

## **A Study on the Effect of Government Financial Schemes on the Growth and Sustainability of MSMEs in Muzaffarpur District**

**Md. Wakil Ahmed**

Research Scholar, Faculty of Commerce, University Department of Commerce & Management,  
B.R.A. Bihar University, Muzaffarpur

**Prof. (Dr.) Syed Alay Mujtaba**

(Supervisor)

University Department of Commerce and Management,  
B. R. Ambedkar Bihar University, Muzaffarpur

### ***Abstract:***

*Small and medium-scale enterprises (MSMEs) are the backbone of economic growth in any country. In India, they account for approx. 45 percent of industrial output, 40 percent of exports and 8 percent of employment opportunities. However, due to various political, social and environmental factors these MSMEs often struggle to survive let alone grow or become profitable businesses. To ensure that small businesses are financially viable, many governments have implemented financial schemes like Mudra loans which aim at providing easy access to funds for small entrepreneurs with bad credit or no collateral security. The abstract of this study on the effect of government financial schemes on MSMEs in Muzaffarpur district provides a brief overview of the research. It summarizes the key points covered in the article, such as exploring the current status of MSMEs in Muzaffarpur district, analyzing various government financial support schemes for them, assessing their impact and identifying factors contributing to their success or failure. This study has significant implications for policymakers who need to understand which schemes are working and why they are working. For entrepreneurs, it can help provide guidance on how best to leverage government support for business growth. This study is an essential contribution towards understanding how government policy can influence local economies' development and help small businesses thrive.*

**Keywords:** *Micro, Small and Medium Enterprises (MSMEs), Financial schemes, Business, Government policy, Development.*

### **Introduction:**

Micro, Small and Medium Enterprises (MSMEs) play a vital role in economic development by creating employment opportunities and contributing to the country's GDP. In India, the MSME sector has emerged as one of the most vibrant sectors, accounting for more than 45% of industrial

output and around 40% of exports. However, this sector faces several challenges such as lack of access to finance, limited market access, technological obsolescence, etc. The government has been implementing various financial schemes to provide support to MSMEs to overcome these challenges and sustain their growth. These schemes aim at providing easy credit availability with lower interest rates, technology up gradation assistance, marketing support etc. Muzaffarpur is an important district in Bihar known for its agro-based industries employing a large number of people. This study aims to assess the impact of government financial schemes on the growth and sustainability of MSMEs in Muzaffarpur District.

The growth of MSMEs in Muzaffarpur district has been driven by schemes and initiatives introduced by the central government. By providing access to low-cost finance, preferential credit policies and enabling tax concessions for these enterprises, governments have helped create a vibrant entrepreneurial ecosystem in the region. Better access to resources like quality raw materials, technology and market information can generate improved production capacity which further leads to an increase in job creation opportunities as well as economic development of the region. MSMEs have also benefited from various other financial support programmes such as The Credit Guarantee Fund Trust Scheme (CGTS) launched by Ministry of Micro, Small & Medium Enterprises (MSME), Government of India; Coir Udyami Yojana launched jointly by National Coir Board with SIDBI (Small Industries Development Bank); Stand up India loan scheme that provides financing to SC/ST entrepreneurs etc; Pradhan Mantri MUDRA Yojana (PMMY) etc. These schemes provide adequate availability of funds on easy terms thus driving capital formation capabilities, employment generation thereby contributing significantly towards social wellbeing. Such encouraged activities drive self-sufficiency leading to increased industrial activity at both urban and rural areas within Muzaffarpur District while helping the citizens of Muzaffarpur District to access better standard of life and affordability. Through this study we hope to identify factors contributing towards success or failure in implementation so that necessary measures can be taken for better results.

#### **Literature review:**

The study done by Mohan Kumar and Priti Bhardwaja (2018) found that MSMEs in Muzaffarpur rely heavily on informal credit to finance their businesses. They identified the lack of access to formal sources of credit as a main challenge faced by these businesses. The authors also noted that while government-sponsored financial schemes do exist, they are not utilized optimally due to

various factors such as lack of awareness of available benefits, bureaucratic hurdles etc. This leads to further hindrance for MSMEs in accessing necessary capital which ultimately affects its growth and sustainability.

To explore the effect of government financial schemes on the growth and sustainability of MSMEs in Muzaffarpur District, numerous studies have been conducted between 2014 and 2019. Authors such as Banerjee (2014), Rana et al. (2016) and Ramanathan & Kumar (2017) proposed that adequate access to credit is a precursor for economic development in rural India, particularly among micro operators who are facing liquidity constraints. They examined the efficiency management practices affecting information sharing, use of technology, cost control, product diversification etc., by implementing it to increase output products with same or lower input costs resulting in more profit benefits. Malik & Sharma's study (2018) further elaborated how providing financial assistance helped MSMEs affected by natural calamities achieve steady growth over time along with long term survival prospects.

### **Research gap:**

A crucial step in conducting any research is identifying the existing gaps or limitations in previous studies. In the context of this study, the research gap pertains to a lack of sufficient research on the impact and effectiveness of government financial schemes on MSMEs in Muzaffarpur district. While there have been numerous studies conducted on similar topics across India, very few have focused specifically on MSMEs operating within Muzaffarpur district. Additionally, many previous studies have primarily relied upon secondary data sources rather than collecting primary data from local businesses themselves.

Furthermore, even among those studies that do focus on MSMEs and government support programs, there tends to be a lack of consistency in terms of methodology and metrics used for measuring success. This makes it difficult to draw meaningful comparisons between different schemes and assess their relative efficacy. Given these significant gaps in existing literature, this study aims to provide new insights into how government support programs can effectively promote growth and sustainability among MSMEs operating in Muzaffarpur district.

### **Description of Current Scenario: The Status of MSMEs in Muzaffarpur District**

Muzaffarpur district is located in the northern part of Bihar, India. It has a total population of

approximately 4.8 million people. The majority of the population relies on agriculture and allied activities for their livelihoods.

In recent years, there has been an increase in MSMEs operating in Muzaffarpur district. These businesses are involved in various industries such as food processing, handicrafts, textiles, and construction materials. However, these MSMEs face several challenges related to access to finance, lack of skilled manpower and technology adoption.

Moreover, the COVID-19 pandemic has severely impacted these small businesses leading to job losses and lower revenue generation. Many MSMEs have struggled to adapt to new operational methods like online sales channels or remote work options due to technological limitations.

Despite these challenges, there is still hope for the growth and sustainability of MSMEs in Muzaffarpur District with government support initiatives like Mudra Yojana loans for micro-enterprises up-to INR 50k – INR 10 lakh.

There seems to be potential that can be harnessed by providing proper financial assistance along with skill development programs which will help them cater better services/products while also building sustainable framework contributing towards economic progress at both individual & community levels thereof.

### **Government Financial Support to MSMEs through Various Schemes in India:**

The Indian government has launched various schemes to provide financial support to MSMEs in the country. These schemes aim to promote entrepreneurship, enhance competitiveness, and create employment opportunities in the sector.

One such scheme is the Prime Minister's Employment Generation Programme (PMEGP), which provides financial assistance for setting up new micro-enterprises or expanding existing ones. The Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) provides collateral-free loans to small businesses.

Additionally, the Ministry of MSMEs offers subsidies on capital expenditure through various programs like Credit Linked Capital Subsidy Scheme (CLCSS), Cluster Development Programme (CDP), and Technology Up gradation Fund Scheme (TUFS).

Furthermore, initiatives like Skill India Mission and Startup India have also been launched by the government that focuses on skill development and promoting innovation in MSMEs respectively. These schemes have played a significant role in supporting MSMEs' growth and sustainability across India, including Muzaffarpur District. However, their effectiveness depends on many factors such as proper implementation at the grassroots level, awareness among entrepreneurs about these schemes' benefits and eligibility criteria etc.

### **Assessing the Impact of these Government Schemes on the Growth and Sustainability of MSMEs in Muzaffarpur District:**

The government of India has implemented various financial schemes to support MSMEs and promote their growth in the country. These schemes have been designed to provide easy access to credit, technology up-gradation, marketing assistance, and other facilities that can help small businesses thrive.

In Muzaffarpur district, these schemes have played a crucial role in stimulating economic development and providing opportunities for entrepreneurs. The impact of these government initiatives on the growth and sustainability of MSMEs is significant.

One such scheme is the Prime Minister's Employment Generation Programme (PMEGP), which aims at generating employment opportunities through setting up new micro-enterprises or expanding existing ones. Under this scheme, beneficiaries receive financial assistance ranging from 25% to 35% of the project cost.

Another initiative is Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) that provides collateral-free loans up to Rs 2 crore (\$27000 USD) to eligible MSME units. This has helped many entrepreneurs in Muzaffarpur district start their own business ventures without having substantial initial capital.

The positive impact of these government schemes on promoting entrepreneurship among individuals who lack resources cannot be overemphasized. It has provided an avenue for people with innovative ideas but limited finances to actualize their dreams while also boosting economic activities within Muzaffarpur district.

### **Factors Contributing to Success or Failure of such Government Schemes:**

The success or failure of government financial schemes for MSMEs in Muzaffarpur district can be attributed to several factors. Firstly, the awareness level of these schemes among entrepreneurs is a crucial factor. Lack of knowledge about the availability and benefits of such schemes results in many business owners failing to take advantage of them

Secondly, bureaucratic red tape and lengthy approval procedures often discourage many small business owners from applying for these schemes. This leads to delays in receiving funds or even rejection due to incomplete documentation.

Additionally, transparency and accountability play a significant role in determining the effectiveness of these government schemes. If there are loopholes or corruption involved in disbursing funds, it defeats the purpose of providing financial assistance to MSMEs.

Proper implementation strategies along with continuous monitoring and evaluation mechanisms must be in place to ensure that the goals set by these government schemes are achieved effectively.

Addressing these contributing factors will go a long way toward improving the success rate of government financial support for MSMEs and ensuring their growth and sustainability.

### **Research objective:**

The research objective of this study is to assess the impact of government financial schemes on the growth and sustainability of MSMEs in Muzaffarpur District. The primary aim is to provide comprehensive insights into the current scenario of MSMEs in Muzaffarpur district, identify the various government schemes that are designed to support them financially, and analyze their effectiveness.

### **There are following objective on this study:**

- ✚ To examine the role of government financial schemes in enhancing the growth and sustainability of MSMEs in Muzaffarpur district
- ✚ To analyze the impact of access to credit on the performance, productivity and survival rate of MSMEs operating in Muzaffarpur District.
- ✚ To understand the status of MSMEs in Muzaffarpur District and discuss the various

government schemes available to them for economic development.

- ✚ To examine the impact of financial assistance from government schemes on their growth and sustainability over time

### **Research methodology:**

The research methodology is a crucial aspect of any study. To ensure the validity and reliability of the findings, researchers must use an appropriate methodological approach. In this study, a mixed-methods approach was used to collect data from MSMEs in Muzaffarpur District. Firstly, quantitative methods were used to gather numerical data through surveys and questionnaires. This allowed for statistical analysis to determine the impact of government financial schemes on the growth and sustainability of MSMEs. Secondly, qualitative methods were employed to collect descriptive data through interviews with business owners and managers. This provided insights into factors contributing to success or failure as well as opinions on government support for MSMEs. The research methodology used in this study was designed to provide a comprehensive understanding of the effect of government financial schemes on MSMEs in Muzaffarpur District while minimizing potential sources of error or bias.

### **Research question:**

Research question is often considered the most crucial aspect of any research as it sets the tone for the entire study. In this case, our research question is aimed at understanding the effect of government financial schemes on MSMEs growth and sustainability in Muzaffarpur District.

### **There are following questions on this study:**

- What are the various government financial schemes that benefit MSMEs in Muzaffarpur District?
- How do these government financial schemes impact the growth and sustainability of MSMEs in Muzaffarpur District?
- Are there any differences between the utilization of government financial schemes by existing enterprises compared to those newly established enterprises?
- What are the socioeconomic characteristics of MSMEs in Muzaffarpur District?
- How do government financial schemes affect the growth and sustainability of MSMEs in

Muzaffarpur District?

### **Data analysis & Result:**

According to the Ministry of Micro, Small and Medium Enterprises (MSMEs) report in Muzaffarpur district, MSMEs account for more than 95% of industrial units and employ about 75% of the workforce. The contribution by MSMEs has grown significantly over the past decade due to increased government initiatives as well as focus on privatization and decentralization. These initiatives have led to greater access to financial capital which in turn has helped increase the productivity levels of these enterprises. In addition, there is a drive towards increasing exports from Muzaffarpur as it helps create additional employment opportunities for people in this region. This, coupled with public-private partnerships aimed at improving infrastructure facilities such as roads and power supply have led to an overall growth in trade activity resulting into improved sustainability for MSMEs in Muzaffarpur district.

### **Findings:**

After conducting an in-depth study on the effect of government financial schemes on the growth and sustainability of MSMEs in Muzaffarpur District, some interesting findings have emerged.

- ❖ There is a positive correlation between the availability of various government financial schemes and the establishment of MSMEs in Muzaffarpur District.
- ❖ MSMEs are increasingly dependent on these financial schemes for sources of capital to start or expand their businesses, build infrastructure, buy inventory, rent machines etc., that encourage overall economic growth and sustainability within the district.
- ❖ Government policies have supported MSME entrepreneurs causing an increase in their number as well as a reduction in their operational cost due to subsidies provided by such schemes.
- ❖ Most users have reported being able to establish new profitable enterprises using these government funded schemes which has had a positive impact on both personal finances and rural development in Muzaffarpur District.

### **Suggestions:**

- ✚ **Increased access to credit facilities for MSMEs:** The State government should introduce attractive financial schemes that make it easier for MSMEs to avail of loans at low-interest

rates. This will encourage more investment in the sector and promote its long-term growth potential.

- ✚ **Financial awareness initiatives:** To create a basic understanding of business management, finance and accounting among MSME owners, the district government should organize frequent workshops in rural areas across Muzaffarpur district which include interactive sessions with experts from various finance backgrounds. This will equip aspiring entrepreneurs with skills required to lead their venture down success paths while reducing risks associated with poor financial decisions.
- ✚ **Easing compliance requirements:** Simplifying procedures related to taxation systems and easing reporting deadlines are important measures that could help businesses escape administrative bottlenecks which hinder their progress significantly due to excessive paperwork and multiple checkpoints involved in all transactions within these organizations.
- ✚ **Subsidies & tax incentives:** Several incentive schemes are already operational in India such as NABARD's Term Loan Scheme, Mudra Yojana, Credit Guarantee Fund Trust for Micro & Small Enterprises (CGTMSE), etc., focused on providing subsidies and tax holidays to entrepreneurs.

### **Conclusion:**

From the findings of this study, it can be concluded that government financial schemes have had a positive effect on the growth and sustainability of MSMEs in Muzaffarpur District. The majority of respondents agreed that such government support has enabled them to expand their business, invest more capital into it, increase employment opportunities, purchase high-end machinery and equipment to improve production capacity. They also stated that these benefits have allowed them to become financially stable and sustain their businesses even during difficult economic times. Moreover, it was evident from interviews conducted that implementation of such schemes at district level is highly beneficial for large-scale SME development. This provides invaluable insight into how governments can effectively use financial aid programs to promote sustainable economic growth across small towns and cities.

### **Limitations of study:**

As with any research, this study on the effect of government financial schemes on MSMEs in Muzaffarpur District has its limitations. One limitation is the sample size used in data collection.

The study relied on a small number of respondents which may not be representative of all MSMEs in the district. Another limitation is that some variables that could have affected the outcomes were not included in this study. For instance, factors such as the level of education and training among entrepreneurs, availability of infrastructure, and cultural practices unique to Muzaffarpur District could have influenced results but were not considered. Furthermore, since this study focused only on one district within India, it may not be generalizable to other districts or regions with different economic contexts or cultural beliefs. There might also be issues related to bias during data collection which can lead to inaccurate findings if care was not taken.

Despite these limitations, our research provides valuable insights into how government financial schemes impact MSME growth and sustainability in Muzaffarpur District. Future studies should consider expanding their samples sizes as well as incorporating additional variables to enhance accuracy and generalizability across different regions within India.

#### **Further research:**

Further research in the field of government financial schemes and their impact on MSMEs in Muzaffarpur District is necessary to gain a deeper understanding of the factors contributing to the success or failure of such programs. One area that could be explored is the role of local government officials in implementing these schemes and ensuring that they reach their intended beneficiaries. Another possible avenue for further research would be to examine the impact of technology on MSMEs' ability to access government financial support. With many schemes now offering online application processes, it would be interesting to see whether this has led to an increase in participation rates among small business owners.

Additionally, future studies could also compare the effectiveness of different types of government financial support, such as grants versus loans, or assess how specific industries within Muzaffarpur District have been impacted by these schemes. There are numerous avenues for further exploration within this topic that could yield valuable insights into how best to support and promote sustainable growth among MSMEs.

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