINC	1			
FINCd	<---	FINC	1.085	0.154	7.057	***
FINCb	<---	FINC	1.137	0.156	7.283	***
FINCa	<---	FINC	1.196	0.157	7.6	***
AISd	<---	AIS	1			
AISa	<---	AIS	0.996	0.125	7.954	***
AISc	<---	AIS	0.989	0.125	7.931	***
AISb	<---	AIS	0.955	0.114	8.39	***
FINCc	<---	FINC	1.132	0.152	7.449	***
ARMe	<---	ARM	1.163	0.118	9.884	***
ARMc	<---	ARM	1.184	0.105	11.281	***
ARMg	<---	ARM	1			
ARMb	<---	ARM	1.204	0.111	10.821	***

Source: Computed from Primary Data (note: *** sig at 0.01)

The results shown in Table 5.23 also depict a similar picture for Small enterprises, as Cash Management Practices, Accounting Information System, Financial Reporting and Analysis, Accounts Receivable Management, Inventory Management Practices, Financing and Investment also have a positive and significant effect on Financial Management Practices in case of Small enterprises.

Thus, the null hypothesis $Ho_{2(c)}$ is rejected and the alternate hypothesis there is a significant influence of financial management practices followed by Small Enterprises on the effective utilization of finance is accepted.

Table No. 5.24: SEM result of influence of FMP on effective utilization of finance by Small Enterprises Standardized Regression Weights: (Small Enterprises-Default model)

Constructs and Measures			Estimate
FMP	<---	ARM	0.694
FMP	<---	INVST	0.778
FMP	<---	IMP	0.729
FMP	<---	CMP	0.466
FMP	<---	FRNA	0.293
FMP	<---	FINC	0.901
FMP	<---	AIS	0.404
ARMf	<---	ARM	0.693
ARMa	<---	ARM	0.76
ARMd	<---	ARM	0.932
INVSTf	<---	INVST	0.609
INVSTa	<---	INVST	0.777
INVSTh	<---	INVST	0.562
INVSTg	<---	INVST	0.749
INVSTb	<---	INVST	0.794
INVSTe	<---	INVST	0.812
INVSTd	<---	INVST	0.755
IMPa	<---	IMP	0.733
IMPc	<---	IMP	0.807
IMPf	<---	IMP	0.872
IMPd	<---	IMP	0.849
IMPb	<---	IMP	0.828
IMPe	<---	IMP	0.891
IMPg	<---	IMP	0.896
CMPg	<---	CMP	0.683
CMPa	<---	CMP	0.694
CMPd	<---	CMP	0.806
CMPc	<---	CMP	0.808

Cont...

CMPe	<---	CMP	0.859
CMPb	<---	CMP	0.897
CMPf	<---	CMP	0.872
INVSTc	<---	INVST	0.874
FRNAa	<---	FRNA	0.792
FRNAb	<---	FRNA	0.836
FRNAd	<---	FRNA	0.856
FRNAe	<---	FRNA	0.876
FRNAc	<---	FRNA	0.874
FINCe	<---	FINC	0.608
FINCd	<---	FINC	0.735
FINCb	<---	FINC	0.769
FINCa	<---	FINC	0.821
AISd	<---	AIS	0.733
AISa	<---	AIS	0.735
AISc	<---	AIS	0.733
AISb	<---	AIS	0.787
FINCc	<---	FINC	0.796
ARMe	<---	ARM	0.805
ARMc	<---	ARM	0.908
ARMg	<---	ARM	0.733
ARMb	<---	ARM	0.874

Source: Computed from Primary Data

As illustrated in Table 5.24; Financing, Investment Management and Inventory Management practices with standardized regression weights of 0.901, 0.778 and 0.729 respectively, indicates that they are highly practiced in Small enterprises in Goa. Whereas, Accounts Receivable Management, Cash Management, Accounting Information System, and Financial Reporting and Analysis Practices with standardised weights of 0.694, 0.466, 0.404 and 0.293 respectively, shows that they are less practiced in small enterprises in Goa.

Based on the result of the analysis it can be inferred that, MSMEs in Goa follows financial management practices to ensure effective utilization of finance. However, there is significant difference in the financial management practices followed by MSMEs in Goa.

Thus, the null hypothesis, $H0_2$ there no effective utilization of finance by MSMEs in Goa is accepted.

5.6 CHAPTER SUMMARY

The chapter consists of the analysis of effective utilization of finance by MSMEs in Goa. Seven constructs were considered for measuring effective utilization of finance i.e. Cash Management, Accounting Information System, Financial Reporting and Analysis, Accounts Receivable Management, Inventory Management, Financing and Investment Management. The finding of this area of research study shows that Cash Management, Accounting Information System, Financial Reporting and Analysis, Accounts Receivable Management, Inventory Management, Financing and Investment Management have positive and significant relation with Financial Management practices of MSMEs in Goa. It was worth noting that Financing, Investment Management and Accounts Receivable Management practices are found to be more influential factors for Financial Management Practices indicating that they are more regular practices followed by MSMEs in Goa.

Further, the study on Micro and Small Enterprises, found that they follow Financial Management Practices. However, in Micro Enterprises; Financing, Investment and Accounts Receivable Management practices were noted as more imperative practices. Whereas, Financing, Investment Management and Inventory Management practices are more essential practices among Small Enterprises in Goa.

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CHAPTER- VI

ANALYSIS OF SELECTED BANKS' EXPERIENCE IN LENDING TO MSMEs

Sr. No. **Contents**

6.1 INTRODUCTION

Fair access to credit and banking services act as a ladder to development and poverty reduction world over. Access to a bank account gives MSMEs greater control and security over their money, and a loan from a credit organization can be vital in promoting development of an enterprise (Kauffmann, 2010). Banks need to address the needs of these MSMEs so that they can grow and expand and therefore be a major driver in the growth of the Indian economy. Most commercial banks have been hesitant in lending to the MSME sector due to lack of collateral, credit history, financial statements and banking history. Most commercial banks in the recent past have developed different financial products to consumers in business banking, retail banking and MSME banking.

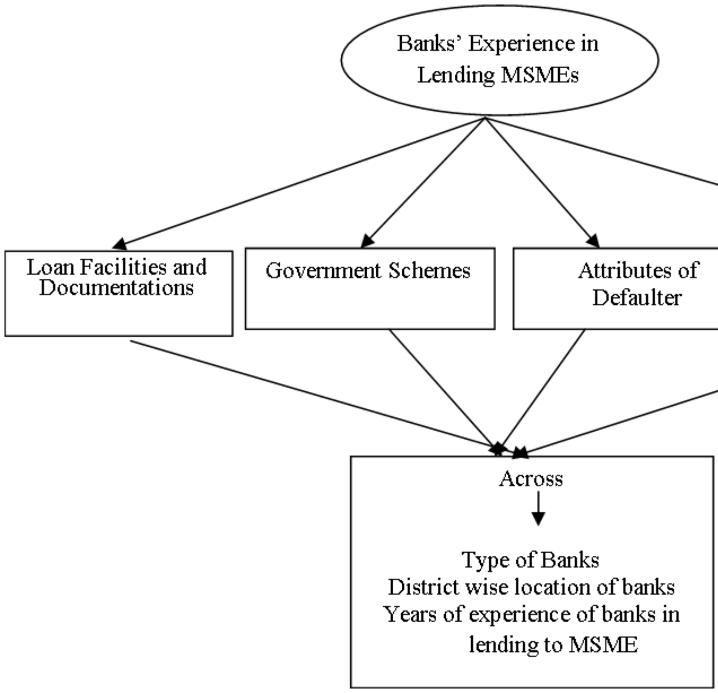
Banks in India by the mere fact are commercial in nature and because of the level of risk involved, are forced to charge high interest rates, require high value collateral from MSMEs, financial statements and bank statements for the facilities sought, which eventually increase the transaction cost for the MSMEs. This has brought in a daunting challenge for banks in the provision of the credit to the MSMEs.

In view of the above development, the study attempts to identify the fund based and non fund based facilities available to MSMEs and the documents required to be submitted to bank by MSMEs in Goa. The MSMEs' response to two important financial assistance schemes of Government of India is also being examined. The study also analyses the factors responsible for NPAs in banks with respect to MSMEs and difficulty banks face in loan recovery.

6.2 FRAMEWORK FOR ANALYSIS OF BANKS' EXPERIENCE IN LENDING TO MSMEs

The figure 6.1 gives the diagrammatic representation of sequence of analysis conducted in this chapter. It depicts the variable considered for analysing the banks experience in lending to MSMEs in Goa. Thus, in the present study the analysis of bank experience in lending to MSMEs is restricted to above mention variables. The detail of each variable is explained further in this chapter.

Figure No. 6.1 Framework for Analysis of Banks' Experience in Lending to MSMEs in Goa

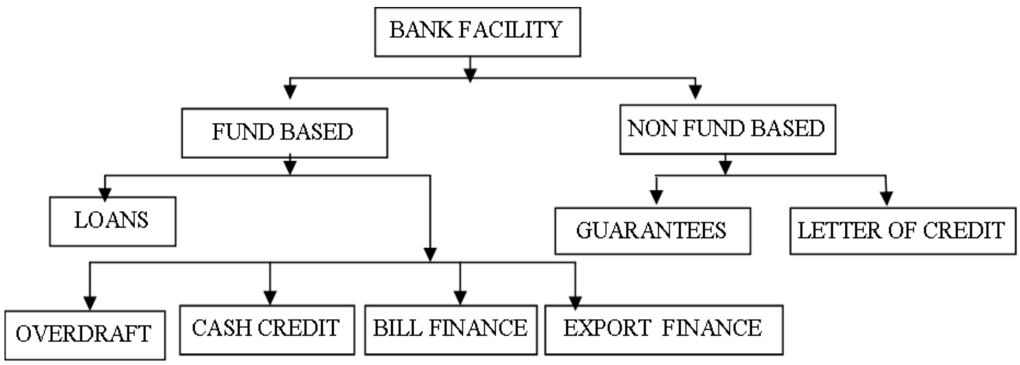


Source: Drawn by Researcher

6.3. FUND BASED AND NON FUND BASED LOAN FACILITIES FOR MSMEs

Figure 6.2 shows the classification of fund based and non fund based facilities provided to MSMEs in Goa.

Figure No. 6.2 Classification of fund and non fund based facilities



Source: Drawn by Researcher

MSME sector offers good scope for bank finance through its diversified base, backward and forward linkages with other sectors. Risk is also diversified and there are regulatory supports in the form of various subsidies, guarantee cover, technology support and infrastructure support from Central and State Governments.

Credit facilities provided by banks are classified into two categories viz. fund based and non-fund based. The figure 6.2 shows the further classification of selected fund based and non fund based facilities considered for the analysis.

6.3.1 Fund Based Facilities

a. Loan

This is disbursed by way of single debit/stage-wise debits to the account. It is repaid in lump sum or in instalments. It is called Demand Loan if the repayment period is less than three years. It is called Term Loan in case the repayment is three years and above.

b. Overdraft

When a customer is maintaining a current account, it is allowed to be drawn beyond the credit balance in the account; such facility is called an 'Overdraft' facility. Regular overdraft limits are sanctioned against certain securities.

i. All rules applicable to current account are applicable to overdraft accounts.

ii. Overdraft is an operational and active account and hence debits and credits are freely allowed.

iii. Interest on overdraft is applied on daily product basis and debited to the borrowers account on monthly basis. In case of temporary overdraft by borrowers, interest is applied by banks as and when temporary overdraft is adjusted or at the end of the month, whichever is earlier.

iv. Overdrafts are generally granted against the collateral of government securities, shares and debentures, National Savings Certificates, LIC policies and banks' own deposits etc. and also on unsecured basis.

c. Cash Credit

A cash credit is a short term working capital facility provided to MSMEs. Banks establishes a credit limit and allows the customers to borrow money upto a certain limit. Under this system, customer is allowed a drawing limit against the security of stipulated assets i.e. stocks, book debts etc. It is a running account like a current account which functions with cheque book facility.

d. Bills Finance

Banks provide Bill finance facility to customers. Finance is made available to customers against Bills drawn by them on their clients for goods supplied or service rendered. Such bills can be routed through the banker of the buyer for effective control and payment.

e. Export Finance

It is the endeavour of the Bank to give all possible encouragement for promoting exports from the country. Apart from other benefits offered by Government of India, banks grant export credit on very liberal terms to meet all the financial requirements of exporters.

6.3.2 Non-Fund Based Facilities

The credit facilities given by the banks where, actual bank funds are not deployed are termed as 'non-fund based facilities'. Letters of credit, Guarantees are examples of non-fund based facilities.

a. Bank Guarantees

Section 126 of Indian Contract Act, 1872, defines a Contract of Guarantee as contract to perform the promise or discharge the liability of a third person in case of his/her default. The contract of guarantee has three principal parties which has to perform or discharge the liability.

i. Principal debtor, the person who has to perform or discharge for whose default the guarantee is given.

ii. Principal creditor, the person to whom the guarantee is given for due fulfillment of contract by principal debtor. Principal creditor is sometimes referred to as beneficiary.

iii. Guarantor or Surety is a person who gives the guarantee. Banks come across a 'Guarantee' in two capacities; one is as a beneficiary i.e. when somebody guarantees the payment of debt of bank's borrower in case of default. The other one is as a guarantor, when the bank itself promises to pay the dues or discharge the liabilities of its customers in favour of a third party. While in the former case, the Bank is the creditor and in the latter case, Bank's liability is co extensive with that of the debtor.

b. Letter of Credit

Letter of Credit (LC) is a method of settlement of payment of a trade transaction and is widely used to finance purchase of machinery and raw material etc. It contains written undertaking given by the bank on behalf of the purchaser to the seller to make payment of a stated amount on presentation of stipulated documents and fulfilment of all the terms and conditions incorporated therein. All Letters of Credit in India relating to the foreign trade i.e., export and import letters of credit are subject to provisions of Uniform Customs & Practice for Documentary Credits' (UCPDC 600).

Banks may also issue Inland Letters of Credit subject to the provisions of UCPDC and it is, therefore, important that the borrowers should be fully aware of these provisions. The borrowers shall also understand complete mechanism of Letter of Credit as these transactions will find increasing use in the coming days.

6.3.3. Documentation

Documentation starts with a written loan application with preliminary project report by the borrowers followed by signed loan covenants like, right of set off, right to enforce collateral / securities on default, right to debit account for charges, right to freeze operation on misuse of facilities, right to receive statements of business like Audited financial statement, Cash flow and fund flow statement etc. NOC from local authorities should also be obtained.

6.4 GOVERNMENT SCHEMES FOR MSMEs

The Government of India has undertaken numerous measures to obtain a solution to the problems faced by Micro, Small and Medium Enterprises and permit them to play an efficient and capable role in the country's economy. Following are the two major schemes introduced by Government of India for providing adequate finance to MSMEs in Goa.

a. **MUDRA Scheme**

Pradhan Mantri Mudra Yojana (PMMY) is a scheme launched by the Hon'ble Prime Minister of India, on April 8, 2015 for providing loans upto 10 lakh to the non-corporate, non-farm small/micro enterprises. These loans given by Commercial Banks, Regional Rural Banks (RRBs), Small Finance Banks, Cooperative Banks, Micro Finance Institution (MFIs) and Non Banking Financial Corporations (NBFCs) are classified as MUDRA loans under PMMY. The borrower has a choice to approach any of the lending institutions mentioned above or apply online through this portal. Under the aegis of PMMY, MUDRA has created three products namely 'Shishu', 'Kishore' and 'Tarun' to signify the stage of growth / development and funding needs of the beneficiary micro unit / entrepreneur and also provide a reference point for the next phase of graduation / growth.

b. **Credit Guarantee Fund Trust for Micro & Small Enterprises (CGTMSE)**

The first generation entrepreneur can realise their dream of setting up a new Micro and Small enterprise if there is an availability of bank credit without the hassles of collaterals and third party guarantees. Keeping this objective in view, Ministry of Micro, Small & Medium Enterprises (MSME), Government of India launched Credit Guarantee Scheme (CGS) so as to strengthen credit delivery system and facilitate flow of credit to the MSE sector. To make the scheme more effective, Government of India and SIDBI has set up the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE).

The main objective of this scheme is that the lender should give importance to project viability and avail the credit facility purely on the primary security of the assets financed. The other objective is that the lender securing guarantee should attempt to give composite credit to the borrowers so that the borrowers obtain both term loan and working capital facilities from a single agency. The Credit Guarantee scheme (CGS) seeks to reassure the lender that, in the event of a MSE which availed collateral free credit facilities, fails to discharge its liabilities to the lender, the Guarantee Trust would make good the loss incurred by the lender up to 75 or 85 per cent of the credit facility.

6.5 DEFAULTERS

The credit rating agency standards defines a debtor as a defaulter who fails to fulfil his contractual obligations and fails to pay in due time. A default is a failure to make required debt payments by or at the stipulated time (Cristian B at el., 2014).

6.6 NON-PERFORMING ASSETS (NPAs)

The banks have always played an important role in the growth and development of the economy and therefore countries with a sound banking system are said to be economically stronger. The failure of the banking sectors adversely affects other sectors in the economy. Non Performing Assets is one of the major concerns for any bank. NPA is the parameter to judge bank's performance (Chakrabarty K.2012).

NPAs adversely affect lending activity of banks as non-recovery of loan instalments as also interest on the loan portfolio. Among private banks, the NPAs from the MSMEs rose to 2.61 percent at the end of March 2018 from 2.38 percent a year ago. Banks continue to lend to MSMEs despite a high level of NPAs recorded in this sector, as per the report in Financial Express, Nov. 06, 2018.

6.7 ANALYSIS OF BANKS' EXPERIENCE IN LENDING TO MSMEs IN GOA

In this part of the study, the banks' experience in lending to MSMEs in Goa is analyzed with respect to fund based and non fund based facilities provided to MSMEs by banks. Further, the study analyses loan documents to be submitted by MSMEs and MSME response to MUDRA and CGTMSE schemes.

The study also analyses banks' experience with reference to attributes of defaulters and factors responsible for NPAs in banks due to credit default by MSMEs.

6.7.1 Sample Size Description

The responses derived from 100 bank branches operating in the State of Goa are used to analyze the experience of banks with respect to the above variables.

Table 6.1 gives the description of 100 bank branches selected for this part of the study.

Table No. 6.1: Sample Distribution of Banks

Type of Banks	Frequency	%
Private	34	34.0
Public	52	52.0
Co-operative	14	14.0
Total	**100**	**100.0**
District		
North Goa	37	37.0
South Goa	63	63.0
Total	**100**	**100.0**
Years of Experience in MSME Loan		
Upto 5 years	32	32.0
>5 years to10 years	53	53.0
>10 years	15	15.0
Total	**100**	**100.0**

Source: Compiled from Primary Data

Table 6.1 connotes that out of the 100 bank branches, 52% are public bank branches, 34% are private bank branches and 14% are cooperative bank branches. 63% of the selected bank branches are from South Goa and 37% are from North Goa. Further, it is found that 53% of the bank branches have 5 to 10 years of experience in MSME loan, 32% have 1 to 5years of experience and 15% have 10 years and more experience in MSME loans.

The study examines if there is a significant difference in banks' experience with respect to the fund based and non fund based facilities provided to MSMEs by banks, loan documents to be submitted by MSMEs and MSME response to MUDRA and CGTMSE schemes across type of banks i.e. public sector, private sector and co-operative banks; years of experience of banks in lending to MSMEs categorized as less than one year, one year to five years, five years to ten years and above ten years and district wise location of bank branches in Goa classified as North Goa and South Goa.
Hence, the following hypothesis is framed to test the significant difference in banks experience in lending to MSMEs in Goa.

Ho_4 : There is no significant difference with regard to banks experience in lending to MSMEs across type of banks, years of experience of banks in lending to MSMEs and district wise location of banks in Goa.

6.7.2 ANALYSIS OF BANKS' EXPERIENCE WITH RESPECT TO FUND BASED FACILITIES

In this analysis, the banks experience in lending to MSMEs in Goa is analysis with respect to fund based facilities provided to MSMEs by banks.

Fund based facilities under the study shall include some of the important facilities provided by banks to MSMEs in Goa like term loan, cash credit, overdraft, bill finance and export finance.

The data used in the study with reference to the above 05 variables has a cronbach's alpha of 0.741. Since an alpha value of 0.7 is the minimum acceptable standard for demonstrating internal consistency (Kennedy et al, 2002), the data used in the study is reliable.

The ANOVA test is used to analyse a significant difference in the fund based facilities provided to MSMEs in Goa. Further, fund based facilities are considered as dependent variables. Whereas, type of banks, years of experience of banks in lending to MSMEs and district wise location of banks as independent variables.

Following hypothesis is framed to test significant difference between the fund based facilities and type of banks, years of experience of banks in lending to MSMEs and district wise location of banks in Goa.

$Ho_{4(a)}$ – There is no significant difference with regards to fund based facilities provided by banks to MSMEs across type of banks, years of experience of banks in lending to MSMEs and district wise location of banks in Goa.

One way ANOVA test result indicating significant difference in fund based facilities provided to MSMEs across type of banks, years of experience of banks in lending to MSMEs and district wise location of banks is given in Table 6.2.

Table No. 6.2: ANOVA result for Fund Based Facilities provided by Banks to MSMEs across Type of Banks, Years of Experience of Banks in Lending to MSMEs and District Wise Location of Banks.

	Type of Banks				**Years of Experience of banks in Lending to MSMEs**				**District Wise Location of Banks**			
	Mean Square	df	F	Sig.	Mean Square	df	F	Sig.	Mean Square	df	F	Sig.
Term loan	.042	2	1.425	.245	.008	2	.280	.756	.053	1	1.813	.181
Cash credit	.009	2	.225	.799	.020	2	.517	.598	.010	1	.253	.616
Overdraft	.065	2	1.355	.263	.111	2	2.374	.098	.426	1	9.647	.002
Bill finance	2.402	2	14.390	.000	1.921	2	10.860	.000	1.596	1	8.062	.005
Export finance	1.641	2	8.176	.001	5.149	2	40.104	.000	3.436	1	17.437	.000

Source: Computed from Primary Data

Table 6.2 shows the result of one way ANOVA test conducted to analyze significant difference with regard to fund based facilities such as term loan, cash credit, overdraft, bill finance and export finance provided by selected banks in Goa across type of banks, years of experience of banks in lending to MSMEs and district wise location of banks.

Since the p-value is less than 0.05 indicating significant mean difference exists in the fund based facilities with regards to bill finance and export finance analyzed across type of banks whereas, for term loan, cash credit and overdraft, p-value is more than 0.05 indicating no significant difference exist. Thus, the null hypothesis $Ho_{4(a)}$ is rejected with respect to bill finance and export finance and accepted with respect to term loan, cash credit and overdraft as a fund based facilities analyzed across type of banks.

It can be thus inferred that there is a significant difference in bill finance and export finance as a fund based facilities provided by the selected public sector, private sector and co-operative banks in Goa to MSMEs in Goa. This can cause a hindrance in obtaining working capital for MSME units as bill finance meets the short term requirements of MSME. On the other hand, non availability of export finance means a shortage of short term funds to export oriented units.

Table 6.2 depicts that p-value for fund based facilities like bill finance and export finance is less than 0.05 and is significant at 5% level of significance whereas, for fund based facilities like term loan, cash credit and overdraft p-value is higher than 0.05 indicating no significant mean difference exist across years of experience of banks in lending to MSMEs.

Thus, the null hypothesis $H_{O4(a)}$ is rejected with respect to bill finance and export finance and accepted with respect to term loan, cash credit and overdraft analyzed across years of experience of banks in lending to MSMEs.

Hence, it can be interpreted that, there is a statistically significant difference with regards to bill finance and export finance as the fund based facility provided to MSMEs across years of experience of banks in lending to MSMEs.

Further, the result of one way ANOVA given in Table 6.2 shows that p-value for fund based facilities like overdraft, bill finance and export finance analysed across district wise location of banks is less than 0.05 and it is a statistically significant at 5% level of significance whereas, p- value is more than 0.05 for term loan and cash credit indicating no significant mean difference exist in these fund based facilities.

Thus, the null hypothesis $H_{O4(a)}$ is rejected with respect to overdraft, bill finance and export finance as fund based facilities and is accepted with respect to term loan and cash credit analysed across the district wise location of banks.

Hence, it can be inferred that there is statistically significant difference with regards to overdraft, bill finance and export finance as fund based facility provided by banks across district wise location of banks.

Thus, it can be concluded that fund based facility provided to MSMEs in Goa by selected banks differ across districts i.e. North Goa and South Goa.

6.7.3 ANALYSIS OF BANKS' EXPERIENCE WITH RESPECT TO NON - FUND BASED FACILITIES

In this part of the study, the banks experience with regards to providing non-fund based facilities is analyzed.

Some of the important non-fund based facilities provided by banks to MSMEs in Goa such as bank guarantee, letter of credit, bill discounting and buyer credit are considered for the present study.

The reliability of the data used in this part of the study is determined with the help of Cronbach's alpha statistics. The alpha for four variables is found to be reliable with a value of 0.734 demonstrating internal consistency.

The one way ANOVA is found to be a suitable statistical tool to test the significance difference between non-fund based facilities provided by banks which are considered as independent variables and type of banks, years of experience of banks in lending to MSMEs and district wise location of banks as independent variables.

Further, to test the significant difference between above variables it is hypothesised as follows:

$Ho_{4(b)}$ – There is no significant difference with regards to non-fund based facilities provided by banks to MSMEs across type of banks, years of experience of banks in lending to MSMEs and district wise location of banks in Goa.

Table 6.3, provides the result of the significant difference between non fund based facilities provided by banks to MSMEs across type of banks, years of experience of banks in lending to MSMEs and district wise location of banks in Goa.

$Ho_{4(b)}$ – There is no significant difference with regards to non-fund based facilities provided by banks to MSMEs across type of banks, years of experience of banks in lending to MSMEs and district wise location of banks in Goa.

Table 6.3, provides the result of the significant difference between non fund based facilities provided by banks to MSMEs across type of banks, years of experience of banks in lending to MSMEs and district wise location of banks in Goa.

Table No. 6.3: ANOVA Result for Non-Fund Based Facilities Provided by Banks to MSMEs across Type of Banks, Years of Experience of Banks in Lending to MSMEs and District Wise Location of Banks

	Type of Banks				**Years of Experience of banks in Lending to MSMEs**				**District Wise Location of Banks**			
	Mean Square	df	F	Sig.	Mean Square	df	F	Sig.	Mean Square	df	F	Sig.
Bank guarantees	1.267	2	9.559	.000	1.493	2	11.679	.000	6.147	1	65.170	.000
Letter of credit	.846	2	3.533	.033	6.115	2	46.784	.000	.016	1	.063	.803
Bills discounting	.090	2	.628	.536	.897	2	7.060	.001	.225	1	1.588	.211
Buyers credit	.492	2	2.612	.079	5.262	2	58.549	.000	1.355	1	7.424	.008

Source: Computed from Primary Data

The ANOVA test result shown in Table 6.3 indicates that there exists a significant difference with regard to non-fund based facility provided by selected banks in Goa across type of banks, years of experience of banks in lending to MSMEs and district wise location of banks.

The p-value for non fund based facilities like bank guarantees and letter of credit is less than 0.05 and it is significant at 5% level of significance indicating significant mean difference exist among public sector, private sector banks and co-operative banks whereas for bill discounting and buyers credit the p-value is more than 0.05 signifying no mean difference exist among public sector, private sector banks and co-operative banks.

Thus, the null hypotheses $Ho_{4(b)}$ is rejected with respect to bank guarantees and letter of credit and is accepted with respect to bill discounting and buyers credit.

Hence, it can be inferred that, there is a statistically significant difference with regards to bank guarantees and letter of credit as the non-fund based facility provided to MSMEs across type of banks.

The above result indicates that non-fund facilities like bank guarantees and letter of credit are not provided by all the selected public sector, private sector and co-operative banks in Goa.

Bank guarantees and letter of credit are important financial instruments, required to transact overseas without availing bank loan. These facilities are usually available to only large enterprises in Goa subject to some conditions including individual bank board policy, customer credential verification and credit appraisal. There is a need to extent these non-fund based facilities to MSMEs in Goa.

Table 6.3 shows that p-value for all the variables i.e. bank guarantees, letter of credit, bill discounting and buyers credit is less than 0.05 at 5% level of significance indicating significant mean difference exist among years of experience of banks in lending to MSMEs with regards to non fund based facilities provided to MSMEs in Goa.

Thus, the null hypothesis $Ho_{4(b)}$ is rejected with respect to non-fund based facilities analyzed across years of experience of banks in lending to MSMEs and alternate hypothesis, there is a significant difference with regards to non fund based facilities provided to MSMEs across years of experience of banks in lending to MSMEs is accepted.

The above result indicates that the non fund based facilities provided by banks to MSMEs in Goa depends on the years of experience of banks in lending to MSMEs i.e. less than one year, one year to five years, five years to ten years and above ten years.

Non fund based facilities are provided by banks based on good reputation and market image of the borrowers. Thus, to assess the credit worthiness of MSME borrowers, banks need adequate experience in MSME loan. Therefore, the new entrepreneur may find it more difficult to avail non fund based facilities from banks.

Further, the ANOVA test result given in Table 6.3 shows the significant difference in non fund based facilities provided to MSMEs across district wise location of banks in Goa. For bank guarantees and buyers credit variance in group is not same as the p-value is less than 0.05 and it is significant at 5% level of significance. Whereas, no significant mean difference exist with respect to letter of credit and bills discounting as the variance of group is same, as the p-value is more than 0.05.

Thus, the null hypothesis i.e. $Ho_{4(b)}$ is rejected with respect non fund based facilities such as bank guarantees and buyers credit and is accepted with respect to letter of credit and bills discounting analyzed across district wise location of banks in Goa.

Hence, it can be interpreted that, there is a statistically significant difference with regards to bank guarantees and buyer's credit as the non fund based facility provided to MSMEs across districts wise location of banks of Goa.

From the above result it can be inferred that non fund based facilities provided by banks to MSMEs is Goa differ across districts wise location of banks of Goa.

6.7.4 ANALYSIS OF BANKS' EXPERIENCE WITH RESPECT TO LOAN DOCUMENTS REQUIRED TO BE SUBMITTED BY MSMEs

In this part of the analyses, the study covers the experience of banks with respect to loan documents required to be submitted by MSMEs in Goa. The loan documents such as, audited financial statements, cash flow and fund flow statements, project report and NOC from local authorities are some to the important documents required to be submitted by MSMEs to banks. The study analyses the significant difference in the loan documents required to be submitted by MSMEs across type of banks, years of experience of banks in lending to MSMEs and district wise location of banks in Goa. The reliability of the data for this part of the study is tested using cronbach's alpha and the data is found to be reliable with an alpha value of 0.80.

For the purpose of this study the loan documents such as audited financial statement, cash flow and fund flow statements, project report and NOC from local authorities are considered as dependent variables whereas, type of banks, years of experience of banks in lending to MSMEs and district wise location of banks in Goa as independent variables. The one way ANOVA is found to be an appropriate statistical tool to test the significant difference between independent and dependent variables.

The following hypothesis is framed to test the significant difference between independent and dependent variables.

$Ho_{4(c)}$ – There is no significant difference with regards to loan documents required to be submitted by MSMEs across type of banks, years of experience of banks in lending to MSMEs and district wise location of banks in Goa.

The Table 6.4 below gives the one way ANOVA result for loan documents required to be submitted by MSMEs analyzed across type of banks, years of experience of banks in lending to MSMEs and district wise location of banks.

Table No. 6.4: ANOVA result for Loan Documents Required to be Submitted by MSMEs across Type of Banks, Years of Experience of Banks in Lending to MSMEs and District wise Location of Bank

	Type of Banks				**Years of Experience of banks in Lending to MSMEs**				**District Wise Location of Banks**			
	Mean Square	df	F	Sig.	Mean Square	df	F	Sig.	Mean Square	df	F	Sig.
Audited financial statement	.416	2	8.387	.000	.020	2	.345	.709	.002	1	.036	.850
Cash flow and fund flow statement	.039	2	.678	.510	.001	2	.013	.987	.002	1	.036	.850
Project report	.166	2	3.037	.050	1.020	2	27.483	.000	.211	1	3.817	.050
NOC from local authorities	.222	2	1.979	.144	.817	2	8.193	.001	.993	1	9.428	.003

Source: Computed from Primary Data

Table 6.4 shows output from One-way ANOVA using different loan documents as a variable across type of banks. The variance of group is not same as the p-value is less than 0.05, indicating significant mean difference exist in the loan documents with regards to project report and audited financial statement where as for cash flow and fund flow statements p-value is more than 0.05 indicating no significant difference exists across type of banks.

Thus, the null hypothesis $Ho_{4(c)}$ is rejected with respect to the project report and audited financial statement and it is accepted with respect to cash flow and fund flow statement and NOC from local authorities.

Hence, it can be interpreted that, there is a statistically significant difference with regards to project report and audited financial statement as the loan documents required to be submitted by MSMEs across type of banks.

Thus, it can be inferred that, there is no uniformity in the selected private sector, public sector and cooperative banks with regards to different loan documents required to be submitted by MSMEs in Goa.

Table 6.4 also shows output from One-way ANOVA using different loan documents such as audited financial statement, project report, cash flow and fund flow statement and NOC from local authorities on years of experience of banks in lending to MSMEs.

In the case of project report and NOC from local authorities, variance of group is not same as the p-value for project report and NOC from local authorities is less than 0.05 indicating significant mean difference exist among bank branches with different years of experience in lending to MSMEs. Whereas, in case of audited financial statement and cash flow and fund flow statements, the variance of group is same as the p-value is more than 0.05, indicating insignificant mean difference exist among banks branches with difference in years of experience in lending to MSMEs.

Thus, the null hypothesis i.e. $Ho_{4(c)}$ is rejected with respect to project report and NOC from local authorities and accepted with respect to audited financial statement and cash flow and fund flow statement across years of experience of banks in lending to MSMEs.

Hence, it can be inferred that, there is a statistically significant difference with regards to project report and NOC from local authorities as the loan documents required to be submitted by MSMEs to banks across years of experience of banks in lending to MSMEs.

From the above result it can be inferred that audited financial statement and cash flow and fund flow statement are important loan documents which every bank with years of experience in lending to MSME expect from MSMEs while applying for a loan. However, these documents are not required to be submitted by new entrepreneur. In case of a new entrepreneur, banks give more importance to project report and NOC from local authorities.

Table 6.4 depicts output from One- way ANOVA for loan documents such as audited financial statements, cash flow and fund flow statements project report and NOC from local authorities using district wise locations of banks. In case of project report and NOC from local authorities, the variance of group is not same as the p-value for project report and NOC from local authorities is less than 0.05 indicating significant mean difference exist among district wise location of banks. Whereas, in case of audited financial statement and cash flow and fund flow statements, variance of group is same as the p-value is more than 0.05, indicating an insignificant mean difference exist among district wise location of banks.

Thus, the null hypothesis i.e. $Ho_{4(c)}$ is rejected with respect to project report and NOC from local authorities and accepted with respect to audited financial statement and cash flow and fund flow statement across district wise location of banks.

Hence, it can be inferred that, there is a statistically significant difference with regards to project report and NOC from local authorities as the loan documents required to be submitted by MSMEs to banks across district wise location of banks.

Thus, it can be concluded that there is no consensus amongst selected banks located in both the districts with regards to acceptance of documents.
The location of banks is considered to be an important factor in financing for MSMEs.

6.7.5 ANALYSIS OF BANKS' EXPERIENCE WITH RESPECT TO MSME RESPONSE TO GOVERNMENT SCHEMES

In this part of the study, the banks' experience is analysed with respect to MSME response to Government schemes. The study considered two important Government schemes namely MUDRA and CGTMES schemes. The banks' experience with respect to MSME response to MUDRA and CGTMES schemes is analyses across type of banks.

The reliability of data determines if the respondents are consistent in their responses. The reliability of data for this part of the study is tested using cronbach's alpha and the data is found to be reliable with alpha value of 0.812.

One sample t-test at 95% confidence interval and 5% level of significance is carried out to compare the means of two major Government schemes namely MUDRA and CGTMES schemes. The study analyzed the banks' experience with regards to MSMEs response to these two schemes. The one sample test with test value 3 is applied and the result is obtained.

Further, to test the significant difference in the mean of two major Government schemes, the following hypothesis is framed.

$Ho_{4(d)}$ – There is no significant difference with regards to MSME response to Government schemes across type of banks.

Table 6.5 gives the result of one sample t-test comparing the mean difference of two major Government schemes namely MUDRA and CGTMES schemes across type of banks in Goa.

Table No. 6.5: The result of One-Sample T-Test for MSME response to Government Schemes

	Mean	Test Value	t	df	Sig. (2-tailed)
MSMEs response to MUDRA Scheme	3.34	3	2.897	98	.005
MSMEs response to CGTMSE	3.01	3	.094	98	.925

Source: Computed from Primary Data

Table 6.5 shows the result of one sample t-test for MSME response to Government schemes across selected banks in Goa. Since the p-value for MUDRA scheme (p-value .005) is less than 0.05 and it is significant at 5% level of significance.

Thus, the null hypothesis $Ho_{4(d)}$ is rejected with respect to MUDRA scheme and accepted with respect to CGTMSE scheme.

The study found that as per selected banks experience MSMEs response to MUDRA scheme is superior compared to CGTMSE scheme in Goa as the mean value for MUDRA scheme is higher compared to CGTMSE scheme. However, there is difference of opinion among selected banks on MSME response to MUDRA scheme. Lack of awareness and lack of suitability of scheme is responsible for low response to CGTMSE scheme in Goa.

6.7.6 ANALYSIS OF BANKS' EXPERIENCE WITH REGARDS TO ATTRIBUTES OF MSME DEFAULTERS

In this part, the study analyses banks' experience with respect to attributes of MSME defaulters in Goa.

The attributes of MSME defaulter are categorized on the bases of existence i.e. new entrepreneur, established entrepreneur or both new and established; chief promoter's education i.e. educated, uneducated or both educated and uneducated; size of the unit i.e. micro, small and medium enterprise or all three types; sales turnover i.e. high sales turnover, low sales turnover or both high and low sales turnover and chief promoter's gender i.e. male and female. Details of the attributes considered in this part of the study are provided below:

New Entrepreneur: The entrepreneur with MSME unit having less than three years of existence is considered as a new entrepreneur (Cheryl C., 2012).

Established Entrepreneur: The entrepreneur with MSME unit having more than three years of existence is considered as an established entrepreneur.

Educated: The entrepreneur with educational qualification of above SSC is considered as an educated entrepreneur for the purpose of this study (Gertler, 1988).

Uneducated: the entrepreneur with educational qualification of below SSC is considered uneducated for the purpose of this study.

High sales turnover: Sales turnover of above 2 crore are considered as high sales turnover (as the income tax turnover limit for MSME is 2 crore).

Low sales turnover: Sales turnover of below 2 crore are considered as low sales turnover.

Further, the study analyses the association of these attributes of MSME defaulters with type of banks, years of experience of banks in lending to MSME and district wise location of banks in Goa.

The Pearson's chi-square test and fisher exact test are found to be more appropriate statistical tools for testing association between attributes of MSME defaulters and types of banks, years of experience of banks in lending to MSME and district wise location of banks in Goa.

The following hypotheses are framed to test the associations between the above variables.

$Ho_{4(e)}$ – There is no statistically significant association between type of banks and attributes of MSME defaulters in Goa.

$Ho_{4(f)}$ – There is no statistically significant association between district wise location of banks and attributes of MSME defaulters in Goa.

$Ho_{4(g)}$ – There is no statistically significant association between years of experience of banks in lending to MSME and attributes of MSME defaulters in Goa.

Table 6.6 given below is the Pearson's chi-square test and Fisher exact test result indicating the Association between Type of Banks and Attributes of MSME of defaulters.

Table No. 6.6: Association between Type of Banks and Attributes of Defaulters

Attributes of Defaulters		Type of banks: Private Banks	Public Banks	Co-operative	Total	Test statistics
Existence	New entrepreneur	7 (20.59)	6 (11.54)	4 (28.57)	17 (17)	Chi-Square test =10.209 df=2 p-value=0.006
	Established entrepreneur	5 (14.70)	6 (11.54)	3 (21.43)	14 (14)	
	Both new and Established	22 (64.71)	40 (76.92)	7 (50)	69 (80)	
	Total	34 (100)	52 (100)	14 (100)	100 (100)	
Chief Promoter's Education	Educated	0 (0)	12 (23.08)	1 (7.14)	13 (13)	Fisher Exact test: p-value=.000
	Uneducated	4 (11.76)	6 (11.54)	3 (21.43)	13 (13)	
	Both educated and uneducated	30 (88.23)	34 (65.38)	10 (71.43)	74 (70)	
	Total	34 (100)	52 (100)	14 (100)	100 (100)	
Size of the Unit	Micro	0 (0)	0 (0)	2 (14.29)	2 (2)	Fisher Exact test: p-value=.000
	Small	0 (0)	0 (0)	5 (35.71)	7 (7)	
	Medium	0 (0)	3 (5.77)	1 (7.14)	4 (4)	
	All three Micro, Small and Medium	34 (100)	49 (94.23)	6 (42.86)	89 (89)	
	Total	34 (100)	52 (100)	14 (100)	100 (100)	
Sales turnover	High	0 (0)	3 (5.77)	1 (7.14)	4 (4)	Fisher Exact test: p-value=0.000
	Low	0 (0)	9 (17.31)	7 (50)	16 (16)	
	Both	34 (100)	40 (76.92)	6 (42.86)	80 (80)	
	Total	34 (100)	52 (100)	14 (100)	100 (100)	
Chief Promoter's Gender	Female	7 (20.59)	3 (5.77)	1 (7.14)	11 (11)	Chi-Square test =4.859, df=2 p-value=0.088
	Male	27 (79.41)	49 (94.23)	13 (92.86)	89 (89)	
	Total	34 (100)	52 (100)	14 (100)	100 (100)	

Source: Computed from Primary Data

As shown in the Table 6.6 the result of Pearson's chi-square test and Fisher's exact test indicates that there is a statistically significant association between type of banks and attributes of MSME defaulters.

The p-value for the existence of entrepreneur, chief promoter's education, size of the unit and sales turnover is less than 0.05 indicating there is a significant association with type of banks. Whereas, p-value for the chief promoter's gender is higher than 0.05 signifying no significant association with type of banks.

Thus, the null hypothesis $Ho_{4(e)}$ is rejected with respect to the existence of entrepreneur, chief promoter's education, size of the unit and sales turnover as attributes of MSME defaulters and is accepted with respect to chief promoter's gender.

Hence, it can be inferred that there is a statistically significant association between type of banks and attributes of MSME defaulters with respect to existence, chief promoter's education, size of the unit and sales turnover.

It is observed that the majority of the selected private sector (79.41%), public sector (88.46%) and co-operative (50%) banks find that MSME defaulters are both established and new entrepreneurs. Majority of the selected private sector (100%), public sector (76.92%) and co-operative (92.86%) banks experience that defaulters are from both the categories i.e. educated and uneducated. It is noted that the size of the unit does not determine the defaulters as the maximum selected private sector (100%), public sector (94.23%) and co-operative (42.86%) banks come across defaulters from all types of enterprises i.e. micro, small and medium enterprises.

It can be thus concluded that all the selected private sector, public sector and co-operative banks find that MSME defaulters are both existing and new entrepreneurs, educated and uneducated, with low and high sales turnover, and are micro, small and medium enterprises.

Table 6.7 given below is the Pearson's chi-square test and Fisher exact test result indicating the association between district wise location of banks and attributes of MSME defaulters.

Table No. 6.7: Association between District Wise Location of Banks and attributes of MSME Defaulters

Attributes of Defaulters		Location of banks			Test statistics
		North Goa	South Goa	Total	
Existence	New entrepreneur	0 (0)	20 (31.75)	20 (20)	Chi-Square test =14.683, df=1p-value=0.000
	Established entrepreneur	7 (7)	3 (4.76)	10 (10)	
	Both new and Established	30 (100)	40 (68.25)	70 (80)	
	Total	37 (100)	63 (100)	100 (100)	
Chief Promoter's Education	Educated	4 (10.81)	9 (14.29)	13 (13)	Chi-Square test =.249a df=1 p-value=0.617
	Uneducated	3 (8.11)	4 (6.35)	7 (7)	
	Both educated and uneducated	30 (81.08)	50 (79.36)	80 (80)	
	Total	37 (100)	63 (100)	100 (100)	
Size of the Unit	Micro	0 (0)	2 (3.17)	2 (2)	Fisher Exact test: p-value=0.004
	Small	0 (0)	5 (7.94)	5 (5)	
	Medium	4 (10.81)	0 (0)	4 (4)	
	All three Micro, Small and Medium	33 (89.19)	56 (88.89)	89 (89)	
	Total	37 (100)	63 (100)	100 (100)	
Sales turnover	High	4 (10.81)	0 (0)	4 (4)	Fisher Exact test: p-value=0.000
	Low	0 (0)	16 (25.4)	16 (16)	
	Both	33 (89.19)	47 (74.6)	80 (80)	
	Total	37 (100)	63 (100)	100 (100)	
Chief Promoter's Gender	Female	4 (10.81)	7 (11.11)	11 (11)	Chi-Square test =.002, df=1p-value=0.963
	Male	33 (89.19)	56 (88.89)	89 (89)	
	Total	37 (100)	63 (100)	100 (100)	

Source: Computed from Primary Data

The above Table 6.7 shows the result of Pearson's chi-square test and Fisher exact test indicating the association between district wise location of banks and attributes of MSME defaulters.

The p-value of attributes of MSME defaulters such as existence of entrepreneur, size of the unit and sales turnover is less than 0.05 indicating there is an association with district wise location of banks. Whereas, in case of the chief promoter's education and chief promoter's gender p-value is higher than 0.05 signifying no association with district wise location of banks.

Thus, the null hypothesis $Ho_{4(f)}$ is rejected with respect to the existence, size of the unit and sales turnover as the attributes of MSME defaulters and is accepted with respect to chief promoter's education and gender.

Hence, it can be inferred that there is a statistically significant difference with regards to existence, size of the unit and sales turnover as the attributes of MSME defaulters with district wise location of banks.

The above result shows that selected banks from both the districts i.e. north Goa (100%) and south Goa (68.25%) find MSME defaulters are both new and established entrepreneurs. Majority of selected banks from both the districts north Goa (89.19%) and south Goa (88.89%) encounter defaulters from micro, small and medium enterprises. Further, majority of the banks from north Goa district (89.19%) and south Goa district (74.6%) experience defaulters with both high sales turnover and low sales turnover.

Table 6.8 given below is the fisher exact test result indicating the association between years of experience of banks in lending to MSME and attributes of MSME defaulters.

Table No. 6.8: Association between Years of Experience of Banks in Lending to MSME and Attributes of MSME Defaulters

Attributes of defaulters		Banks' experience in MSME loan				Test statistics
		1 year – 5 years	5 years – 10 years	More than 10 years	Total	
Existence	New entrepreneur	0 (0)	14 (26.42)	6 (40)	20 (20)	Fisher Exact test: p-value=0.001
	Established entrepreneur	5 (15.63)	8 (15.09)	3 (20)	16 (16)	
	Both new and Established	27 (84.37)	31 (58.49)	6 (40)	64 (64)	
	Total	32 (100)	53 (100)	15 (100)	100 (100)	

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Chief Promoter's Education	Educated	0 (0)	13 (24.53)	0 (0)	13 (13)	Fisher Exact test: p-value=0.027
	Uneducated	3 (9.37)	5 (9.43)	0 (0)	8 (8)	
	Both educated and uneducated	29 (81.25)	35 (66.03)	15 (100)	79 (79)	
	Total	32 (100)	53 (100)	15 (100)	100 (100)	
Size of the Unit	Micro	0 (0)	2 (3.77)	0 (0)	2 (2)	Fisher Exact test: p-value=0.000
	Small	0 (0)	5 (9.43)	0 (0)	5 (5)	
	Medium	0 (0)	4 (7.55)	0 (0)	4 (4)	
	All three Micro, Small and Medium	32 (100)	42 (79.25)	15 (100)	89 (89)	
	Total	32 (100)	53 (100)	15 (100)	100 (100)	
Sales turnover	High	0 (0)	4 (7.55)	0 (0)	4 (4)	Fisher Exact test: p-value=0.000
	Low	0 (0)	16 (30.19)	0 (0)	16 (16)	
	Both	32 (100)	33 (62.26)	15 (100)	80 (80)	
	Total	32 (100)	53 (100)	15 (100)	100 (100)	
Chief Promoter's Gender	Female	0 (0)	11 (20.75)	0 (0)	11 (11)	Fisher Exact test: p-value=0.064
	Male	32 (100)	42 (79.25)	15 (100)	89 (89)	
	Total	32 (100)	53 (100)	15 (100)	100 (100)	

Source: Computed from Primary Data

The result of Fisher's exact test for association between years of experience of banks in lending to MSME and attributes of MSME defaulters is shown in Table 6.8.

The above result signifies that there is an association between banks' experience in MSME loan and attributes of MSME defaulters as the p-value for the existence of entrepreneur, chief promoter's education, size of the unit and sales turnover is less than 0.05 indicating there is an association with years of experience of banks in lending to MSME. Whereas, p-value for the chief promoter's gender is higher than 0.05 signifying no association with years of experience of banks in lending to MSMEs in Goa.

Thus, the null hypothesis $Ho_{4(g)}$ is rejected with respect to the existence of entrepreneur, chief promoter’s education, size of the unit and sales turnover and is accepted with respect to chief promoter’s gender.

Hence, it can be interpreted that, there is a statistically significant difference with regards to experience of entrepreneur, chief promoter’s education, size of the unit and sales turnover as an attributes of defaulters and years of experience of banks in lending to MSMEs.

The selected banks with MSME loan experience of one to five years (100%) consider that defaulters in MSMEs are both new and established entrepreneurs. The selected banks with MSME loan experience of one to five years (100%), compared to higher experience finds defaulters in MSME are from both the category educated and uneducated. The selected banks with MSME loan experience of one to five years (100%) and ten years and more (100%) believe that defaulters in MSMEs are from all categories i.e. micro, small and medium enterprises. The majority of the selected banks with MSME loan experience of one to five years (100%) and ten years and more (100%) believe that MSME defaulters are with both low and high sales turnover.

From the above result it can be concluded that majority of the selected banks providing loans to MSMEs believe that there is no specific attributes of defaulters as they can be both new or established entrepreneurs, educated or uneducated or they can be micro, small or medium enterprise.

6.7.7 ANALYSIS OF FACTORS RESPONSIBLE FOR NPAs IN BANKS’ WITH RESPECT TO LENDING TO MSMEs

The study in this section analyzes, the banks’ experience with regards to factors responsible for NPAs in banks due to credit default by MSMEs. Based on the earlier research studies, a total of 12 factors were identified as factors responsible for NPAs in banks due to credit default by MSMEs. These factors were subjected to factor analysis to group the common factors. However, the 12 factors were reduced to nine factors as the factor loading for three factors was below 0.5.

Table 6.9 gives the result of KMO and Bartlett's Test conducted to know the suitability of factor analysis for the data.

Table No. 6.9: Result of KMO and Bartlett's Test on Factors Responsible for NPAs in Banks

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.507
Bartlett's Test of Sphericity	Approx. Chi-Square	1910.575
	Df	36
	Sig.	.000

Source: Computed from Primary Data

From the above Table 6.9 it is found that Kaiser-Mayer- Olkin Measure of Sampling Adequacy of 0.507 was obtained, this signifies that the correlations between a pair of variables can be explained by other variables and factor analysis is the appropriate statistical tool to carry out further analysis. Chi-square value is 1910.575 for 36 degrees of freedom. These statistical values are significant at 5% level of significance.

This draws the conclusion that factor analysis applied on 9 variables of factors responsible for NPAs in banks due to credit default by MSMEs on 100 respondents is perfectly justified. This indicates that the factors segregated with the help of variables loading, perfectly fits the normal distribution and reflects the characteristics features of the populations.

The table 6.10 gives the result of the rotated component matrix for factors responsible for NPAs in banks due to credit default by MSMEs in Goa.

Table No. 6.10: Result of Rotated Component Matrix for Factors Responsible for NPAs in Banks

	Factors responsible for NPAs	Component		
		Inefficiency at Bank level	Mismanagement of funds by MSMEs	Inadequate Government support
1	Lack of follow up	.967		
2	Defective project appraisal	.951		
3	Under/ Non financing on time	.947		
4	Unscientific borrower selection	.787		
5	Mismanagement of funds		.833	

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6	Low income generation		.800	
7	Wilful default		.654	
8	Political pressure			.858
9	Non cooperation by Govt agencies			.834
	Factors Extracted	Eigen values	% of Variance	Cumulative %
	Inefficiency at Bank level	3.510	38.997	38.997
	Mismanagement of funds by MSMEs	2.105	23.386	62.383
	Inadequate Government support	1.799	19.984	82.367
	Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.			
a.	b. Rotation converged in 5 iterations.			

Source: Computed from Primary Data

The result of the Varimax Rotation has given the above results shown in Table 6.10. The table explains that the 9 variables exhibit 82% of total variance with 3 Eigen values i.e. 3.604, 2.133 and 1.677. All these values are greater than one. This shows the existence of three major factors.

Individually these factors possess the variances i.e. 38.997, 62.383 and 82.367. Among these values, the first factor possesses the highest variance and the last factor has the smallest variance.

Hence, it is concluded that factor segregation is justified and they can be named with respect to the variables within them i.e.

i. Inefficiency at the bank level
ii. Mismanagement of funds by MSMEs
iii. Inadequate Government support

The first factor is named as inefficiency at the bank level. This factor represents lack of follow up, defective project appraisal, under/ non-financing on time and unscientific borrower selection by banks. The second factor is named as mismanagement of funds by MSMEs. This factor describes most of the reasons for NPAs associated with enterprise like mismanagement of funds, low income generation and wilful default. The third factor is named as inadequate Government support. It covers variables like political pressure and non-cooperation by Government agencies.

The factors analysis carried out on nine variables results in three factors that throw light on the factor responsible for NPAs in banks due to credit default by MSMEs. These identified reasons in the functional domains need to be overcome or reduced to a large extent by Banks, MSME units and Government. Banks need to be more proactive in administering and managing MSME loans. MSMEs should ensure timely repayment of loans and Government need to initiate more liberal policy in MSME finance. This will ensure hassle free loan to MSMEs from banks.

Further, these factors which have been extracted by factor analysis have been used for testing the following hypothesis using regression analysis.

$Ho_{4(h)}$ – Factors responsible for NPAs in banks do not have any significant influence on the difficulty for banks in loan recovery from MSMEs in Goa.

6.7.8 ANALYSIS OF INFLUENCE OF FACTORS RESPONSIBLE FOR NPAs ON DIFFICULTY FOR BANKS IN LOAN RECOVERY FROM MSMEs IN GOA

After extracting three factors from nine variables, regression analysis was done amongst each of the three factors to understand which factor contributes towards difficulty for banks in the recovery of loans. For the regression analysis three factors derived i.e. Inefficiency at the bank level, Mismanagement of funds by MSMEs, Inadequate Government support are considered as independent variables.

Regression Model $y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + ... + \varepsilon$ (Douglas Montgomery, Peck, & Vinning, 2012).

Here 'y' is the dependent variable, which is to be found. X_1, X_2,... and Xn is the known variables with which predictions are to be made and β_1, β_2 and β_n are the coefficient of the variables. In this analysis dependent variable is difficulty in loan recovery and

Independent variables are Inefficiency at the bank level, Mismanagement of funds by MSMEs, Inadequate Government support.

Dependent Variable- Difficulty in loan recovery (y)

Independent Variables –

i. Inefficiency at the bank level (X_1)
ii. Mismanagement of funds by MSMEs (X_2)
iii. Inadequate Government support (X_3)

The model summary for the regression contains the following information R= 0.707, R-Square = 0.50, Adjusted R Square = 0.485, Durbin-Watson = 2.006, F-value = 31.720 and P-value = 0.000[b]

R = 0.707 measures the degree of relationship between the actual values and the predicted values of the difficulty in loan recovery.

The coefficient value of 0.707 indicates that the relationship between difficulty in loan recovery and the three independent variables is quite strong and positive. R- square = 0.50 measures the goodness of fit of the estimated Sample Regression Plane (SRP) in terms of the proportion of the variation in the dependent variables explained by the fitted sample regression equation.

Thus, the value of R- square 0.50 simply means that about 50% of the variation in Difficulty in loan recovery is explained.

Table No. 6.11: Result for Factor Responsible for Difficulty in Loan Recovery from MSMEs

Model		B	t	Sig
1	(Constant)	1.141	45.172	.000
	Inefficiency at Bank level	.140	5.501	.000
	Mismanagement of funds by MSMEs	.204	8.047	.000
	Inadequate Government support	.010	.381	.704
a. Dependent Variable: difficulty in loan recovery				

Source: Computed from Primary Data

The regression equation is Y =1.141+0.140 (Inefficiency at bank level) X_1 + 0.204 (Mismanagement of funds by MSMEs) X_2.

Here, the coefficient of X_1 is 0.140 represents the partial influence of Inefficiency at the bank level on Difficulty in loan recovery holding the other variables being constant. The estimated positive sign implies that such influence is positive and this coefficient value is significant at 5% level of significance. The coefficient of X_2 is 0.204 represents the partial influence of Mismanagement of funds by MSMEs on difficulty in loan recovery, holding the other variables as constant. The estimated positive sign implies that such influence is positive and the coefficient value is significant at 5% level of significance.

Since, the p-value for two factors i.e. Inefficiency at bank level and Mismanagement of funds by MSMEs is less than 0.05 and it is statistically significant at 5% level of significance the null hypothesis $Ho_{4(h)}$ is rejected with respect to factors such as Inefficiency at bank level and Mismanagement of funds by MSMEs and accepted with respect to Inadequate Government support.

Thus, from the above result it can be inferred that in order to minimise the influence of factors leading to NPAs in MSMEs, efforts are required to be made by each enterprise to avoid delay in the repayment of loans and wilful default. Further, all banks need to adopt an appropriate creditworthiness appraisal technique to select the right borrowers. All these measures will reduce the NPAs and difficulty in loan recovery. This can ensure adequate and timely disbursement of loans to MSMEs in Goa.

So, on the basis of above results the null hypothesis **i.e. Ho_4 there is no significant difference with regard to banks experience in lending to MSMEs in Goa across type of banks, years of experience of banks in lending to MSMEs and district wise location of bank branches in Goa is rejected and the alternate hypothesis is accepted.**

6.8 CHAPTER SUMMARY

This chapter analyses the experience of selected Banks in lending to MSMEs in Goa. The banks experience in providing fund based and non- fund based facility and documents to be submitted by MSMEs are examined across type of banks, location of banks and banks experience in MSME loan to test their associations. The MSMEs response to two important schemes i.e. MUDRA scheme and CGTMSE introduced by Government of India has also been evaluated across type of banks. The category of defaulters in MSMEs is also identified across type of banks, location of banks and banks experience in MSME loan. The study further found the factors responsible for NPAs in MSMEs and factors that contribute towards hardship in recovery of loans from MSMEs by selected banks in Goa.

The findings of the study suggest that there is a significant difference with regards to bill finance and export finance as fund based facilities and bank guarantee, and letter of credit as non fund based facility provided across type of banks, location of banks and Banks' experience in MSME loans in Goa. The study found that MSME's response to MUDRA scheme is superior compared to CGTMSE scheme in Goa. It is observed that MSME defaulters are the established and the new entrepreneurs, the educated and the uneducated, the entrepreneur with low and high sales turnover, and are from Micro, Small and Medium enterprises. However, the perception of selected banks does not differ across type of banks, location of banks and banks experience in MSME loan.

Further, it was found that Inefficiency at bank level, Mismanagement of funds by MSMEs and Inadequate Government support are the factors responsible for NPAs in banks due to credit default by MSMEs. However, NPAs generated as a result of banks negligence in credit appraisal and MSMEs inefficiency in repayment of loans create more difficulty in loan recovery.

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CHAPTER –VII

ANALYSIS OF CREDIT MANAGEMENT OF MSMEs BY THE SELECTED BANKS

Sr. No. **Contents**

7.1 INTRODUCTION

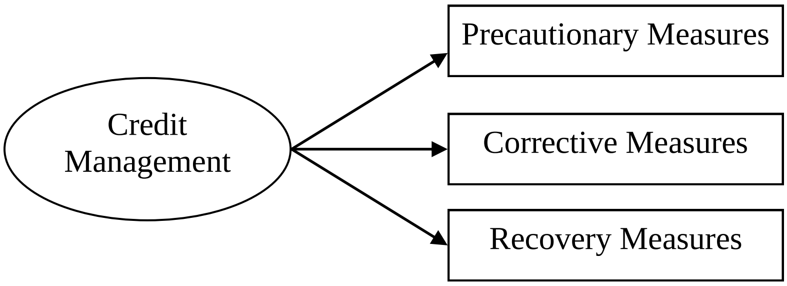
There has been ample research studies conducted on banking sector particularly on the credit management by banks. However, over the past few years the credit management of MSMEs by banks and financial institutions has been an active area of research under the joint pressure of regulators and stakeholders. While providing credit as a main source of finance, banks take into account many considerations as factors of credit management which help them to minimize the risk of default that result in financial distress and bankruptcy. This is due to the reason that while banks provide credit, they are exposed to risk of default (interest and principal repayment) which needs to be managed effectively to acquire the required level of growth in loans and performance. The credit risk management involves evaluation of risk parameters on the basis of purpose of financial requirements, type of business, type of industry and management capabilities of MSMEs. Further, MSME clients always have more private information about the risk in its proposal. When a client approaches the bank with a loan request, the banks have no way to judge its extent of risk from the facts in the loan documents. This is the direct reason leading to MSMEs is risk and crux of the problem for banks. An incorrect decision endangers banks financial capabilities ending up in steep decline in the margin of profits.

The credit risk management of MSMEs by banks in this study is limited to analysing the various measures, steps and initiatives adopted by banks in identifying and controlling the credit risk arising out of loans advanced to MSMEs. The effectiveness of credit management depends largely on the appropriate precautionary measures taken by banks in curtailing such risks. The present research study examined the corrective measures taken by banks against the defaulters and recovery measures adopted by banks to expedite the recovery process in case of default.

7.2 FRAMEWORK FOR ANALYSIS OF CREDIT MANAGEMENT OF MSMEs BY BANKs

Figure no. 7.1 depicts the framework for analysis of credit management of MSMEs by banks in Goa. The credit management of MSMEs by banks is analyzed with respect to precautionary, corrective and recovery measures adopted by banks in Goa.

Figure No. 7.1 framework for analysis of credit management of MSMEs by banks in Goa



Source: Drawn by Researcher

7.3 CONCEPT OF CREDIT

The word ‘credit’ has been derived from the Latin word ‘credo’ which means ‘I believe’ or ‘I trust’, which signifies a trust or confidence reposed in another person. The term credit means, reposing trust or confidence in the solvency of a person or making a payment to a person to receive it back after some time or lending of money and receiving of deposits etc. in other words, the meaning of credit can be explained as, A contractual agreement in which, a borrower receives something of value now and agrees to repay the lender at some later date. The borrowing capacity provided to an individual by the banking system, in the form of credit or a loan. The total bank credit the individual has is the sum of the borrowing capacity each lender bank provides to the individual.

7.4 CREDIT DEFINITIONS

- **Kinley**: “By credit, we mean the power which one person has to induce another to put economic goods at his deposal for a time on a promise for future payment. Credit is thus an attribute of a power of the borrower”.

- **Gide:** “It is an exchange which is complete after the expiry of a certain period of time”.

- **Cole:** “Credit is purchasing power not derived from income but created by financial institutions either as on offset to idle income held by depositors in the bank or as a net addition to the total amount or purchasing power”.

- **Thomas** : “The term credit is now applied to that belief in a man’s probability and solvency which will permit of his being entrusted with something of value belonging to another whether that something consists, of money, goods, services even credit itself as and when one may entrust the use of his good name and reputation”. On the basis of the above definition, it can be said that credit is the exchange function in which, creditor gives some goods or money to the debtor with a belief that after sometime he will return it. In other words “Trust” is the “Credit”.

- **Desai Vasant:** “To give or allow the use of temporarily on the condition that some or its equivalent will be returned”.

7.5 CHARACTERISTICS OF CREDIT

Some characteristics of credit are of prime importance while extending credit to an individual or to a business enterprise.

- **Confidence:**

  The banker granting loan should have confidence in the debtor. Confidence in debtor is important for granting or extending any credit. The banker should also have confidence in the project for which loan is granted.

- **Capacity:**

  The capacity of the borrower to repay loan or debt is a crucial thing to be considered before lending loan to the borrower. The capacity of the borrower to repay the loan should be evaluated before granting or extending any advance.

- **Security:**

  Banks are the main source of credit. Before extending credit, the bank ensures properly about the debtor’s security. The availability of credit depends upon the property or assets possessed by the borrower.

- **Goodwill:**

  If the borrower has a good reputation of repaying outstanding in time, the borrower may be able to obtain credit without any difficulty.

- **Size of Credit:**

  Small credit can be easily available however, the larger credit may require more time to get sanctioned.

- **Period of Credit :**

  Period of credit differs for the different type of loans. A small loan may have a shorter repayment period of the loan compared to larger loans.

7.6 PRINCIPLES OF SOUND LENDING

Lending is the most important function of the bank and profitable as well. On the contrary it is risky business too. Loans always have credit risk. So a banker should manage the loan business in a profitable and safe manner. The banker should take necessary precautions to minimize the credit risk in a loan. Every borrower has a different nature and functions of a business. Certain general principles of lending should be kept in mind while considering a loan proposal, this will help in establishing some credit standards.

Bank lending is an art as well as a science. These are mostly mechanical techniques, tools and methods. With a little practice, it can be learnt. Principles guide to action. According to Mathur L. C., "The ideal advance is one which is granted to a reliable customer for an approved purpose in which the customer has adequate experience, safe in the knowledge that the money will be used to advantage and repayment will be made within the responsible period", (Vijayaragavan G., 2013). The following are the main principles of sound lending:

a) **Safety**

This is the most important guiding principle of a banker. The bank's business deals with public deposits. Otherwise, the banker will not be in a position to repay the deposits and the bank may lose the public confidence. Bank follows lending policy to maximize earnings but it has always to be defensive at the same time because it cannot afford to lose the people's money. The advance should be granted to the reliable borrowers.

b) Security

Any valuable given to support a loan or advance is considered as security. A larger variety of securities may be offered against loans form gold or silver to immovable property. The security accepted by a banker as a loan cover must be adequate, easy to handle, readily marketable. A banker must realise it only as a cushion to fall back in case of need.

c) Liquidity

Liquidity means a bank's ability to meet the claims of its customers. It is the responsibility of the bank to ensure that money lent to the borrowers should not be locked for long time. A bank would remain liquid with advance. This is how the insurance finance and industrial finance is different from banking finance. It is the capacity of a bank to honour its obligations. A banker does the business on borrowed funds; it should ensure liquidity while lending money. At the time of need, a banker should be able to convert assets into cash to meet the demand of depositors, because depositors have faith in a bank on the basis of its liquidity.

d) Suitability

The lending activity of the banks should be based on the economic growth of the nation. Finance to gambling is not a part of the banking business. Due consideration should be given to control inflation and raising the standard of living of the people.

e) Risk Diversification

Every loan has its own risk. So it is better to give an advance for different purposes and segments to spread the risk. For the safety of interest against contingencies, the banker follows the principle of "do not keep all the eggs in one basket". The banks should avoid concentrating the funds in a few customer or segments. The advances should be spread over a reasonably wide area, number of borrowers, number of sectors, geographical area and securities. Another form of diversification is maturity diversification. Under this, the loan portfolio is concentrated over different maturity periods. So, a certain amount of loans matures at regular intervals which can be utilized to meet the depositor's demand.

f) Profitability

Commercial banks have to earn a profit as they are profit-making concerns. Banks have to earn sufficient income to pay interest to the depositors, meet establishment charges, salaries to staff, earn income for the future and distribute dividends to the shareholders etc. The difference between the lending and borrowing rates constitutes the gross profit of the bank. A bank should possess liquidity, with the surety of profit; banks should not ignore the safety or liquidity.

g) Purpose

A banker should inquire about the purpose of the loan. Safety and liquidity of loan depends on the purpose of a loan. The borrower may avail the loan for different purposes like production, trading, agriculture, transport; self-employment etc. Loan for the productive purpose would increase the chances of recovery whereas the lending of loan for the non-productive purposes would have lots of uncertainty about the recovery of loan. After nationalisation, the purpose of a loan has assumed more significant.

h) Nature of Business

There may be innumerable types of businesses and the repaying capacity of a borrower depends on the nature of the business. Hence, it is necessary that bankers should consider the nature of business before granting the loan.

i) Margin

The security offered against advance must be judged from the aspect of economic value and legal aspects. The market value of the security must be higher than the amount of advances proposed. The loan security should cover the fluctuations in prices and interest rates with sufficient margin.

j) National Polices

In a developing country like India, banks are also required to fulfil some social responsibilities. Government policies and national interest impose certain social responsibilities on commercial banks. Sometimes to cater to social responsibilities, advances are given at concessional rate to the weaker and neglected sectors. The lending policies of banks are to be modified from time to time to suit the needs of the economy.

7.7 CREDIT MANAGEMENT OF MSMEs

Banks and financial institutions mobilize deposits and utilize them for lending. Generally, lending business is encouraged as it has the effect of funds being transferred from the system to productive purposes which results into economic growth. The borrower takes fund from banks in the form of loan and pays back the principal amount along with the interest. Sometimes in the non- performance of the loan assets, the fund of the banks gets blocked and the profit margin goes down. To avoid this situation, banks should manage its overall credit process. Risk management is an important aspect of banks' credit management.

Credit management process deserves special emphasis because proper credit management greatly influences the success or failure of financial institution (Charles Mensah, 1999). Credit management means the total process of lending, starting from inquiring potential borrowers up to recovering the amount granted. In the sense of banking sector, credit management is concerned with activities such as accepting application, loan appraisal, loan approval, monitoring, recovery of non-performing loans etc (Shekhar, 1985).

Giving loans to MSMEs is risky for banks. There are certain risks in the process of granting loans to certain clients. There can be more risk if the loan is extended to unworthy debtors. Certain risk may also come when banks offer allowances and one time settlements.

7.8 CHALLENGES IN ASSESSING CREDIT RISK OF MSMEs

There are seven key challenges related to assessing credit risk of MSMEs, including challenges stemming from the wider business infrastructure. Lenders focused on business models that have strong technology and those with traditional borrowers share some basic challenges when it comes to credit risk assessment (Helene P., 2016). These challenges are as follows:

a. Financial information – the level of details, reliability, timeliness
b. Difficulty in predicting future cash flows
c. Accuracy or relevance of rating models
d. Process efficiency and system infrastructure

e. Data, reporting and audit requirements
f. Detection of distressed Loans
g. Business model sustainability.

a. **Financial Information**: A common complaint, especially of credit executives, is that MSME financial information does not provide sufficient detail to understand the drives of the business. The MSME borrowers often argue that the information they produce is sufficient for them to run their business successfully. Hence, there is no need to produce more information and do not have sufficient resources to produce bespoke financial information. However, the banks always opinion that, providing funds are not versed in the business and need more explicit information.

   If a good relationship exists and the request is reasonable, MSME borrowers are usually open to amending the information they provide. Moreover, technology advancement can address some of these challenges, as many providers offer the ability to link a borrower's financial accounting software directly with the bank's records.

b. **Difficulty in Predicting Future Cash Flows:** Before cash flow can be predicted, it must be derived from either historical or forecast income and balance sheet statements. After data has been extracted, it is not an unduly difficult task during a financial analysis package. However, understanding the expected, trend of the MSME borrower's business and ensuring that the characteristics of any new capital structure are included in forecast cash flow modeling, can only be undertaken with appropriate information from these borrowers.

c. **Accuracy or Relevance of Rating Models:** Models are only as good as the quality and richness of the data that drives them. It is therefore, important to have a proven and valid benchmark-reliable market information from historical MSME enterprises default data. Thus, a database of historical financial statements and default rates on a global scale and substantial size is required. For example, Moddy's analytics RiskCalc is the largest database of private company financial information and default rates in the world, it feeds into models based on ratios that have been proven to be highly predictive of default, and therefore provide an effective early warning against credit deterioration.

d. **Process Efficiency and System Infrastructure:** The key issue here is the time it takes for a lender to process a loan application and disburse funds, commonly known as "time to cash". Where the process is fully manual and there are many systems and where data is duplicated, this inefficiency can cause slower response times. Banks can adopt new outsourced or cloud platforms rather than installing system and hardened data siloes which makes lending process difficult. Cloud platforms offer attractive alternative, since they require no new hardware and no additional IT staff is required, the data is also automatically updated and backed up. These advance system provides a single integrated solution for managing the entire credit lifecycle.

e. **Data, Reporting and Audit Requirements:** The ability to extract meaningful data to understand key performance indicators and for audit requirements depends on several things. First, focus on exactly the type of data is required. Secondly, a user friendly structure or system that captures right data is essential. And finally, strict discipline and well-defined processes are necessary to ensure that the data is accurately captured and maintained.

f. **Detection of Distressed Loans**: Lenders who have effective processes for the early detection of distressed loans are most likely to minimize losses. Bankers should build a good relationship with MSME borrowers, have early warning triggers such as covenants in place, have a specialist team on a monitoring basis, but if necessary scaling up to partial or full management of distressed credits.

g. **Business Model Sustainability:** Alignment between the market strategy of the business and sectors that have sufficiently strong creditworthiness is important to mitigate against losses when a particular sector starts to underperform. However, overall business strategy is important in an increasingly competitive marketplace in addition to alignment with strong sector. Weak financial performance can lead to pressure to take greater risk and go beyond established risk parameters. Many lenders do not fully understand the profitability of the deals they are underwriting. To resolve these issues a strong risk culture, with a low tolerance for behavior outside acceptable risk parameters, is essential. Also, a robust model that feeds into an appropriate deal- pricing tool is necessary.

7.9 CREDIT MANAGEMENT MEASURES OF BANKS

The following are some of the measures adopted by banks in credit management of MSMEs in Goa.

7.9.1 Precautionary Measures

As an attempt to help banks in identifying the potentiality of MSME borrowers, Reserve Bank of India (RBI) provides training to officers at various commercial banks on lending to MSMEs. This training is provided to officers working at bank branches covering all districts in India. These are mostly specialized bank branches catering to the MSME sector. This multi-level training has been provided to branch managers, senior officers who then pass on the training to the bank employees.

Most importantly, the training exercise is executed in consultation with the government, including the active involvement of the MSME ministry and the RBI. The main objective has been to create conducive environment to help MSMEs avail easy and faster credit. The bank officers are provided with special kits to help their banks extend more credit to MSMEs, while they are also been trained on behaviourial issues to deal with such borrowers with utmost care.

7.9.2 Corrective Measures

With a view to initiate appropriate and prompt measures to minimize the risk of default, RBI has suggested corrective measures which may be observed while granting advances. The RBI corrective measures include Ad hoc / temporary amounts / excesses wherever sanctioned without regularization of advances should be promptly reported to higher authorities explaining the circumstances leading to the need for unforeseen urgent funds.

Sanctions within discretionary powers should also be promptly reported to the controlling authority in the stipulated manner. In case of non- reporting, the controlling authority should obtain the prescribed statements and scrutinize the same diligently and take prompt follow up action. In case of oral/telephonic sanction, proper record of the same should be maintained by the sanctioning as well as the disbursing authority. Controlling authority should make frequent visits to branches and submit reports of such visits with special focus on all loan accounts.

7.9.3 Recovery Measures

Recovery of NPA has become the Critical Performance Area (CPA) for banks in India since NPA reduces the profitability of a bank, weaken its financial health and erode its solvency. Various recovery measures are adopted by banks to recover non-performing assets. Reminders / Notices are the simplest way to follow-up default cases.

Generally, response to this recovery measures, particularly from honest borrowers is encouraging. Bank's experience has shown that Personal visits /contacts are an effective measure especially in the case of MSME borrower accounts. Involvement of staff at all levels in the bank branch is necessary. Frequent visits are called for in case of hardcore borrowers. Recovery camps are also organized by banks with the help of outsiders, particularly revenue officers in the state government, local panchayat officials etc. Banks give publicity of the recovery camp to be organized in the area. Banks appoint professional agencies whose services are utilized to ascertain the whereabouts of the borrowers and enforcement of securities.

In general, it is experienced that filing suits and recovery of dues of banks through the process of courts is cumbersome, expensive and time consuming. On time settlement or compromise in bank loan means agreeing to borrowers' request of accepting a part of outstanding dues in the books of the bank as full and final payment after analyzing the alternative courses of action, genuineness and capacity of the borrower to repay. Filing of suit is the last resort available to a bank for recovery considering the disadvantages of filing a suit.

7.9.4 Online Tracking

Loan defaulters who were once able to hide their status by changing home and cities may find the strategy less effective now. Banks and loan collection agencies are increasingly employing skip-trace, a method to extract and analyze creditors information that was difficult to obtain before.

Skip-trace is an online tracking method to extract and analyze creditor information that was difficult to obtain before. Skip-trace tools, which credit information bureaus provide, allow users to mine their repositories for alternative contacts and business location of an existing or potential customer, and give insight into credit relationship and payment behavior. This is usually done by analyzing all possible contact details including addresses and telephone numbers, allowing lenders to locate those who have defaulted.

Now, credit bureaus can recognize a persistent defaulter even if he changes his location. If the defaulters use the same name and identify proof like his PAN number, the system will identify the fraudster (ET, pg-12, 26 June 2014).

7.10 ANALYSIS OF CREDIT MANAGEMENT OF MSMEs BY SELECTED BANKS

In this part of the study, the credit management of MSMEs by selected banks is analyzed with respect to credit management measures adopted by banks in Goa. The credit management of MSMEs by banks in Goa is studied with respect to precautionary, corrective and recovery measures adopted by selected banks in Goa.

Extensive and relevant literature has been reviewed to identify variables pertaining to credit management measures. Further, precautionary, corrective and recovery measures are identified as the three pertinent measures adopted by banks in credit management of MSMEs. The following research papers are reviewed for identifying the items for precautionary, corrective and recovery measures adopted by banks. Precautionary measures, (Md. Abu Saleh, 2006; Junior M. D., 2015; Pashkova O., 2016); Corrective measures, (Junior M. D., 2015; Pashkova, O. 2016), Recovery measures (Junior M. D., 2015; Pashkova O., 2016; Wilkinson J.E., 2016).

Total 25 items pertaining to credit management are identified, out of which seven items were related to precautionary measures, nine items pertained to corrective measures, and remaining nine related to recovery measures. Following items are exclusively identified for precautionary, corrective and recovery measures.

a. Precautionary measures; Bank has appraisal system for MSME borrowers; MSME loans are looked after by separate Manager**;** Bank Manager has undergone special training; Assistance is provided to MSME for preparation of project Report; Loans are sanction and disbursed by bank on time; Bank evaluates potential risk that may cause borrowers to default; Bank has integrated system of credit management.

b. **Corrective measures;** Called back the advance; Reported to higher authority; Personal follow up; Personal visit; Notice; Send back staff; Legal proceedings; Not bothered if repaid after due date; Controlling authorities obtains the prescribed statements.

c. **Recovery measures;** Called back the advance; Reported to higher authority; Personal follow up; Personal visit; Notice; Send back staff; Legal proceedings; Restructuring / Rehabilitation; Write-off.

The data is collected on five points scale, where five denotes always and one denotes never.

The reliability statistics for precautionary, corrective and recovery measures constructs used in this study is found to be above the standard set by Nunnally (1978), which is 0.70. The range of Cronbach alphas shows the reliability of variables for each construct as precautionary measures $\alpha = 0.944$, corrective measures $\alpha = 0.939$ and recovery measures $\alpha = 0.938$.

The primary data collected with the help of the survey method have been analyzed in order to bring out relevant results with the help of appropriated statistical tools.

In the case of a minimum sample size for SEM analysis, there are two general recommendations. One category state that the absolute number of cases (N) is important, while another states that the subject to variables ratio is important. Arrindell and Van Der Ende (1985), Velicer and Fava (1998), and MacCallum, Widaman, Zhang and Hong (1999), has reviewed many of these recommendations. Gorsuch (1983) and Kline (1979, p.40) recommended at least 100 sample size.

It is suggested that no sample should be less than 100 even though the number of variables is less than 20. Hatcher (1994) recommended that the number of a subject should be the larger of 5 times the number of variables, or 100. More samples can be needed when communalities are low and/or a few variables load on each factor (in David Garson, 2008). Considering the above recommendations a sample size of 100 is found to be an adequate for SEM analyses.

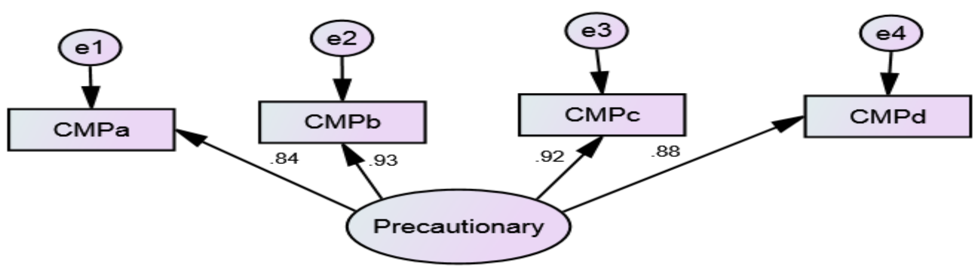
Confirmatory factor analysis is used to provide a confirmatory test to the measurement theory. It is a way of testing how well measured variables represent a construct. In the present study, CFA is performed to assess the fitness, reliability and validity of three latent constructs viz. precautionary measures, corrective measures and recovery measures through maximum likelihood procedure.

CFA is carried out construct-wise to restrict the number of indicators. In the process of conducting CFA seven items from the latent constructs having standard regression weights below 0.50 were deleted (Hair et al., 2009). All the CFA models fulfilled the necessary condition of identification, according to which there must be at least there manifest variables for each construct so that it can have enough degrees of freedom to estimate all free parameters (Hair et al., 2009).

The model fit indices such as CMIN/DF, NFI, TLI, GFI, AGFI and RMSEA (Hair et al., 2007; Stephen P., 2008) are considered to confirm the unidimensionality of precautionary measures, corrective measures and recovery measures constructs.

Following are the individual CFA calculated for each construct.

Figure No. 7.2 CFA for Precautionary Measures



Source: Drawn from Primary Data

CMPa = Separate manager, CMPb = Special training, CMPc = Assistance in project report, CMPd = Sanction of loan on time

The CFA (Figure 7.2) is performed for precautionary measures construct which constituted of seven items. Among seven items, three were deleted as they are not meeting the criteria i.e. SRW's > .50. After deleting, CFA produce a good fit. Table 7.1 gives the result of fit indices of the CFA for precautionary measures construct.

Table No. 7.1: Fit Indices of the CFA for Precautionary Measures Construct

Construct	df	X^2	p	CMIN/DF	NFI	TLI	GFI	AGFI	RMSEA	alpha
Precautionary	2	4.436	0.050	2.835	0.988	0.980	0.977	0.885	0.011	0.939

Source: Computed from Primary Data

The CFA result shown in Table 7.1 produces good fit as CMIN/DF = 2.835, GFI = 0.977, AGFI = 0.885, NFI = 0.988, TLI = 0.980 and RMSEA = 0.011. The model has been found to be valid and reliable. The alpha value is 0.939, thereby indicating that all items are reliable. Model has been proved valid. The construct validity also stand established as all the indicators have factor loading above 0.50.

Table No. 7.2: Factor Loading for each Factor of Precautionary Measures

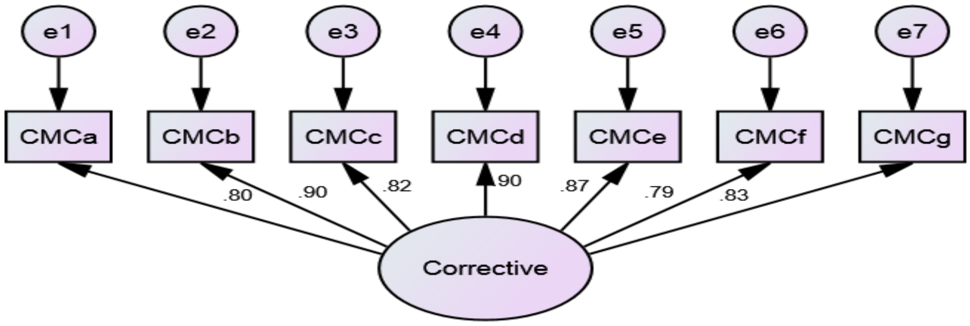
			Estimate
Separate manager (CMPa)	<---	Precautionary	0.842
Special training (CMPb)	<---	Precautionary	0.931
Assistance in preparing project report (CMPc)	<---	Precautionary	0.921
Sanctioning of loan on time (CMPd)	<---	Precautionary	0.875

Source: Computed from Primary Data

Special training, Assistance in preparing project report and Sanctioning of loan on time as shown in Table 7.2 is found to be strongest contributor towards precautionary measures with factor loading of 0.931, 921 and 0.875 respectively.

Thus, it can be inferred that special training for bank officials in handling MSME loans, assistance provided to MSMEs in preparation of project report by banks and sanctioning of loan on time by banks are considered the prominent precautionary measures adopted in credit management of MSMEs by banks in Goa.

Figure No. 7.3 CFA for Corrective Measures



Source: Drawn from Primary Data

CMCa = Called back the advance , CMCb = Reported to higher authority, CMCc = Personal follow up , CMCd = Personal visit, CMCe = Notice , CMCf = Send back staff , CMCg = Legal proceedings

The CFA (Figure 7.3) is executed on corrective measures construct which constituted of nine items. Among nine items, two got deleted as they are not meeting the criteria i.e. SRW's > .50 remaining seven measured items are the contributors of this constructs. After deleting the 02 items, CFA produce a good fit. Table 7.3 gives the result of fit indices of the CFA for corrective measures construct.

Table No. 7.3: Fit Indices of the CFA for Corrective Measures Construct

Construct	df	X^2	p	CMIN/DF	NFI	TLI	GFI	AGFI	RMSEA	alpha
Corrective	14	76.952	.000	2.484	.885	.854	.906	.812	.052	0.944

Source: Computed from Primary Data

Values shown in Table 7.3 calculated for the corrective measures construct indicates that CMIN/DF = 2.484, GFI = 0.906, AGFI = 0.812, NFI = 0.885, TLI = 0.854 and RMSEA = 0.052. The alpha value is 0.944. Thus, the model fit indices meets the cut-off criteria; the value of TLI, NFI, GFI, AGFI should be ≥ 9 and more specifically the value of RMSEA should be below 0.05. Hence, the model has been found to be valid and reliable. The reliability is also confirmed through cronbach's alpha value which is measured to be 0.944. So it is appropriate to conclude that the scale is reliable. Also each items loading is greater than 0.50 as shown in Table 7.4, which provides empirical support for the convergent validity of the construct.

Table 7.4 gives the factor loading for each factor of corrective measures.

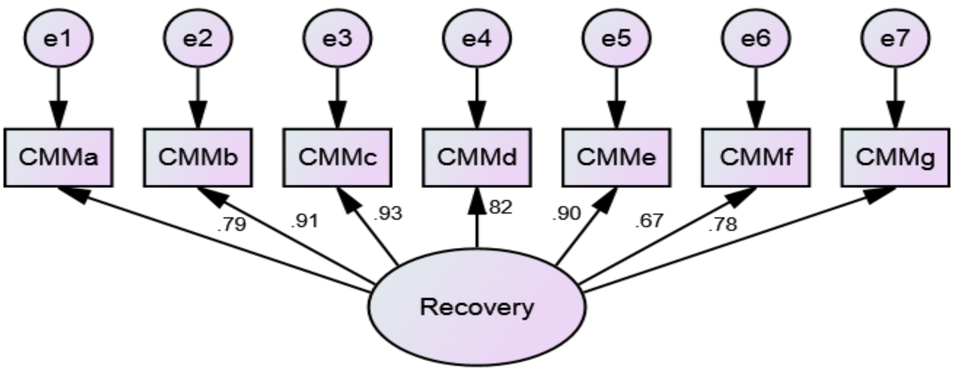
Table No. 7.4: Factor loading for each Factor of Corrective Measures Construct

			Estimate
Called back the advance (CMCa)	<---	Corrective	0.798
Reported to higher authority (CMCb)	<---	Corrective	0.903
Personal follow up (CMCc)	<---	Corrective	0.818
Personal visit (CMCd)	<---	Corrective	0.897
Notice (CMCe)	<---	Corrective	0.867
Send back staff (CMCf)	<---	Corrective	0.793
Legal proceedings (CMCg)	<---	Corrective	0.825

Source: Computed from Primary Data

Among seven items of corrective measures, defaulted borrowers being reported to higher authority, personal visit by bank officials and issue of notices to the borrowers by banks with factor loadings of 0.903, 0.897 and 0.867 respectively contributes significantly towards corrective measures. Whereas, for the factor such as called back the advance, personal follow up, legal proceedings and send back staff have shown a comparatively lower factor loadings.

Figure No. 7.4 CFA for Recovery Measures



Source: Drawn from Primary Data

CMMa = Recovery camp, CMMb = Non-public working day, CMMc = Publication of defaulters list , CMMd = One time settlement, CMMe = Allowance to prompt payers, CMMf = Lok adalat by court, CMMg = Revenue recovery Act

Figure 7.4 depicts CFA performed on Recovery measures construct which consisted of 09 indicators. Each indicator of the construct is measured using five point scale. While running CFA, 02 items got deleted as they are not meeting the criteria. The result of the model fit statistics for recovery measures with 07 variables is given in Table 7.5.

Table No. 7. 5: Fit indices of the CFA for Recovery Measures Construct

Construct	df	X^2	p	CMIN/DF	NFI	TLI	GFI	AGFI	RMSEA	alpha
Recovery	14	51.114	0.000	2.851	0.919	0.924	0.887	0.775	0.164	0.938

Source: Computed from Primary Data

The result shown in Table 7.5 reveals that the model fit statistics are within recommended levels i.e. CMIN/DF = 2.851, GFI = 0.887, AGFI = 0.775, NFI = 0.919, TLI = 0.924, RMSEA = 0.164 indicating the model is valid. The value of Cronbach's alpha is 0.938 and all items loading is above 0.50 as shown in Table 7.6. Thus, the validity and reliability got established.

Table No.7.6: Factor Loading for each Factor of Recovery Measures Construct

			Estimate
Recovery camp (CMMa)	<---	Recovery	0.785
Non-public working day (CMMb)	<---	Recovery	0.909
Publication of defaulters list (CMMc)	<---	Recovery	0.925
One time settlement (CMMd)	<---	Recovery	0.822
Allowance to prompt payers (CMMe)	<---	Recovery	0.896
Lokadulate by court (CMMf)	<---	Recovery	0.669
Revenue recovery Act (CMMg)	<---	Recovery	0.782

Source: Computed from Primary Data

Further among seven items; publication of defaulters list, non-public working day and allowance to prompt payers are found contributing maximum towards recovery with factor loadings of 0.925, 0.909 and 0.896 respectively.

After applying CFA and checking for reliability and validity, Structural Equation Model (SEM) is constructed to assess the fitness of structural model. The SEM technique is used as the main statistical tool to test the main hypothesis proposed in the study. The structural relationship between the latent constructs represented by single headed straight arrows is specified according to the hypotheses established. Full SEM model including all indicators are tested.

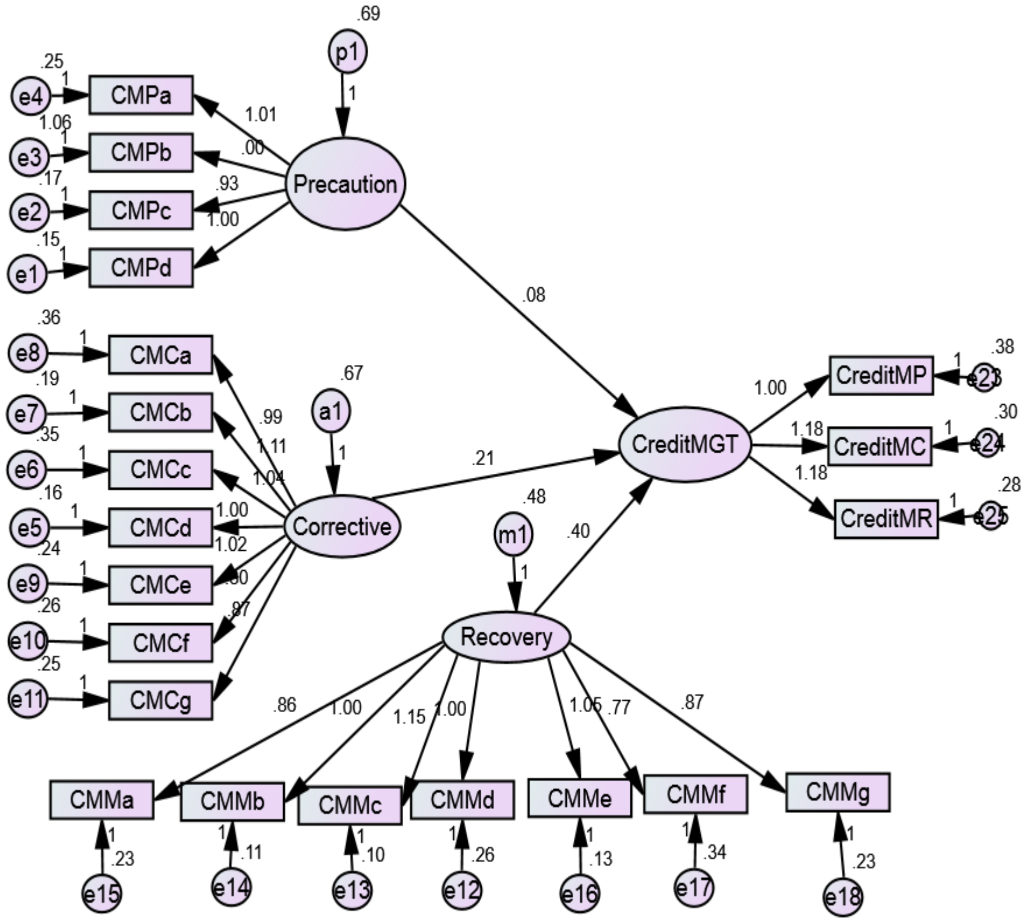
The study through SEM, analyses the relationship between the Precautionary, Corrective and Recovery measures and its influence on Credit Management of MSMEs by banks. To examine the goodness-fit and testify that the model is acceptable, following model fit indices are calculated; The Root Mean Squared Approximation of Error (RMSEA) is calculated where; 0.01, 0.05, and 0.08 to indicate excellent, good, and mediocre fit, respectively. The other fit indices are Root Mean square Residual (RMR) $\geq$ 0.05, Confirmatory Factor Analysis (CFA) $\geq$ 0.05, (Adjusted) Goodness of Fit (AGFI) $\geq$0.90, Tucker-Lewis Index Goodness of Fit Index (GFI) $\geq$ 0.95 and commonly used $\chi 2$ statistic ($\chi 2$/df ratio of 3 or less) as proposed by Stephen Parry (2008).

The following hypothesis is framed and tested using SEM.

Ho_5 : There is no significant influence of precautionary, corrective and recovery measures on credit management of MSMEs by banks in Goa.

Figure 7.5 shows SEM model for credit management. The fit indices for the SEM model are presented in the Table 7.7.

Figure No. 7.5 SEM Model for Credit Management of MSMEs



Source: Drawn from Primary Data

Table No. 7.7: Model fit Indices for Credit Management

Chi-square	D.F.	Probability level	CMIN/DF	GFI	AGFI	RMR	RMSEA	CFI
511.221	187	0.000	2.734	.817	0.835	0.117	0.090	0.834

Source: Computed from Primary Data

The model fit result of SEM for credit management is given in Table 7.7 shows that Chi-square is 511.221, D.F. is 187, p-value is 0.000, CMIN/DF is 2.734, GFI is 0.717, AGFI is 0.735, RMR is 0.117, RMSEA is 0.089 and CFI is 0.834.

All the above indices shown in table 7.7 testify that the model is acceptable. The model provides good fit to the data, as the result meets the cut –off criteria.

The Table 7.8 gives the result of estimated parameters in structural model for credit management of MSMEs by banks in Goa.

Table No. 7.8: Result of Estimated Parameters in Structural Model for Credit Management (Regression Weights)

Constructs and Measures			Estimate	S.E.	C.R.	P
CreditMGT	<---	Precaution	.080	.040	2.010	.044
CreditMGT	<---	Corrective	.213	.053	4.048	***
CreditMGT	<---	Recovery	.397	.085	4.667	***
Separate manager	<---	Precautionary	1.000			
Special training	<---	Precautionary	.932	.077	12.046	***
Assistance in project report	<---	Precautionary	.000			
Sanction of loan on time	<---	Precautionary	1.017	.087	11.743	***
Personal visit	<---	Corrective	1.000			
Personal follow up	<---	Corrective	1.036	.091	11.367	***
Reported to higher authority	<---	Corrective	1.104	.079	13.939	***
Called back the advance	<---	Corrective	.991	.091	10.862	***
Notice	<---	Corrective	1.024	.081	12.595	***
Send back staff	<---	Corrective	.803	.076	10.542	***
Legal proceedings	<---	Corrective	.871	.076	11.410	***
One time settlement	<---	Recovery	1.000			
Publication of defaulters list	<---	Recovery	1.130	.096	11.793	***
Non public working day	<---	Recovery	.993	.088	11.308	***
Recovery camp	<---	Recovery	.852	.093	9.114	***
Allowance to prompt payers	<---	Recovery	1.034	.092	11.243	***
Lok adalate by court	<---	Recovery	.760	.102	7.474	***
Revenue recovery Act	<---	Recovery	.856	.094	9.135	***
Credit MP	<---	Credit MGT	1.000			
Credit MC	<---	Credit MGT	1.109	.090	12.270	***
Credit MR	<---	Credit MGT	.967	.092	10.565	***

Source: Computed from Primary Data

The significance test is the critical ratio (CR), which represent the parameter estimate divided by its standard error. The parameter estimate is significant at 5% level with p ≤

0.05 and value of C.R. is > 1.96. Three significant structural paths among the exogenous and endogenous latent variables are found to be significant.

The critical ratio with 2.780 for structural path among precautionary and credit management is significant at 5% level with $p \leq 0.05$. The critical ratio with 4.689 and 5.815 for the other two structural paths is significant at $p \leq 0.01$ (Table 7.8).

Thus, from the Table 7.8 it can be inferred that precautionary, corrective and recovery measures have a positive and significant influence on credit management of MSMEs by banks in Goa.

Thus, the null hypothesis Ho_5 is rejected and the alternate hypothesis there is significant influence of precautionary, corrective and recovery measures on credit management by banks in Goa is accepted.

Further, to examine the effects of individual precautionary, corrective and recovery measures on the credit management of MSMEs, the standardized indirect effects were estimated. The table 7.9 gives the result of standardized regression weights showing influence of precautionary, corrective and recovery measures on credit management.

Table No. 7.9: SEM Result Showing Influence of Precautionary, Corrective and Recovery Measures with Standardized Regression Weights

Constructs and Measures			Estimate
Precautionary	<---	Credit MGT	.199
Corrective	<---	Credit MGT	.522
Recovery	<---	Credit MGT	.829
Separate manager	<---	Precautionary	.905
Special training	<---	Precautionary	.882
Assistance in project report	<---	Precautionary	.000
Sanction of loan on time	<---	Precautionary	.861
Personal visit	<---	Corrective	.900
Personal follow up	<---	Corrective	.821
Reported to higher authority	<---	Corrective	.901
Called back the advance	<---	Corrective	.804

Cont…

Constructs and Measures			Estimate
Notice	<---	Corrective	.862
Send back staff	<---	Corrective	.788
Legal proceedings	<---	Corrective	.821
One time settlement	<---	Recovery	.805
Publication of defaulters list	<---	Recovery	.928
Non public working day	<---	Recovery	.900
Recovery camp	<---	Recovery	.784
Allowance to prompt payers	<---	Recovery	.899
Lok adulate by court	<---	Recovery	.679
Revenue recovery act	<---	Recovery	.786
Credit MP	<---	Credit MGT	.475
Credit MC	<---	Credit MGT	.583
Credit MR	<---	Credit MGT	.600

Source: Computed from Primary Data

From the standardised regression weights (SRW) shown in Table 7.9 it is found that precautionary, corrective and recovery measures have direct effect on credit management. However, recovery measures and corrective measures with SRW= 0.605 and 0.478 respectively are more influential in helping the selected banks in credit management of MSMEs in Goa.

Precautionary measures help the selected banks in accurately assessing the credit-worthiness of the enterprises' business viability. This is extremely important when the banks are extending credit to MSMEs. The selected banks must specify clearly the criteria that the MSMEs must meet before applying for loan. Corrective measures will not only protect the selected banks from possible losses but also protect the customer from creating more debt obligations that cannot be settled in a timely manner.

Further, the study examines the online tracking method employed by banks to extract and analyze creditors' information has any effect of on precautionary, corrective and recovery measures adopted by banks for credit management of MSMEs.

7.11 Analyses of Online Tracking Mediating the Relationship Between Precautionary, Corrective, Recovery Measures and Credit Management of MSMEs by Banks

Structural Equation Modeling (SEM) has been used to check various proposed relations of online tracking mediating the relationship between precautionary, corrective, recovery measures and credit management of MSMEs by banks. It is a multivariate technique that seeks to explain the relationship among multiple variables (Kaplan, 2000).

Further, in the present study, the relationship between precautionary, corrective, recovery measures, credit management and online tracking have been assessed by using mediation analysis.

Mediation analysis is a test, which analyse how X exerts its effect on Y and frequently postulates a model in which one or more intervening variables M is located casually between variable X and variable Y. These intervening variables are often called as mediators, and are conceptualized as the mechanism through which X influences Y. That is, variation in X causes variation in one or more mediators M, which in turn causes variation in Y (Andrew F. H.,2013).

The present study analyses the influence of independent variable precautionary, corrective and recovery measures on dependent variable i.e credit management through the intervening variable online tracking which is considered as mediator in the study.

For the mediation analysis the relationship between independent variables i.e. precautionary, corrective and recovery measures; dependent variable i.e. credit management and mediator i.e. online tracking have been assessed.

In order to test the mediating effect, all the conditions described by Baron & Kenny (1986) are satisfied. These conditions are:

a) The relationship between independent variables and dependent variables should be significant.
b) The relationship between independent and third variables. i.e. mediator should be significant.

c) The relationship between mediator or third variable and outcome or dependent variable should also be significant.

d) When the mediator is entered into equation, relationship between independent and dependent variables become insignificant.

The following hypotheses are framed and tested by using mediation analysis.

$Ho_{5(a)}$: There is no significant influence of online tracking on precautionary measures adopted by banks for credit management of MSMEs in Goa.

$Ho_{5(b)}$: There is no significant influence of online tracking on corrective measures adopted by banks for credit management of MSMEs in Goa.

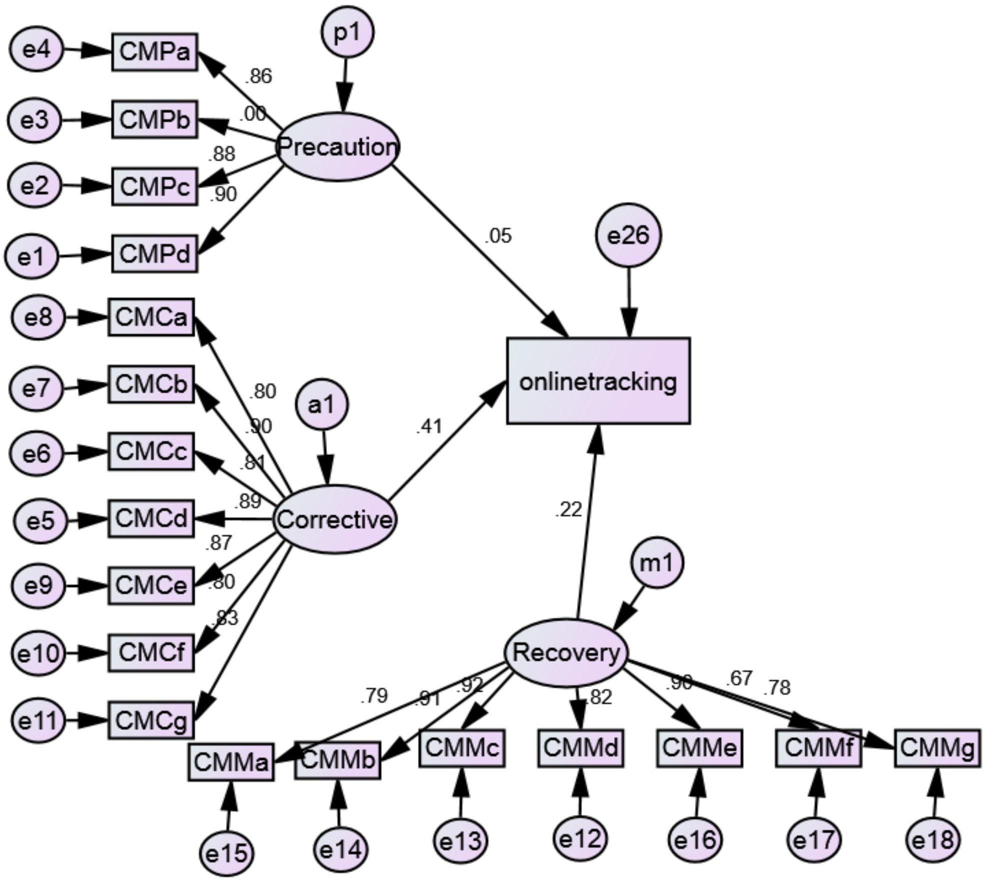
$Ho_{5(c)}$: There is no significant influence of online tracking on recovery measures adopted by banks for credit management of MSMEs in Goa.

$Ho_{5(d)}$: There is no significant influence of online tracking on credit management of MSMEs by banks in Goa.

In the four step procedure through structural analysis the study first assessed the relationship between independent variable on dependent variable i.e precautionary, corrective and recovery measures on credit management (Figure 7.5 and Table 7.8), which is significant (Standard Regression Weights (SRW) = 0.30, 0.48 and 0.61, p-value<0.05. Hence, satisfies the first condition for mediation.

In the step two, the study analyzed the relationship between the independent variables and Mediator.

Figure No. 7.6 SEM result for Relationship between Precautionary, Corrective and Recovery Measures and Online Tracking



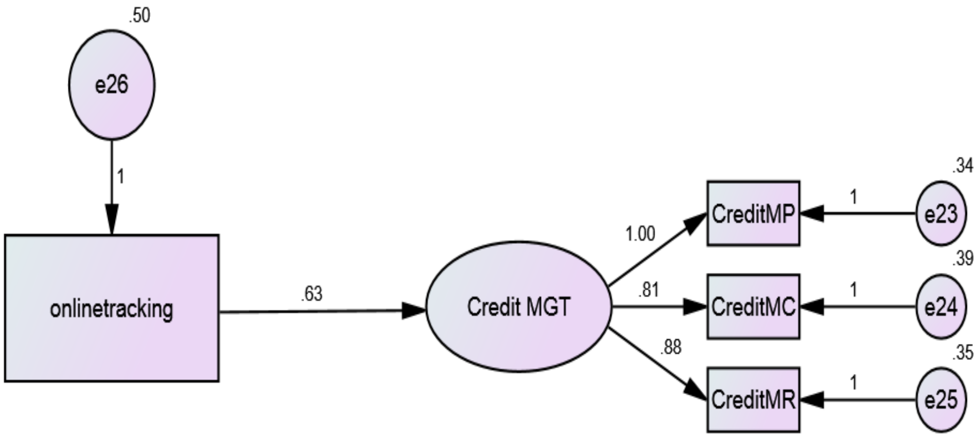
Source: Drawn from Primary Data

Figure 7.6 depicts the SEM result of relationship between precautionary, corrective and recovery measures and online tracking. For the purpose of this analysis precautionary, corrective and recovery measures are considered as independent variable and online tracking is considered as the mediator.

The result is found significant with Standard regression weights (SRW) = 0.06 for precautionary measures, SRW = 0.41 for corrective measures and SRW = 0.22 for recovery measures and p-value<0.05. Therefore, the second condition for mediation is fulfilled.

In the next step, the relationship between dependent variables and mediator i.e. credit management and online tracking is assessed.

Figure No. 7.7 SEM result for Relationship between Credit Management and Online Tracking



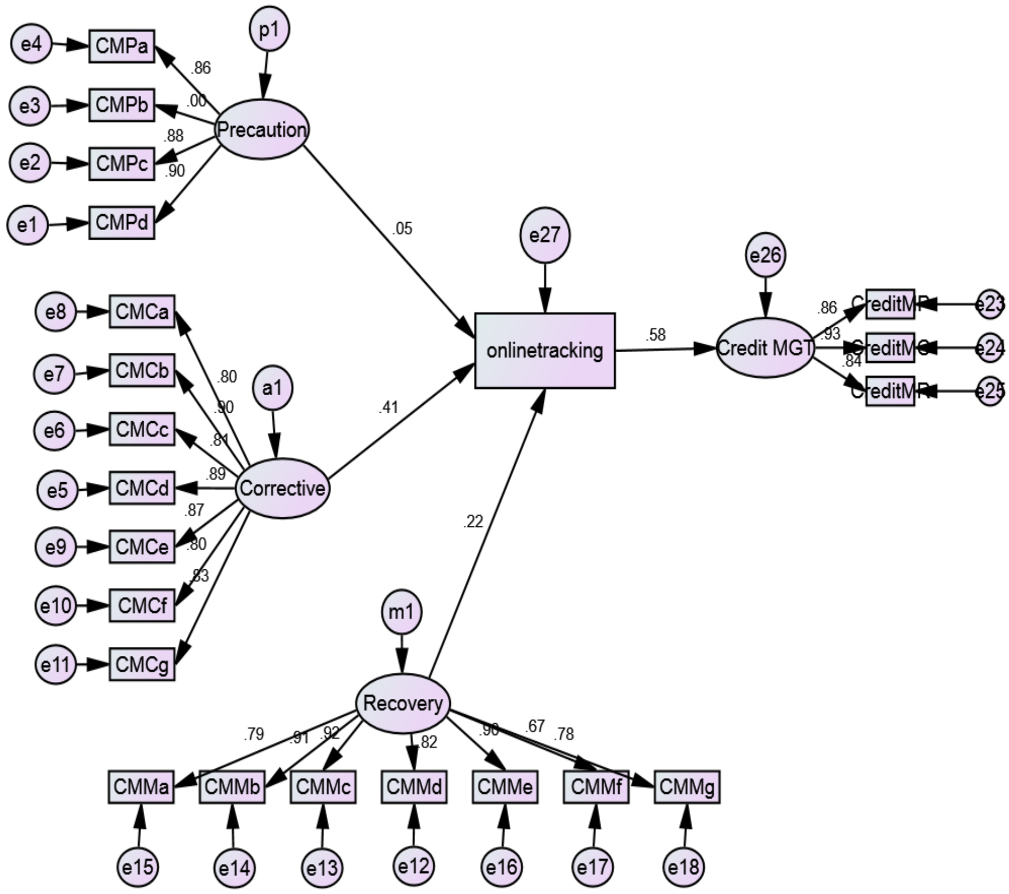
Source: Drawn from Primary Data

Figure 7.7 shows the result of relationship between credit management and online tracking. In this analysis, credit management is the dependent variable and online tracking is considered as mediator.

The result is significant with SRW = 0.63 and p-value <0.05. So, the three conditions of mediation given by Baron & Kenney (1986) are satisfied.

In order to test the mediating effect, in the last step, the mediating variable i.e. online tracking was added between independent variable i.e. precautionary, corrective and recovery measures and dependent variable i.e. credit management. The figure 7.8 gives the result of relationship between precautionary, corrective and recovery measures, credit management and online tracking.

Figure No. 7.8 Relationship between Precautionary, Corrective and Recovery Measures, Credit Management and Online Tracking



Source: Drawn from Primary Data

The result revealed that when the mediator i.e. online tracking is entered into the equation of precautionary, corrective, recovery measures and credit management, the relationship between precautionary measures and online tracking become insignificant (SRW = 0.06, p-value > 0.05). However, the relationship between Online tracking and corrective measures, recovery measures and credit management remained significant with p-value <0.05 of (Figure 7.8) which satisfy the conditions of mediation effect.

Thus, the null hypotheses $Ho_{5(a)}$, $Ho_{5(b)}$, $Ho_{5(c)}$ and $Ho_{5(d)}$ are rejected and the alternate hypotheses are accepted.

From the above result it is found that corrective and recovery measures significantly influence the credit management of MSMEs in Goa if managed through online tracking.

However, precautionary measures are found to be insignificant and have no influence on credit management if managed through online tracking. Thus, it is important for the banks in Goa to strengthen and improve their precautionary measures such as, making separate manager in charge of MSME loan, providing training to bank officials in MSME loan, providing assistance in preparation of project report and sanctioning of loan on time to MSMEs.

7.12 CHAPTER SUMMARY

This chapter studied the credit management of MSMEs by selected banks in Goa. The credit management process is being examined by precautionary, corrective and recovery measures adopted by banks in Goa. The study found that precautionary, corrective and recovery measures have a positive and significant influence on credit management by banks. The study further revealed that corrective and recovery measures are more prominent in helping the selected banks in credit management of MSMEs in Goa. However, the banks in Goa need to strengthen its precautionary measures for effective credit management. A precautionary measure appears to be not given much importance among the selected banks in Goa. In fact, the earlier measures which identify the competent and credit worthy borrowers will help the selected banks in sanctioning loan to right borrowers and everyone concerned will benefit from this efforts. The banks will have a reasonable amount of assurance that loans granted to a client will be repaid back within the term, or that regular minimum payments will be received.

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CHAPTER – VIII

ANALYSIS OF CONSENSUS AMONG THE USERS AND SUPPLIERS OF FUNDS

Sr. No. **Contents**

CHAPTER – IX

FINDINGS, CONCLUSIONS AND SUGGESTIONS

Sr. No.	**Contents**
9.1	Introduction
9.2	Findings
9.3	Conclusions
9.4	Suggestions
9.5	Scope for Further Study

9.1 INTRODUCTION

The present empirical study examines the financial requirements, pattern of financing and effective utilization of finance by selected MSMEs in Goa. The study also focuses on the experience of selected banks in lending to MSMEs and credit management of MSMEs by selected banks in Goa. The study further analyses, the consensus among users and suppliers of funds in Goa with regards to disbursement time of loan, interest rates, collateral for loans, documentation and loan procedures. The entire thesis is divided into nine chapters. The study is divided into two major areas of research i.e.

iii) Analysis of financial requirements, the pattern of financing and effective utilization of finance by MSMEs in Goa

iv) Analysis of banks' experience in lending to MSME and credit management of MSMEs in Goa.

The research methodology adopted to study the said area of research is given in chapter-III.

The findings are summarised in the present chapter in an endeavour to address the implication as well as contribution of the study. The findings emerged from the study are presented objective wise. The brief conclusion about the entire study is also provided in this chapter. The study gives valuable suggestions and recommendations to the MSMEs, Banks and the Government of Goa to improve the performance and better programmes for the development of MSMEs in the State. The chapter ends by highlighting the potential areas for future research.

9.2 FINDINGS

The findings of the study are given objective wise. However, the key findings derived from the **first major area of research** are as follows:

- There is an association between financial requirements and firm's characteristics such as chief promoter's gender, chief promoter's qualification, form of ownership, type of unit, annual turnover, type of product and size of the unit.
- Financial requirements of MSMEs differ across size of the unit.
- There is significant association between pattern of financing and firm's characteristics.

- There is a significant influence of financial management practices on effective utilization of finance by MSMEs. However, MSMEs are found practicing only specific financial management practices in Goa.
- There is no significant consensus among MSMEs with regards to disbursement time, interest rate, collateral for loan, documentation and loan procedures as the constraints in accessing bank finance in Goa.

The major findings from the **second areas of research** are as follows:

- There is significant difference with regards to fund based and non-fund based facilities provided by banks to MSMEs across type of banks, years of experience of banks in lending to MSMEs and district wise location of banks in Goa.
- Banks experience in providing MUDRA and CGTMSE scheme to MSMEs differ across type of banks.
- There is an association between attributes of MSME defaulters and type of banks, years of experience of banks in lending to MSMEs and district wise location of banks in Goa.
- Factors responsible for NPAs in banks due to credit default by MSMEs have a positive influence on difficulty in loan recovery by banks.
- Precautionary, corrective and recovery measures have influence on credit management of MSMEs by banks in Goa and online tracking mediates the relationship between precautionary, corrective and recovery measures and credit management of MSMEs by banks.
- There is no significant consensus among banks with regards to disbursement time, interest rate, collateral for loan, documentation and procedures as the constraints in accessing bank finance in Goa.

Following are the objective-wise findings of the study

1. **To study the various financial requirements and to examine the pattern of financing by MSMEs in Goa.**
    - 100% of the selected female entrepreneurs do financial planning regularly whereas, only 48.54% of male entrepreneur carryout financial planning on a regular basis.

- Entrepreneurs with higher educational qualifications are found to be more inclined towards carrying out financial planning as the majority of selected entrepreneurs with post graduation (72.46%) and technically qualified (54.1%) are found to be regularly carrying out financial planning.
- The selected MSMEs owned by sole traders (61.64%) frequently do financial planning compared to other forms of ownership.
- MSME units manufacturing for both, domestic and foreign market (68.18%) regularly do financial planning.
- The selected MSME units with annual sales turnover of above Rs. 5 crore are found to be more committed towards periodically practicing financial planning as compared to units with up to Rs. 1 crore and above Rs. 1 crore up to Rs. 5 crore.
- The selected MSME units manufacturing chemicals and other chemical products (72.22%) regularly carry out financial planning than those manufacturing other products.
- Micro enterprises (63.4%) compared to small and medium enterprises carry out financial planning more regularly.
- Findings of the study shows that financial planning is an external function for selected female entrepreneurs than that of male entrepreneurs. It was observed that selected female entrepreneurs (100%) prefer to consult professionals like chartered accountants and tax consultants for financial planning whereas, in case of male entrepreneurs only a 55.99% prefer chartered accountants and tax consultants for financial planning.
- The selected entrepreneurs with higher educational qualifications prefer to consult professionals and experts for their financial planning function. Moreover, graduates (87.1%) and technically qualified (70.49%) entrepreneurs carry out financial planning in consultation with professionals and experts.
- The selected MSME units owned by sole proprietors (66.23%) consult professionals and experts for financial planning than the other forms of ownership.
- MSME units catering both domestic and foreign market consult professionals and experts for financial planning.

- The selected units with annual turnover above Rs. 5 crore (100%) consult professionals and experts for financial planning.
- The selected units manufacturing chemicals and other chemical products (72.22%) are doing financial planning in consultation with professionals and experts like chartered accountants and tax consultants.
- The micro enterprises (84%) compared to small and medium enterprises prefer to consult professionals for financial planning.
- The findings of the study shows that the selected male entrepreneurs (62.46%) are more meticulous than female entrepreneurs in preparing financial plans as they are seen to be preparing both the types of financial plans i.e. short term and long term plan.
- The selected MSME owners with higher qualifications i.e. post graduation (72.46%) have more likelihood of preparing both types of financial plans i.e. short term and long term plan than the MSME owners with lower qualifications.
- The selected MSMEs owned by sole proprietors (67.21%) are found preparing both the types of financial plans than the other forms of ownership.
- The selected MSME units with wider market coverage (79.55%) have shown proclivity towards preparing both the types of financial plans i.e. short term and long term plan than those serving only domestic market or only foreign market.
- The selected annual turnover above of Rs. 5 crore (100%) are found to be preparing both the types of financial plans i.e. short term and long term plan.
- The selected MSME units manufacturing chemicals and other chemical products (88.89%) are found to be preparing both the types of financial plans i.e. short term and long term plan than those units manufacturing other products.
- Medium enterprises (66.7%) compared to micro and small enterprises prepare both the types of plans i.e. short term and long term plan.
- The selected units owned by male entrepreneurs (64.08%) prefer production statements as the basis for estimating their financial requirement whereas, female entrepreneurs (53.06%) use sales statement.
- The selected entrepreneurs with post graduation (89.86%) and technical qualification (100%) prefer production statements as the basis for estimating their financial requirements. On the other hand, entrepreneurs having the qualification of HSSC (39.33%) and Graduation (51.61%) use a sales statement.

- The selected MSME units owned by the sole proprietors (62.62%) and partnership firms (55.77%) use production statement as the basis for estimating their financial requirements.
- It is observed that majority of units whether export oriented units (100%), domestic units (52.63%) or both (87.5%) use production statements as the basis for estimating their financial requirements compared to other means of forecasting financial requirements.
- The selected units with annual turnover above Rs. 5 crore (100%) make use of production statements as the basis for estimating their financial requirements. Whereas, MSME units with annual turnover of over Rs. 1 crore up to Rs. 5 crore (54.14%) prefer sales statement.
- The selected units manufacturing chemicals and other chemical products (88.89%) and wood and wood products (65.15%) opt for production statements as the basis for estimating their financial requirements compared to units manufacturing other products.
- Majority of the selected small enterprises (63.7%) compared to other enterprises make use of production statements as the basis for estimating their financial requirements.
- The findings of the study also reveals that the size of the unit i.e. micro, small and medium enterprise influences the Period for different types of loan consisting of short term, medium term and long term loan, Frequency for short term and long term loan and Quantum of short term and medium term loan.
- Period of medium term loan for medium enterprises is higher compared to micro enterprises holding other variables constant.
- The Quantum of short term loan is found to be statistically significant when compared with medium enterprises indicating requirements of Quantum of short term loan requirement is higher to medium enterprises compared to micro enterprises.
- In the case of small enterprises, long term loan period is significantly lower compared to medium enterprises.
- It is noted that Period, Frequency and Quantum for short term, medium term and long term loan taken by micro enterprise and small enterprise differ significantly in comparison with medium enterprises.

- It is observed that majority of MSMEs in Goa prefer owned funds (67.6%) for meeting the short term requirements compared to the other sources. Whereas, public banks are considered as the best means of financing medium term (78.77%) and long term financial requirements (67.6%) by MSMEs in Goa.
- It is noted that private banks are also preferred as a source of finance by MSMEs to meet their medium term (21.23%) and long term financial requirements (31.56%).
- The finding reveals that the contribution of Co-operative banks and Government schemes is 1.96% and 1.68% respectively in meeting the financial requirements of MSMEs in Goa.
- It is found that majority of the selected female entrepreneurs (100%) use owned funds to finance short term requirements compared to their male counterpart (62.46%).
- MSME owners with qualification below SSC (93.33%) are found using owned funds for meeting their short term requirements as compared to MSME owners with HSSC and higher qualifications.
- The selected MSME units owned by sole proprietors (69.51%) prefer owned funds to finance their short term requirements compared to other forms of ownership.
- MSME units manufacturing and selling in the domestic market (70.3%) make use of owned funds to meet their short term requirements than export oriented and other units.
- The selected MSME units with annual turnover of above Rs. 5 crore (95.24%) utilize owned funds to meet their short term requirements.
- Majority of selected micro enterprises (73.71%) are found to be using owned funds for meeting their short term requirements as compared to small and medium enterprises in Goa.
- The selected female entrepreneurs (100%) and male entrepreneurs (75.40%) prefer public sector banks for financing their medium term financial requirements.
- The selected MSME owners with qualification below SSC (100%) than with higher qualifications choose public sector banks for financing medium term requirements.

- The selected units owned by sole proprietors (88.85%) than the other form of ownership opt for public sector banks than private sector banks to finance their medium term requirements.
- Public sector banks are preferred more for financing medium term requirements by the selected MSME units catering for both domestic and foreign market (100%).
- The selected units with annual turnover above Rs. 5 crore (97.68 %) consider public sector banks over private sector banks for financing medium term requirements.
- The majority of selected female entrepreneurs (97.96%) and male entrepreneurs (62.78%) prefer public sector banks for financing their long term requirement.
- The selected MSME owners with qualification below SSC (100%) than the owners with higher qualifications prefer public sector banks for financing long term requirements.
- The selected units owned by sole proprietor (69.51%) compared to the other form of ownership opt for public sector banks than private sector banks to finance their long term requirements.
- Public sector banks are preferred more for financing long term requirements by selected units catering for both domestic and foreign market (84.09%).
- The selected units with annual turnover above Rs. 5 crore (97.62%) consider public banks for financing long term requirements compared to units with annual turnover up to Rs. 1 crore (62.66%) and above Rs. 1 crore up to Rs. 5 crore (64.33%).

2. **To evaluate the effective utilization of finance by MSMEs**.
   - Cash Management practices such as monthly reconciliation of cashbook with the bank, use of cash budget in decision making and business has a way to pre-determine cash shortage/surplus are more influential practices amongst MSMEs as they have higher loading of 0.87, 0.85 and 0.85 respectively.
   - Other cash management practices like operating bank account regularly, review of cash budget, selling goods and services on cash and involvement of owner in preparation of cash budget are found to be less influential practices as loadings for these practices are 0.65, 0.65, 0.76 and 0.76 respectively.

- Informal business accounting system and owner being in-charge of recording transactions are found to be more influencing practices followed under Accounting Information System (AIS) as the loadings for these items are 0.76 and 0.73. These loadings are more than other practices like, the business uses a computerised accounting system in recording transactions and AIS is used for decision making, preparation of managerial reports and financial statements, has a lower loading of 0.72 and 0.69 respectively.
- Financial Reporting and Analysis practices like preparation of cash flow statements, following of accounting principles and preparation of balance sheet has shown higher loading with values of 0.91, 0.88 and 0.87 respectively, thereby demonstrating higher influence over practices of Financial Reporting and Analysis.
- While practices like, preparation of income statement and owner being involved in the preparation of financial statements showed a lower loading of 0.85 and 0.80 respectively.
- Reconciling sales with inventory change, periodic preparation of aging schedule, control of sales by employee and review of percentage of bad debts with values of 0.92, 0.91, 0.87 and 0.84 each respectively, has shown higher influence on Accounts Receivable Management practices. Whereas, practices like selling goods on credit, control over written-off receivables and setting credit policy of the business in place had lower CFA loading with 0.81, 0.76 and 0.71each.
- Practice of determining inventory levels based on owner's experience with loading of 0.86, practice of inventory requisitions, use of Economic Order Quantity (EOQ) to determine quantity and quality of purchase with loading of 0.85 and preparation of periodic summaries of inventory with loading of 0.83 has shown greater influence towards Inventory Management practices as they have higher loadings.
- Using computerised inventory management practices, periodic valuation of inventory have loading of 0.82 each and physical safeguards of inventory against theft with loading 0.75 has less influence on Inventory Management practices of MSMEs in Goa.

- Financial practices like the use of internally generated cash sources and not using borrowed funds are more influential practices as they have higher CFA loading of 0.79 and 0.78 respectively than other practices.
- Easy access to bank finance and setting the capital structure based on the theory with a loading of 0.76 each and practice of maintaining a proper balance between profitability and liquidity with factor loadings 0.60 has shown less influence towards financing practices.
- Full utilization of non-current assets, investment in non-current assets and use of payback period to assess the investment are more influential practices followed in Investment Management as loading for these factors were 0.89, 0.83 and 0.81 respectively, which are higher than other practices.
- Use of net present value to assess the investment, investment in real assets, use of cash for investment in long term projects, investment without evaluating the investment and review of the investment project after a certain period has the lower loading with values of 0.77, 0.73, 0.72, 0.64 and 0.53 respectively.
- Financing, Investment and Accounts Receivable Management practices having standardised regression values of 0.88, 0.82 and 0.72 respectively are found to be more influential factors for financial management practices amongst MSMEs in Goa.
- Further, Inventory Management, Cash Management, Accounting Information System and Financial Reporting and Analysis Practices with standardised regression weight values of 0.65, 0.52, 0.40, and 0.34 respectively, are found to be less influential practices towards financial management among MSMEs in Goa.
- Financing, Investment and Accounts Receivable Management practices having standardised regression values of 0.89, 0.87 and 0.72 respectively are found to be more influential factors for financial management practices in Micro Enterprises than Inventory Management, Cash Management, Accounting Information System, Financial Reporting and Analysis Practices with standardised regression weight values of 0.60, 0.58, 0.39 and 0.38 respectively among Micro enterprises in Goa.
- Financing, Investment Management and Inventory Management practices with standardized regression weights of 0.901, 0.778 and 0.729 respectively, has

shown higher influence on Financial Management Practices in Small enterprises in Goa. Whereas, Accounts Receivable Management, Cash Management, Accounting Information System and Financial Reporting and Analysis Practices with standardised weights of 0.694, 0.466, 0.404 and 0.293 respectively, has shown lower influence towards Financial Management Practices in small enterprises in Goa.

3. To analyze the experience of selected banks in financing MSMEs

- There is a significant difference in bill finance and export finance as a fund based facilities provided by the selected public sector, private sector and co-operative banks to MSMEs in Goa.
- There is a statistically significant difference with regards to bill finance and export finance as the fund based facility provided to MSMEs across years of experience of banks in lending to MSMEs.
- There is a statistically significant difference with regards to overdraft, bill finance and export finance as fund based facility provided by banks across district wise location of banks.
- There is a statistically significant difference with regards to bank guarantees and letter of credit as the non-fund based facility provided to MSMEs across type of banks.
- Non fund based facilities provided by banks to MSMEs in Goa depend on the years of experience of banks in lending to MSMEs i.e. less than one year, one year to five years, five years to ten years and above ten years.
- Non fund based facilities provided by banks to MSMEs in Goa differ across district wise location of banks of Goa.
- There is a statistically significant difference with regards to project report and audited financial statement as the loan documents required to be submitted by MSMEs across type of banks.
- There is a statistically significant difference with regards to project report and NOC from local authorities as the loan documents required to be submitted by MSMEs to banks across years of experience of banks in lending to MSMEs.

- There is a statistically significant difference with regards to project report and NOC from local authorities as the loan documents required to be submitted by MSMEs to banks across district wise location of banks.
- The study found that as per the experience of selected banks MSMEs response to MUDRA scheme is superior compared to CGTMSE scheme in Goa as the mean value for MUDRA scheme is higher compared to CGTMSE scheme.
- There is difference of opinion among selected banks on MSME response to MUDRA scheme.
- There is a statistically significant difference with regards to attributes of MSME defaulters such as years of existence of enterprise, size of the unit and sales turnover across district wise location of banks.
- It is observed that the majority of the selected private sector (79.41%), public sector (88.46%) and co-operative (50%) banks find that MSME defaulters are both, established and new entrepreneurs.
- Majority of the selected private sector (100%), public sector (76.92%) and co-operative (92.86%) banks experience that defaulters are from both the categories i.e. educated and uneducated.
- It is noted that the size of the unit does not determine the defaulters as the maximum selected private sector (100%), public sector (94.23%) and co-operative (42.86%) banks come across defaulters from all types of enterprises i.e. micro, small and medium enterprises.
- Selected banks from both the districts i.e. North Goa (100%) and South Goa (68.25%) find MSME defaulters are both, new and established entrepreneurs.
- Majority of selected banks from both the districts North Goa (89.19%) and South Goa (88.89%) encounter defaulters from Micro, Small and Medium enterprises.
- Majority of the banks from North Goa district (89.19%) and South Goa district (74.6%) experience defaulters with both high sales turnover and low sales turnover.
- The selected banks with MSME loan experience of one to five years (100%) consider that defaulters in MSMEs are both new and established entrepreneurs.
- The selected banks with MSME loan experience of one to five years (100%), compared to higher experience find defaulters in MSME are from both the category educated and uneducated.

- The majority of selected banks with MSME loan experience of one to five years (100%) and ten years and more (100%) believe that defaulters in MSMEs are from all categories i.e. Micro, Small and Medium enterprises.
- The majority of the selected banks with MSME loan experience of one to five years (100%) and ten years and more (100%) experienced that MSME defaulters are both with low and high sales turnover.
- Factors such as, Inefficiency at bank level and Mismanagement of funds by MSMEs have influence on difficulty in loan recovery by banks.

4. To examine credit management of MSMEs by Bank

- Special training, Assistance in project report and Sanction of loan on time are found to be the strongest contributor towards Precautionary measures with a factor loading of 0.931, 921 and 0.875 respectively.
- Among seven items of corrective measures, Reported to the higher authority, Personal visit and Notice with factor loadings of 0.903, 0.897 and 0.867 contributes significantly towards corrective measures.
- Publication of defaulters list, Non-public working day/ working on public holiday and allowance to prompt payers are found contributing maximum towards recovery with factor loadings of 0.925, 0.909 and 0.896 respectively.
- The study found that Precautionary, Corrective and Recovery measures have a positive and significant influence on credit management by banks.
- Recovery measures and Corrective measures with SRW= 0.605 and 0.478 respectively are more influential in helping the banks in credit management of MSMEs in Goa.
- Precautionary measures are found to be insignificant and have no influence on credit management if managed through online tracking.

5. To study the consensus among users and suppliers of funds

- Small enterprises consider the time lag in disbursement of loan as a major constraint in accessing bank finance for MSMEs.
- Majority of selected medium enterprises compared to micro and small enterprises find interest rates charged to MSMEs as the major constraint in accessing bank finance.

- Small enterprises compared to Micro and Medium Enterprises consider that collateral for loan is a major constraint to access bank finance.
- Micro enterprises compared to small and medium enterprises find documentation and loan procedure cumbersome and tedious and as a major constraint in accessing bank finance.
- Majority of private sector banks consider disbursement time of loan as the main constraint in accessing bank finance for MSMEs in Goa.
- Among the selected banks, co-operative banks consider higher interest rate as a major constraint in accessing bank finance for MSMEs in Goa.
- The selected private sector banks compared to their counterparts consider collateral for loan as a constraint in accessing bank finance for MSMEs in Goa.
- Private sector banks compared to their counterparts consider documentation and procedures as the major constraint in accessing bank finance.
- There is no significant consensus among selected banks with regard to higher interest rates and documentation and loan procedures as the constraint to access bank finance. However, there is a consensus amongst banks, on disbursement time and collateral for loan as constraints in accessing bank finance for MSMEs in Goa.
- There is no significant consensus among MSMEs and Banks with regards to disbursement time as the constraint to access bank finance.
- MSMEs do not consider disbursement time as the constraint to access bank finance whereas, Banks consider disbursement time as the constraints to access bank finance.
- There is no significant consensus among MSMEs and Banks with regards to the interest rate as the constraint to access bank finance.
- MSMEs consider interest rate as the constraint to access bank finance whereas, bank does not consider interest rate as the constraints to access bank finance.
- There is significant consensus among MSMEs and banks with regards to collateral for loan as the constraint to access bank finance.
- There is no significant consensus among MSMEs and Banks with regards to documentation and loan procedure as the constraint to access bank finance.
- MSMEs consider documentation and loan procedure as the constraint to access bank finance whereas, bank does not consider documentation and loan procedure as the constraint to access bank finance.

9.3 CONCLUSIONS

Micro, Small and Medium Enterprises play a vital role in the growth and development of Indian economy by contributing significantly in industrial output, export and employment. It also continues to create millions of jobs every year and producing more than 8,000 quality products for the Indian and International markets.

As the Prime Minister has come out with thrust on ‘Make in India’ and ‘Skill India’, the present financial architecture in the country does not truly support such a policy perspective (Mathew P. M., Director, Kochi based Institute of Small Enterprises and Development). Inadequate flow of credit to the MSMEs is a global problem. While entrepreneurs often complain on the problems of credit stringency, banks account it for entrepreneurs’ lack of financial knowledge and improper guidance (MSME Report, 2014).

The closure of mining in Goa has adversely impacted the state’s economy by bringing the key source of revenue for the government to a grinding halt. The obstacles in the growth of MSMEs in Goa can result in further shrinking of source of revenue for the Government which may further lead to an economic slowdown. Considering the non availability of timely and adequate finance as the major constraints to MSMEs, the present study investigated into the various financial requirements, pattern of financing and effective utilization of finance by the selected MSMEs in Goa. The study also examined the experience of selected banks in financing MSMEs and credit management of MSMEs by banks in Goa.

The selected MSMEs’ views are divided as to how good MSMEs in Goa are at following financial planning practices and helping themselves in terms of managing finance effectively. Firms’ characteristics are found to be significantly associated with financial planning practices and pattern of financing of MSMEs in Goa. Some MSMEs consider that they are already doing a lot, whereas, others are concerned about not being good at financial planning due to lack of time, and poor internal financial planning and management knowledge and should take more advantage of advice from professionals.

There is reluctance to use external sources of finance by MSMEs for meeting their financial requirements. MSME units depend heavily on their own funds for financing their requirements. Findings denoted that MSMEs use more debt, specifically to meet long term requirements and prefer public sector banks for meeting their financial requirements. Traditional bank credit remains as one of the major sources of finance for MSMEs in Goa. There is a need to explore alternative sources of funds which would contribute in reducing dependency of MSMEs on bank credit.

MSMEs in Goa are currently facing many difficulties and challenges. Lack of experience of financial management is currently one of the most serious issue. Lack of knowledge of financial management among MSMEs combined with the uncertainty of the business environment often leads MSMEs to serious problems regarding financial performance. Inefficient financial management or wrong financial decision may damage MSMEs profitability. Conversely, efficient financial management will help MSMEs to strengthen their profitability.

Though, MSMEs in Goa follow Financial Management Practices to ensure effective and efficient utilization of funds, these enterprises are found to be influential towards following only specific financial management practices. However, practices like Cash Management, Accounting Information System and Financial Reporting and Analysis are given less importance by MSMEs in Goa. If the MSMEs in Goa follow Cash Management practices consistently and efficiently, it will increase the chances of survival of business. It will also help to attract investors who can fund expansion initiatives of MSMEs. The first thing that investors look for evaluating a business is its cash flow, which in turn, reflects its cash management practices. In addition, effective cash management will increase the flexibility and competitive advantage of business in dealing with emergency situations or taking advantage of opportunities as and when they arise, at a short notice. Furthermore, cash management practices will enable a business to take advantage of cash discounts and avoid costly sources of finance while raising funds.

Introduction of a potent Accounting Information System by MSMEs can supply complete and relevant financial information needed to improve economic decisions to be made by entrepreneurs. Decision such as devising business strategy is one of the main component that contributes towards growth among MSMEs. There is also a need for MSMEs to grow and develop the skill of Financial Reporting and Analysis, which will further allow financial statements to be read and understood, whether they contain historical or forecasted information. Financial Reporting and Analysis can also help firms to manage their short- term financial problems in critical areas like costing, expenditure and cash flow by providing information to support monitoring and control.

The banks selected for this study also appear inconsistent in their lending practices for MSMEs in Goa. Marked differences in lending facilities such as fund based facilities, non fund based facilities and requirements of loan documents were reported between MSME loan managers at bank branches and head offices within banks. As a result, there is no consensus as to whether certain banks are less likely to provide finance than other banks. Co-operative banks are not empowered in their lending decision to MSMEs in Goa and their role in MSME finance is insignificant.

The selected banks are increasingly employing online tracking system to extract and analyze creditors' information. Online tracking system is more effective in corrective and recovery measures than in precautionary measures. The bank branch managers need to undergo specialised training with respect to MSME lending and use their personal experience to locate the borrowers who may turn fugitive in future. The bank branch managers need to utilize skills to identify potential borrowers who can service the debt regularly. Only an in-depth, on the ground understanding of the diverse dynamics can help banks to spot early warning signals towards potential defaulters.

Most of the MSMEs are not aware of the government supported assistance schemes. Awareness of government schemes such as MUDRA and CGTMSE to support access to finance is also low and inaccessible. This is due to lack of marketing and awareness for these schemes among the MSMEs. There is a need to boost the awareness of the MSMEs on the variety of funding opportunities available especially the government schemes.

Precautionary, Corrective and Recovery measures are significant in improving the credit management of MSMEs by banks in Goa. However, precautionary measures adopted by banks in Goa are found to be less significant. Banks tend to charge MSMEs high interest rates and adopt a rigorous and pre-emptive approach with respect to collateral. Banks face difficulty in identifying creditworthiness and promising MSMEs. The efficient way to encourage lending to MSMEs is to improve existing financial institutions' ability to construct profitable and efficient MSME lending programmes. This can be achieved by adopting appropriate credit management measures which will assess the creditworthiness of potential MSME borrowers and lower the overall cost of lending to MSMEs in Goa.

The access to bank finance seems to be driven by many variables impacting the supply of credit provided by banks and demand for credit by MSME units. MSMEs are found to confront almost insurmountable barriers in access to bank finance i.e. disbursement time of loan, interest rate, collateral for loan and documentation and loan procedures. Banks perception on MSMEs constraints to bank finance is also found to be different than MSMEs. There is no consensus among the users and suppliers of funds in Goa and this may inevitably restrain MSMEs' access to bank finance in Goa. Banks should simplify their lending criteria and pay attention to opportunities for financing the promising MSME sector rather than focusing on requirements of high collateral, charging of high interest rates and excessive paperwork and cumbersome loan procedure. Banks can provide tailored lending packages to fit the capabilities and financial requirements of MSMEs and develop novel types of collateral.

Though the credit gap for MSMEs is a global problem, a solution can best come from developing and articulating a business case, by which banks find lending to MSMEs a truly profitable business proposition. However, the thrust of policies so far has been more regulatory than promotional. The study calls for a paradigm shift in institutional structure and incentives.

9.4 SUGGESTIONS

The study provides valuable suggestions for the improved performance and effective programmes for the growth of MSMEs in Goa. The suggestions are made to the MSMEs, Banks and Government in order to develop the MSME sector and promote access to bank finance for MSMEs in Goa.

a. Suggestions to MSME

i. MSMEs need to establish proper and robust accounting system. This can increase the chance of accessing credit by providing a transparent and reliable basis for a lender to assess the viability and profitability of enterprise.

ii. MSMEs should be aware about the criteria that banks consider as important in making a lending decision.

iii. MSMEs should provide all material information to the banks so that they can process the loan application of MSMEs smoothly and without any delay.

iv. MSMEs should ensure that the enterprise is registered and that all registration and licenses are renewed periodically so that the enterprise can avail and have access to all Government schemes.

v. MSMEs should explore financing option available with banks and external agencies to maintain liquidity and meet short term requirements.

vi. Owners/managers of MSMEs should undergo training in the areas of maintaining accounts that would not only promote their demand for credit but also increase their access to credit.

b. **Suggestions to Bank**

i. Banks should streamline the lending processes with simple and limited paper work and quick to respond to loan applications.

ii. There has to be transparency in loan sanctioning procedure and uniformity in documentation required for loan across bank branches and locations.

iii. Banks should introduce autonomy in the lending process and online tracking can be introduced at branch level to keep track on the borrowers and their repayment behaviour.

iv. Banks need to create credit scoring system for MSMEs which automate MSME lending and improve credit risk management. This will also offer the possibility to approach MSMEs having acceptable credit scores through direct mail campaign.

v. Banks should combine financial and non financial support through co-operation between banks and Business Development Services (BDS) providers. This will help to strengthen the credit worthiness of potential MSME borrowers and will reduce the overall cost of lending to MSMEs.

vi. The problem of risk and information asymmetry can be reduced by banks by informing MSMEs about the risk that banks assume when they grant credit as well as the way banks evaluate their financing requests. This will help MSMEs to know how banks evaluate the risk of their enterprise and will be able to take appropriate measures to reduce the risk.

vii. Co-operative and foreign banks should play more pro-active role in lending to MSMEs in Goa. These banks need to provide specialised financing facilities to MSMEs and ensure easy access to bank finance.

c. **Suggestions to Government**

i. Government should put more efforts to improve awareness of the schemes to support access to finance and better manage MSMEs' expectation and financial requirements. Better communication about the documentation and securities including personal guarantee and covenants in case of specific schemes would help in addressing MSMEs disappointment and misunderstanding of the conditions of the schemes.

ii. Government should re-work on the existing schemes which are suffering from number of weaknesses like inadequate procedure and delay in paying claims, which have further discouraged banks in taking part in such schemes.

iii. There is a role of government in raising the awareness about the importance of financial management as a part of public policy efforts to improve access to bank finance. Independent high quality financial advice can be provided to MSMEs, which are without in-house financial expertise.

iv. There is a need for improved outreach and well designed plan to reach out to MSMEs in Goa with product and services which meets the financial needs of MSMEs.

v. Promote greater engagement of non-bank financial institution in MSME lending. These institutions may have greater resources and do not necessarily have the outreach or inclination to lend to MSMEs.

vi. Start separate external credit appraisal/ credit rating agency which will assess credit risks of the MSMEs. Such external services can support bank staff when specialised skills are needed to assess the risk in MSME lending.

vii. Government should promote greater linkages and dialogue between financial institutions and MSME associations. This will promote better understanding and facilitate appropriate and adequate financing of MSMEs.

9.5 SCOPE FOR FURTHER STUDY

- A comprehensive study can be conducted in the other states of India to understand the proximity of the similar problems associated with MSME financing across the country and a holistic approach can be adopted to resolve these problems.
- A study to evaluate the performance and contribution of various incentive schemes introduced at the central and state level for the growth and development of MSMEs need to be undertaken.
- A research can be undertaken to understand and analyze the difference in the financing procedure and criteria that banks use for evaluating the applications of MSMEs.
- A more in-depth study can be carried out with panel data on bank lending for better understanding of access to bank finance for MSMEs in India.
- The impact of changing business environment and volatile economic conditions on the financial requirements, pattern of financing and constraints to access bank finance for MSMEs can be studied.

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ANNEXURE

Annexure-I Questionnaire for MSMEs

Annexure-II Questionnaire for Banks

Banks Lending to MSMEs in Goa: An Empirical Study
Questionnaire to the MSME units

Dear Respondent, i assure you that all information collected through this study will be kept confidential and will be used for academic purpose only, my reports will mention aggregates without identifying individual during this interview.

General Information

Section- I

1. Name of the Unit :			
2. Name and Designation of the Respondent:			
3. Year of establishment of the unit :			
4. Firm is owned :	Male owner	Female owner	
5. Type of Product and Industry			
6. Chief Promoter's Education: (√)			
a. Below SSC		**d.** Graduate	
b. SSC		**e.** Post Graduate	
c. HSSC		**f.** Technically Qualified	
7. Constitution of the unit : (√)			
a. Sole Trader	b. Partnership	c. Pub1ic Ltd	d. Private Ltd

8. Availability of raw materials:	Open market	Government Institution		Imported		
9. Total No. of persons Employed:	Factory:	Below 10	10-20	21-30	31-40	Above 40
	Office :	Below 10	10-20	21-30	31-40	Above 40
10. Export/Domestic oriented unit :	Export			Domestic		

11. **Firm is in existence for a period of : (Please tick mark (√) one option)**				
a. Less than 1 year	**b.** 1 year – 3 years	**c.** 3 years – 5 years	**d.** 5 years – 10 years	**e.** 10 years & more

12. **How much original Investment does company has in plant & machinery? (Manufacturing) (Please tick mark (√) one option)**			
a. Up to Rs. 25 lakhs		c. Up to Rs. 10 crore	
b. Up to Rs. 5 crore		d. More than 10 crore	

13. **What is an average annual turnover of the firm? (Please tick mark (√)one option)**			
a. UptoRs. 1 crore		d. Over Rs. 50 crore – upto Rs. 150 crore	
b. Over Rs. 1 crore – upto Rs. 5 crore		e. Over Rs. 150 crore – upto Rs. 5000 crore	
c. Over Rs. 5 crore – upto Rs. 50 crore		f. Over Rs.5000 crore	

Section-II

(Please tick one option (√) as your response to each statement on 5 point scale)

14. Is Financial Planning done regularly?				
Never	Rarely	Sometimes	Often	Always

15. Who does the financial planning?		**16. What kinds of financial plan are prepared?**	
a. Entrepreneur		a. Short Term	
b. Employee		b. Medium Term	
c. Employer and Employee together		c. Long Term	
d. Prof. Consultant / Accountant		d. All Three	

17. How was financial requirement estimated?	
a. On Sales basis	
b. On Profit	
c. On Production	
d. Other (please specify)	

18. Financial Requirement and pattern of financing of MSMEs

(In last 5 years)	**Short Term**	**Medium Term**	**Long Term**
a. Period (in Months)			
b. No. of Times			
c. Quantum of Loan Required (in Rs.)			
d. Sources of Funds (Own, Family /Friends, Bank/ Financial institution - Public, Private, Foreign, Co-operative, Govt scheme,)			

Section-III

19. Extent of Financial Management : (Please tick one option as your response to each statement on 5 point scale)

I. Cash Management Practices					
a. Business operates a bank account regularly.	Never 1	Rarely 2	Sometimes 3	Often 4	Always 5
b. Business has a way to pre-determine cash shortage/surplus.	1	2	3	4	5
c. Business sells goods on cash basis.	1	2	3	4	5
d. There is the involvement of owner/manager in preparation of the cash budget.	1	2	3	4	5
e. Cash budget is useful in decision making	1	2	3	4	5
f. There is monthly reconciliation of cashbook with the bank is done.	1	2	3	4	5
g. The business reviews the cash budget	1	2	3	4	5
h. There is separation of cashier personnel from accounting duties	1	2	3	4	5

II. Accounts Receivable Management					
a. The business sells goods/services on credit	Never 1	Rarely 2	Sometimes 3	Often 4	Always 5
b. There is control over sales by employees	1	2	3	4	5
c. The sales are reconciled with inventory change	1	2	3	4	5
d. There is periodic preparation of aging schedule	1	2	3	4	5
e. The business reviews the levels of percentage of bad debts	1	2	3	4	5
f. There is control over collections of written-off receivables	1	2	3	4	5
g. The business has set credit policy in place	1	2	3	4	5
h. The business applies the set credit policy while extending credit	1	2	3	4	5

III. Inventory Management Practices					
a. There is physical safeguards of	Never	Rarely	Sometimes	Often	Always

inventory against theft	1	2	3	4	5
b. Inventory levels are determined based on owner's experience	1	2	3	4	5
c. Business has computerised inventory management practices	1	2	3	4	5
d. Business uses Economic Order Quantity (EOQ) to determine quantity and quality of purchase	1	2	3	4	5
e. Periodic summaries of inventory usage are prepared	1	2	3	4	5
f. There is periodic valuation of inventory	1	2	3	4	5
g. There is a practice of inventory requisitions	1	2	3	4	5
h. There is physical safeguards of inventory against fire	1	2	3	4	5
i. Business uses standard cost	1	2	3	4	5

IV. Investment					
a. The business has cash for investment in long term projects	Never 1	Rarely 2	Sometimes 3	Often 4	Always 5
b. The business invests in non current assets	1	2	3	4	5
c. The business utilizes fully the non currents	1	2	3	4	5
d. The business uses net present value to assess the investment	1	2	3	4	5
e. The business uses Pay back period (PBP) to assess the investment	1	2	3	4	5
f. The business invests without evaluating the investment	1	2	3	4	5
g. The business invests in real estate	1	2	3	4	5
h. The business reviews the investment projects after a certain period	1	2	3	4	5

V. Financing					
a. The business uses internally generated cash sources	Never 1	Rarely 2	Sometimes 3	Often 4	Always 5
b. The business has easy access to bank loans	1	2	3	4	5

c.	The business do not uses borrowed funds	1	2	3	4	5
d.	The business sets the capital structure based on the theory	1	2	3	4	5
e.	The business maintains proper balance between profitability and liquidity	1	2	3	4	5
f.	The business uses borrowed funds only	1	2	3	4	5
g.	Business use owned funds					

VI.	**Financial Reporting and Analysis**					
a.	The manager/ owner is involved in preparing financial statements	Never 1	Rarely 2	Sometimes 3	Often 4	Always 5
b.	The business prepares the income statement	1	2	3	4	5
c.	The business prepares the cash flow statement	1	2	3	4	5
d.	The business follows accounting principles	1	2	3	4	5
e.	The business prepares the balance sheet	1	2	3	4	5
f.	The business performs financial analysis	1	2	3	4	5

VII.	**Accounting Information System**					
a.	The owner/manager is in charge of recording transactions	Never 1	Rarely 2	Sometimes 3	Often 4	Always 5
b.	The business accounting system is informal	1	2	3	4	5
c.	The business accounting system is formal	1	2	3	4	5
d.	The accounting department is properly staffed and operates efficiently	1	2	3	4	5
e.	AIS is used for decision making, preparation of managerial reports and financial statements.	1	2	3	4	5
f.	The business uses computer assisted software in recording transactions	1	2	3	4	5

Section-IV

Constraints in accessing Bank Finance

20. Loan was sanction within the permissible time frame	**Yes**	**No**
21. Non submission of required documents on time by MSMEs	**Yes**	**No**
22. No proper guidance from Bank for availing loan	**Yes**	**No**
23. Rate of interest Charged is high	**Yes**	**No**
24. Collateral for loan	**Yes**	**No**
25. Cumbersome documentation and loan procedure	**Yes**	**No**
26. Project reports prepared by MSMEs are not fundable	**Yes**	**No**
27. Reception of the Bank officers towards the project was not encouraging	**Yes**	**No**

Please note that your name or that of the institution or company you represent will not be included in the report. The questionnaire does not require any personal information. The information will only be seen by my supervisor, examiner and I. Your anonymity and confidentiality is of utmost importance and will be maintained throughout the study. I appreciate your time and effort and would be very grateful for your participation, as it would enable me to complete my dissertation.

Questionnaire to the Banks
Banks Lending to MSMEs in Goa: An Empirical Study

Dear Respondent, i assure you that all information collected through this study will be kept confidential and will be used for academic purpose only, my reports will mention aggregates without identifying individual during this interview.

Section - I

General Information

1. Name of the Bank				
2. Type of Bank	Private	Public	Co-operative	
3. Branch	North Goa		South Goa	
4. No. of years of existence in MSME loan				
i. Less than 1 year		iii. 5 years – 10 years		
ii. 1 year – 5 years		iv. 10 years & more		
5. No. of Employee				

Section - II

Bank Experience in Lending to MSMEs in Goa

6. What types of facilities are provided to MSME. **Please √ tick the correct option**			
a. Fund Based		**b. Non Fund Based**	
a. Term Loans		a. Bank Guarantees	
b. Cash credit		b. Letter of credit	
c. Overdraft		c. Bill Discounting	
d. Bill finance		d. Buyer's Credit	
e. Export finance		e. Any other	

7. What are the different types of Loan Provide to MSMEs			
a. Short Term		c. Long Term	
b. Medium Term		d. All of the Above	
8. What are the documents required to be submitted by MSMEs to obtain financial assistance			
a. Audited financial statements		d. N.O.C. form Local authorities	
b. Cash flow & fund flow statements		e. All of the above	
c. Projectreport		f. Any other (Please Specify)	

9. How is MSMEs response to Mudra Scheme	Non Satisfactory 1	Satisfactory 2	Average 3	Good 4	Very Good 5
10. How is MSMEs response to CGTMSE	1	2	3	4	5

11. Attributes of Defaulters				
a. Existence	i. New entrepreneur	ii. Existing entrepreneur	iii. Both	
b. Chief Promoter's Education	i. Educated	ii. Illiterate	iii. Both	
c. Size of the Unit	i. Micro	ii. Small	iii. Medium	iv. All of the above
d. Sales turnover	i. High income	ii. Low income	iii. Both	
e. Chief Promoter's Gender	i. Male	ii. Female	iii. Both	

12. Bank feel any hardship in recovery	Never 1	Rarely 2	Sometimes 3	Often 4	Always 5

13. Factor responsible for NPAs in MSME sector	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
a. Unscientific borrower selection					
b. Under / Non financing on time					
c. Socio political pressure					
d. Low income generation					
e. Mismanagement of funds					
f. Lack of follow up					
g. Will full default					
h. Non- cooperation by Govt. agencies					
i. Defective project appraisal					

Section-III

Credit Management of MSMEs by Banks

Precautionary Measures

	Never	Rarely	Sometimes	Often	Always
14. Banks adopts precautionary measures for credit Management	1	2	3	4	5
15. MSME loans are looked after by separate Manager	1	2	3	4	5
16. Bank Manager has undergone special training	1	2	3	4	5
17. Is assistance provided to MSME for preparation of project Report	1	2	3	4	5

18. Loans are sanction and disbursed by bank on time	1	2	3	4	5
19. Bank have appraisal system for MSME Borrowers	1	2	3	4	5
20. Bank evaluates potential risk that may cause borrowers to default	1	2	3	4	5
21. Bank has integrated system of credit management	1	2	3	4	5

Corrective Measures

22. Corrective Actions taken in case of default	Never 1	Rarely 2	Sometimes 3	Often 4	Always 5
23. Called back the advance	1	2	3	4	5
24. Reported to higher authority	1	2	3	4	5
25. Personal follow up for repayment	1	2	3	4	5
26. Personal visit	1	2	3	4	5
27. Notice	1	2	3	4	5
28. Send bank staff for follow-up	1	2	3	4	5
29. Legal proceedings	1	2	3	4	5
30. Not bothered if repaid properly	1	2	3	4	5
31. Controlling authorities obtains the prescribed statements	1	2	3	4	5

Recovery Measures

32. Measures adopted to expedite the recovery process	Never 1	Rarely 2	Sometimes 3	Often 4	Always 5
33. Recovery Camps	1	2	3	4	5
34. Non-Public Business Working Day	1	2	3	4	5
35. Revenue recovery Act	1	2	3	4	5
36. Publication of Defaulter’s list	1	2	3	4	5
37. One time settlement	1	2	3	4	5
38. Allowance to prompt payers	1	2	3	4	5
39. Lok Adalate arrangement by Court	1	2	3	4	5
40. Restructuring / Rehabilitation	1	2	3	4	5
41. Write-off	1	2	3	4	5

42. Does the bank have online Tracking System for credit Management	Never 1	Rarely 2	Sometimes 3	Often 4	Always 5

Section-IV

Constraints in accessing Bank Finance for MSMEs

43. Delay in disbursement time of loans by bank	**Yes**	**No**
44. Non submission of required documents on time by MSMEs	**Yes**	**No**
45. Faculty technical project appraisal	**Yes**	**No**
46. Higher Interest rate	**Yes**	**No**
47. Collateral for loan	**Yes**	**No**
48. Cumbersome documentation and loan procedure	**Yes**	**No**
49. Project reports prepared by MSMEs are not fundable	**Yes**	**No**
50. MSMEs are not bankable	**Yes**	**No**

Please note that your name or that of the institution or company you represent will not be included in the report. The questionnaire does not require any personal information. The information will only be seen by my supervisor, examiner and I. Your anonymity and confidentiality is of utmost importance and will be maintained throughout the study. I appreciate your time and effort and would be very grateful for your participation, as it would enable me to complete my dissertation.