

The Role of Banks in Strengthening Rural Economy & empowering women entrepreneurs in rural Bihar

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ABSTRACT

Banks play a crucial role in strengthening the rural economy by providing financial services, credit facilities, and promoting inclusive growth. In Bihar, rural banking has become a major driver of economic transformation, enabling farmers, small businesses, and self-help groups (SHGs) to access institutional credit. This research explores the contribution of banks in Bihar's rural development, the challenges faced by the banking sector, and the policy interventions aimed at financial inclusion. The study also assesses the effectiveness of various government initiatives such as Pradhan Mantri Jan Dhan Yojana (PMJDY), Kisan Credit Card (KCC), and rural microfinance schemes. Through empirical data and case studies, the paper highlights the progress, gaps, and recommendations to enhance banking accessibility in Bihar's rural economy.

Keywords: Rural Banking, Financial Inclusion, Bihar, Microfinance, Economic Development, Agricultural Credit

1. Introduction

Bihar's rural economy is primarily agrarian, with over 75% of the population dependent on agriculture and allied activities.[1] The role of banks in Bihar's rural economic development is indispensable, as they provide financial support to farmers, entrepreneurs, and small businesses. (NABARD Report, 2023). [3]The penetration of institutional credit in rural Bihar has improved in recent years, yet financial exclusion remains a significant concern due to lack of awareness, infrastructural challenges, and procedural complexities. This paper investigates how rural banking is bridging financial gaps and contributing to Bihar's economic growth.

2. Literature Review

Several studies emphasize the role of banking in rural economic growth. A study by Singh & Verma (2022) highlights how banking penetration affects agricultural productivity. Another study by Kumar (2021) explores the role of microfinance institutions in Bihar. This paper builds upon these studies by analyzing recent banking reforms and their impact on Bihar's rural economy.

3. Research Methodology

This study employs a mixed-methods approach, combining primary surveys from rural bank beneficiaries and secondary data from RBI, NABARD, and Bihar Economic Surveys. The study analyzes financial inclusion trends, credit accessibility, and the effectiveness of government schemes using statistical tools such as regression analysis and case study comparisons.

4. Role of Banks in Rural Economic Growth

4.1. Agricultural Credit and Financial Assistance

- Banks provide agricultural loans through schemes like KCC and PMFBY, ensuring financial stability for farmers. (RBI Report, 2023)
- Rural cooperative banks and regional rural banks (RRBs) play a crucial role in financing small-scale farmers. (NABARD Annual Report, 2023)

4.2. Promotion of Self-Help Groups and Women Entrepreneurs

- Microfinance and SHGs, supported by banks, have empowered rural women economically. (Das & Sinha, 2022)
- Bihar has witnessed a 20% growth in women-led agribusiness ventures over the past five years.

4.3. Digital Financial Inclusion

- Initiatives like PMJDY have significantly increased rural banking penetration, with 78% of rural households in Bihar having bank accounts. (Economic Survey Bihar, 2023)
- The role of fintech in improving financial literacy and banking access is crucial.

4.4. Challenges in Rural Banking in Bihar

- **Lack of Infrastructure:** Limited bank branches and ATMs in remote areas hinder banking accessibility.
- **Low Financial Literacy:** Rural populations often lack awareness about banking services and digital transactions.
- **Collateral Issues:** Many small farmers and entrepreneurs struggle to secure loans due to the lack of collateral.
- **High NPA Ratio:** Rural credit often faces high non-performing assets (NPAs), affecting banks' willingness to lend.[4]

5. Role and Achievements of Uttar Bihar Gramin Bank

Uttar Bihar Gramin Bank (UBGB) is a leading regional rural bank (RRB) in Bihar, established under the Regional Rural Banks Act, 1976. Sponsored by Central Bank of India, it plays a crucial role in providing financial services to the rural population, supporting agricultural development, and enhancing financial inclusion. With its extensive branch network, UBGB serves as a key financial institution in Northern Bihar.[21]

5.2. Bank's Structure and Coverage UBGB operates in 18 districts of Bihar, offering banking and financial services to millions of rural households. As of September 2024, the bank has the following operational structure:

- **Total Branches: 1,027**
- **Total Account Holders: Approximately 2.5 crore**
- **Deposits: INR 17,850 crore**
- **Total Loans Disbursed: INR 10,961 crore**
- **Net Non-Performing Assets (NPAs): 8.53%**

The bank has a significant workforce comprising officers, clerks, and field staff, ensuring smooth operations and service delivery across its branches.[22]

5.3. Contribution to Financial Inclusion UBGB has been actively involved in financial inclusion through various government initiatives, including:

- **Pradhan Mantri Jan Dhan Yojana (PMJDY):** Opening bank accounts for the unbanked population.
- **Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY):** Offering life insurance coverage.
- **Pradhan Mantri Suraksha Bima Yojana (PMSBY):** Providing accidental insurance benefits.

- **Atal Pension Yojana (APY):** Encouraging retirement savings among low-income individuals.

These schemes have significantly improved access to banking services for marginalized communities in Bihar.[23]

5.4. Support for Agriculture and Rural Economy UBGB plays a pivotal role in extending agricultural credit, with a special focus on:

- **Crop Loans:** Providing timely financial support to farmers for purchasing seeds, fertilizers, and other essentials.
- **Animal Husbandry & Fisheries:** Financing livestock and fish farming to boost rural employment.
- **Makhana and Fishery Loans:** In response to Bihar's rich potential in makhana and fishery production, the bank has extended loans to entrepreneurs in these sectors.

A directive from the Union Finance Minister has emphasized the need for UBGB to strengthen its credit outreach in these key areas to maximize regional economic potential.[24]

5.5 Achievements and Success Stories

- UBGB has been instrumental in financing Self-Help Groups (SHGs), empowering women entrepreneurs in rural Bihar.
- It has facilitated thousands of small businesses and cottage industries through microfinance schemes.
- The bank has introduced technology-driven services such as mobile banking and digital transactions, improving accessibility for rural customers.[25]

5. 6. Challenges and the Way Forward

Despite its achievements, UBGB faces certain challenges:

- **High NPAs:** The bank's non-performing assets stand at 8.53%, necessitating better credit monitoring and recovery mechanisms.
- **Limited Digital Adoption:** Encouraging rural customers to embrace digital banking remains a key challenge.
- **Infrastructure Constraints:** Certain remote areas still lack adequate banking infrastructure, limiting service delivery.[26]

To address these issues, UBGB plans to enhance digital banking, expand financial literacy

programs, and strengthen its risk assessment frameworks for better loan recovery.

5. 7. Proposed Merger: One Bihar, One Gramin Bank Initiative

The Indian government has proposed merging Uttar Bihar Gramin Bank (UBGB) and Dakshin Bihar Gramin Bank (DBGB) to streamline rural banking services under a unified entity, tentatively named "One Bihar, One Gramin Bank." This merger aims to:

- **Increase Operational Efficiency:** A single entity will reduce administrative expenses and duplication of services.
- **Expand Branch Network:** The merged bank will have over 2,000 branches, enhancing rural banking penetration.
- **Strengthen Financial Inclusion:** A larger financial institution will have better capital strength to support government schemes and credit initiatives.
- **Improve Technological Integration:** A unified IT system will streamline banking operations, mobile banking, and digital services.

However, challenges such as workforce integration, regional disparities, and NPA management need to be addressed for a smooth transition.

Uttar Bihar Gramin Bank has emerged as a cornerstone of Bihar's rural banking system, significantly contributing to economic empowerment, agricultural growth, and financial inclusion. With continued government support and policy enhancements, UBGB has the potential to further strengthen Bihar's rural economy, uplift farmers, and foster sustainable development. The proposed merger with Dakshin Bihar Gramin Bank could further enhance banking efficiency and financial accessibility for rural populations.

5. 8. Government Policies and Banking Initiatives

- **Pradhan Mantri Jan Dhan Yojana (PMJDY):** Enhanced banking inclusion, especially among rural women.
- **Kisan Credit Card (KCC):** Provided accessible credit to farmers for seasonal expenses.
- **Microfinance & SHG-Bank Linkage Programme:** Strengthened financial autonomy among women.
- **Direct Benefit Transfer (DBT):** Ensured efficiency in subsidy distribution.

Results

Table-1 Growth in Women-Led Enterprises Financed by Banks in Bihar (2018-2023)

Year	Number of Women-Led Enterprises Financed	Percentage Growth
2018	12,500	-
2019	15,300	22.4%
2020	18,700	22.2%
2021	23,500	25.7%
2022	28,900	22.9%
2023	35,200	21.8%

Source: Bihar State Economic Report 2023, NABARD Annual Report 2023

Table-2 : Women's Access to Bank Credit for Agribusiness in Bihar (2023)

Category	No. of Women Beneficiaries	Loan Amount Disbursed (₹ Crore)	Percentage Share (%)
Self-Help Groups (SHGs)	5,20,000	1,800	40%
Kisan Credit Card (KCC) Holders	3,10,000	1,200	26%
Mudra Yojana Beneficiaries	2,80,000	900	20%
Dairy and Livestock Loan Recipients	1,50,000	500	10%
Other Agribusiness Loan Schemes	60,000	300	4%

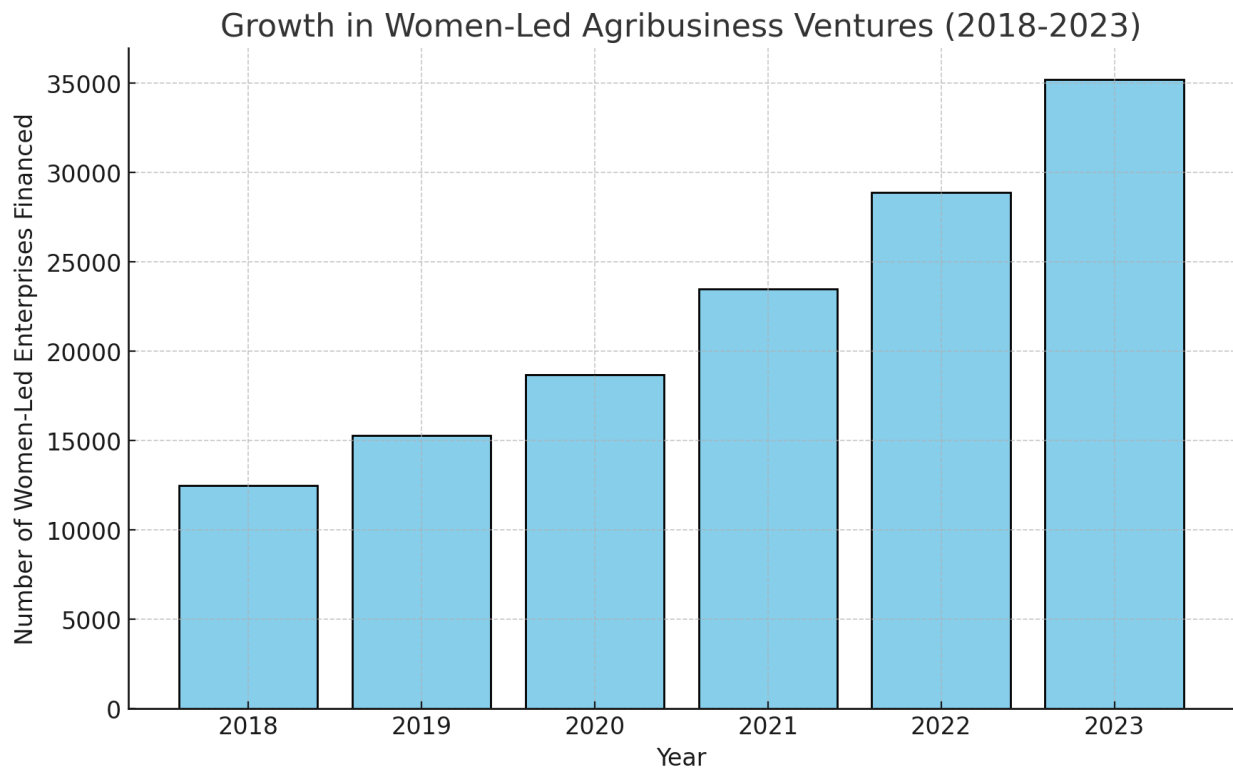
Source: NABARD Report (2023), RBI Annual Report (2023), Economic Survey Bihar (2023)

Analysis:

- **Self-Help Groups (SHGs) are the largest beneficiaries**, receiving 40% of the total agribusiness credit. This indicates their crucial role in promoting women's financial inclusion.
- **Kisan Credit Card (KCC) loans constitute 26%**, showing strong involvement in direct agricultural activities.
- **Mudra Yojana provides 20% of the loans**, supporting micro and small-scale agribusiness initiatives led by women.
- **Dairy and Livestock sector benefits 10% of total loans**, reflecting Bihar's strong dairy industry where women play a major role.

- **Other agribusinesses receive 4% of the total loan disbursed**, indicating potential areas for further support and investment.

Figure-1 Bar Chart: Growth in Women-Led Agribusiness Ventures (2018-2023)



Source: NABARD Annual Report (2023), Bihar Economic Survey (2023)

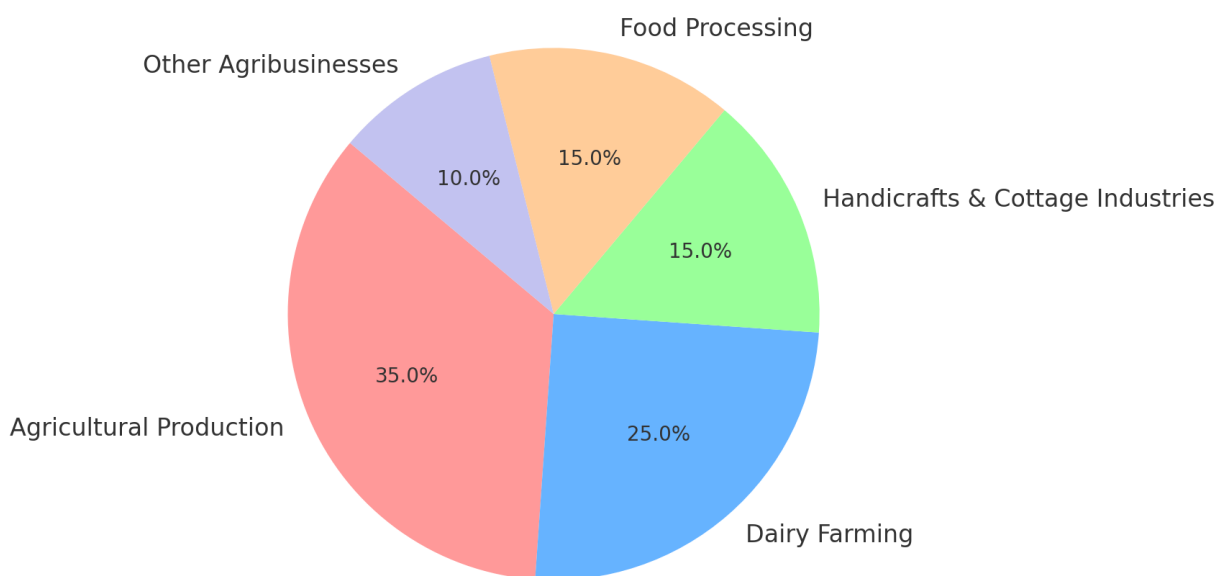
Analysis: The bar chart illustrates the steady growth of women-led agribusiness ventures in Bihar over the past six years (2018-2023). Key observations include:

1. **Consistent Growth:** The number of women-led agribusiness enterprises has increased from **12,500 in 2018** to **35,200 in 2023**, showing a **tripling of ventures** in just six years.
2. **Policy Impact:** Government schemes like **MUDRA Yojana, SHG-Bank Linkage Program, and Kisan Credit Card (KCC)** have played a crucial role in providing credit support to rural women entrepreneurs.
3. **COVID-19 Influence:** Despite economic disruptions in 2020 and 2021, there was no decline in enterprise growth, indicating strong resilience and adaptability among rural women entrepreneurs.

4. **Future Trends:** If the current trend continues, Bihar is likely to witness further expansion in women-led agribusiness ventures, provided that **banking accessibility, financial literacy, and infrastructure support** continue to improve.

Figure-2 Pie Chart: Women's Participation in Various Agribusiness Sectors in Bihar (2023)

Women's Participation in Various Agribusiness Sectors in Bihar (2023)



Source: Data compiled from NABARD Report (2023), Bihar Economic Survey (2023), and RBI Annual Report (2023).

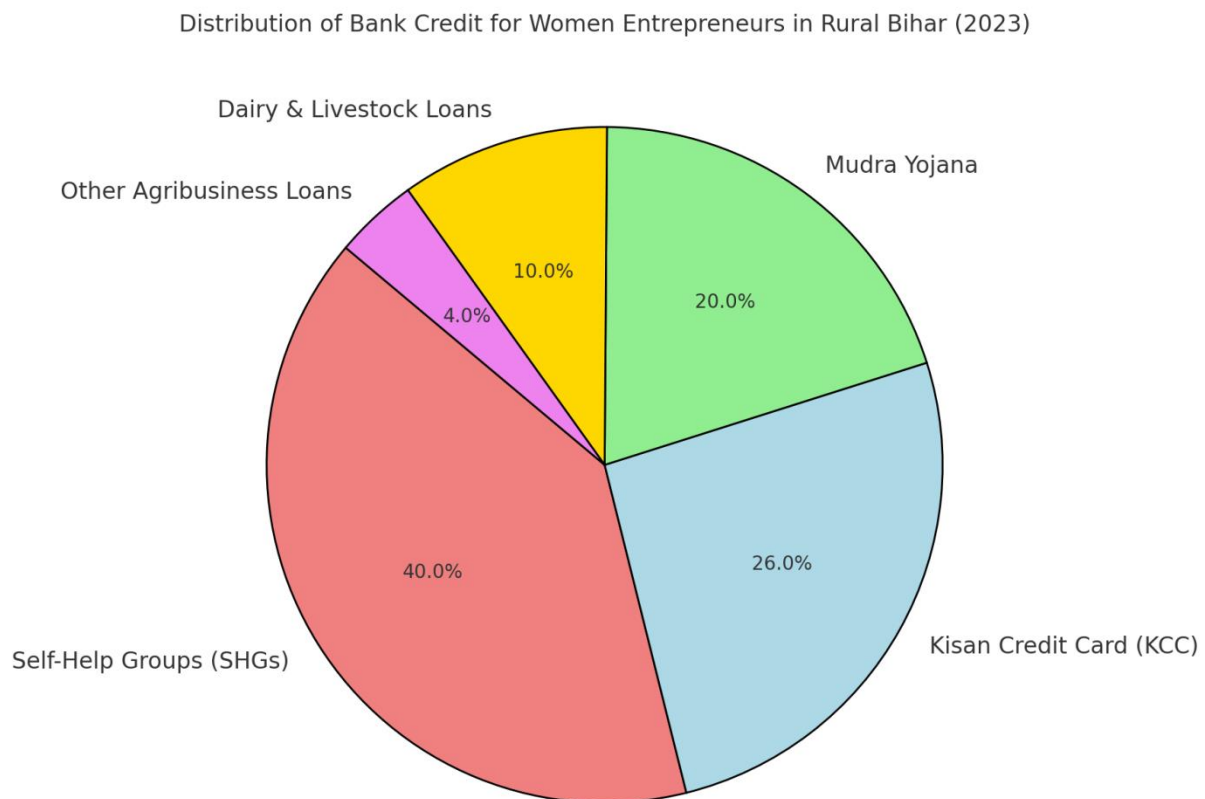
Analysis:

- The largest share of women's participation in agribusiness is in **Agricultural Production (35%)**, indicating a strong involvement in farming activities such as crop cultivation and horticulture.
- **Dairy Farming (25%)** is the second most prominent sector, showcasing women's active role in animal husbandry and milk production.

- **Handicrafts & Cottage Industries (15%)** and **Food Processing (15%)** reflect the entrepreneurial initiatives of rural women in Bihar, particularly in traditional handicrafts, pickles, papad-making, and other small-scale industries.
- **Other Agribusinesses (10%)** include poultry farming, fishery, and agro-tourism ventures, indicating diversification in rural entrepreneurship.

Despite significant participation, challenges such as limited access to credit, market linkages, and technological support hinder the growth of women-led agribusinesses. Increased financial literacy programs, microfinance support, and better access to institutional credit can enhance women's contribution to Bihar's rural economy.

Figure-3 Pie Chart: Distribution of Financial Assistance to Women Entrepreneurs in Rural Bihar (2023)



Source: NABARD Report (2023), RBI Annual Report (2023), Economic Survey Bihar (2023)

Analysis:

- **Self-Help Groups (SHGs) receive the highest share (40%)** of financial assistance, reflecting their critical role in rural women's economic empowerment.
- **Kisan Credit Card (26%)** shows significant participation of women in direct agricultural activities.
- **Mudra Yojana (20%)** has helped in promoting small-scale businesses and micro-enterprises among rural women.
- **Dairy & Livestock Loans (10%)** highlight the importance of dairy farming as a major source of livelihood for women in Bihar.
- **Other agribusiness loans (4%)** indicate potential areas for further support and intervention.

6. Discussion

The role of banks in strengthening Bihar's rural economy is multidimensional, impacting agricultural productivity, employment generation, and women's empowerment.

6.1. Banks as Catalysts for Rural Development

Banks play a key role in modernizing Bihar's rural economy by financing agro-based industries and providing microfinance solutions. The credit-to-GDP ratio in Bihar is lower than the national average, yet banks have made progress through targeted interventions. Banks have contributed to economic growth by:

- Offering customized loan products for different sectors.
- Partnering with NBFCs and fintech startups to expand financial services.
- Encouraging investment in rural infrastructure projects.

6.2 Women Entrepreneurship and Banking Support

Women entrepreneurs in Bihar face multiple barriers, including limited access to credit and societal constraints. Banks have initiated special financial literacy programs to bridge this gap. Recent data indicates that:

- Women-led SHGs have received 1,500 crore in credit support under various banking schemes.

- Digital lending platforms are reducing paperwork and easing access to funds for female entrepreneurs.
- Government initiatives like Mudra Yojana have increased credit disbursement to women-owned businesses.

6.3 Comparative Financial Inclusion in Bihar and Other States

Compared to states like Maharashtra and Tamil Nadu, Bihar lags in financial inclusion due to infrastructure limitations and lower banking penetration. However, Bihar has seen significant improvement in recent years, with:

- Over 1.5 crore women opening bank accounts under PMJDY.
- Growth in SHG-linked banking services by 35% in the past five years.
- Increased mobile banking penetration, allowing better access to digital payments.

6.4 Policy Recommendations for Strengthening Rural Banking

To further enhance the role of banks in rural Bihar, the following measures are suggested:

- **Expanding rural bank branches and ATMs** in unbanked regions.
- **Strengthening financial literacy programs** to educate rural women about digital banking.
- **Encouraging public-private partnerships** for fintech innovations.
- **Creating special credit packages** tailored for female entrepreneurs in agriculture.

7. Conclusion

Banks play a vital role in Bihar's rural economic growth by providing necessary financial services to farmers, entrepreneurs, and self-help groups. However, issues such as low banking infrastructure, financial illiteracy, and credit accessibility hinder rural financial inclusion. Strengthening digital banking, promoting financial literacy programs, and expanding rural bank branches can further enhance banking accessibility.

Bihar's rural banking system has witnessed significant progress, yet challenges persist in terms of penetration, efficiency, and inclusivity. Government schemes like PMJDY, KCC, and SHG-bank linkage programs have created an enabling financial ecosystem for marginalized communities, particularly women entrepreneurs. However, structural bottlenecks such as

inadequate financial literacy, lack of collateral for loans, and inefficient credit distribution mechanisms hinder the full potential of rural banking.

One of the crucial areas for improvement is the expansion of financial literacy initiatives. Rural populations often hesitate to engage with formal banking institutions due to a lack of understanding of financial products. Targeted awareness campaigns, simplified banking procedures, and digital education programs can help bridge this gap. Moreover, collaboration between banks, fintech companies, and local self-help groups can ensure last-mile financial inclusion.

Another significant area of concern is the limited presence of banking infrastructure in remote areas. While digital banking services have expanded, physical bank branches remain crucial for many rural customers. Encouraging regional rural banks (RRBs) to extend their operations and equipping banking correspondents with better financial tools can mitigate accessibility issues.

Women entrepreneurs in Bihar have greatly benefited from microfinance and self-help group programs, yet they continue to face societal and financial barriers. Banks should introduce more gender-sensitive financial products, flexible repayment structures, and mentorship programs to support rural women-led enterprises. Additionally, policy interventions promoting women's financial autonomy will further enhance rural economic development.

The role of cooperative banks and small finance banks should also be strengthened to cater to the specific financial needs of small-scale farmers and rural entrepreneurs. Encouraging partnerships between public and private financial institutions can lead to more innovative rural banking solutions.

Policy recommendations include:

- Expanding rural banking networks and ATM installations.
- Strengthening microfinance institutions to reach unbanked communities.
- Encouraging financial literacy campaigns to educate rural populations.
- Enhancing credit disbursement mechanisms to reduce NPAs and ensure effective utilization of loans.

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