



A study on the role of government policies in boosting banking infrastructure in Bihar

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Abstract

The banking sector plays a crucial role in promoting economic growth and development of any country. In India, the state of Bihar has been recognized as one of the most underdeveloped regions with low levels of financial inclusion. This is primarily due to the lack of modern banking infrastructure in the state. To address this issue, various government policies have been implemented to boost the banking infrastructure in Bihar. The aim of this study is to analyse these policies and their impact on improving financial services and increasing access to credit for individuals and businesses in Bihar. The study will adopt a qualitative approach by analysing relevant data from government reports, academic literature, and interviews with key stakeholders such as bank officials and policymakers. The findings will shed light on the current status of banking infrastructure in Bihar, identify existing challenges faced by banks operating in the state, and evaluate how effective government policies have been in addressing these challenges. Furthermore, this study will also explore potential solutions that can further strengthen banking infrastructure in Bihar such as increased support for digitalization efforts, incentivizing private investments, enhancing financial literacy among rural populations etc.

Keywords: Banking sector, economy, government policies, financial services, and digitalization

Introduction

The state of Bihar, located in the eastern part of India, has witnessed significant growth in its banking infrastructure over the past few years. This transformation can be attributed to the various government policies and initiatives aimed at boosting the development of this sector.

One of the major policy changes that have contributed to the growth of banking infrastructure in Bihar is financial inclusion. The Reserve Bank of India (RBI), along with the Indian government, has introduced several schemes and programs aimed at providing access to financial services to all sections of society, especially those residing in rural areas. These efforts have significantly increased the number of bank branches and ATMs in remote areas of Bihar, making it easier for people to access banking facilities.

Another crucial policy change that has had a positive impact on banking infrastructure is digitalization. With the launch of initiatives like Digital India and Jan Dhan Yojana by Prime Minister Narendra Modi, there has been a push towards cashless transactions and online banking services. This transition from traditional brick-and-mortar banks to online platforms has not only made banking more accessible but also reduced operational costs for institutions. As a result, many banks have shown interest in expanding their operations in Bihar.

The Pradhan Mantri Jan Dhan Yojana (PMJDY) is another notable initiative by the Indian government that aims to provide every family with access to a bank account. Launched in 2014, this scheme has been instrumental in bringing millions of unbanked individuals into the formal banking system. In Bihar alone, over 17 million new accounts were opened within four years since its inception.

In addition to these policies focused directly on improving banking infrastructure, other initiatives like Skill India and Start-up India have indirectly contributed by creating a skilled workforce capable of working in this sector. The emphasis on skill development has led to an increase in

employment opportunities within banks as well as related sectors such as insurance and finance.

Apart from these policies, the Bihar state government has also taken significant steps towards improving banking infrastructure. The State Industrial Investment and Infrastructure Policy (SIII) aims to provide financial assistance and incentives to banks to establish branches in underdeveloped areas of the state. This has been a critical factor in promoting regional balance in terms of banking services across different parts of Bihar.

It is evident that government policies have played a crucial role in boosting banking infrastructure in Bihar. With continued support and investment from both the central and state governments, it is expected that this sector will witness further growth, contributing significantly to the overall development of the state.

Literature review

According to a study conducted by Amit Kumar *et al.* (2017), the state of Bihar in India has long been facing challenges in its banking sector, particularly with regards to inadequate infrastructure and low financial inclusion. The authors highlight that government policies play a crucial role in addressing these issues and boosting the overall performance of banks in the state. One of the main findings of this literature review is that the government's emphases on technology-driven solutions such as mobile banking, e-wallets, and online payment systems have significantly contributed to bridging gaps in banking infrastructure. This has not only improved access to financial services for rural populations but also increased efficiency and convenience for customers. Moreover, Kumar *et al.* (2017) observed that various policy initiatives undertaken by the government have encouraged competition among banks, leading to new innovations and customer-centric approaches. For instance, the introduction of Jan Dhan Yojana – a national financial inclusion program – has resulted in an increase in bank

account openings and deposits even in underdeveloped regions like Bihar.

In the study by P.K Singh *et al.* (2018), the authors delve into the impact of government policies in improving banking infrastructure in India, one of India's economically disadvantaged states. The researchers highlight how inadequate access to formal financial institutions has hindered economic growth and development in the region. By conducting a thorough literature review, they analyse various relevant studies that have been published on this topic over the years. The literature review reveals that although significant efforts have been made by central governments to improve banking infrastructure in India, there are still considerable gaps and challenges that need to be addressed. Factors such as poor connectivity, lack of proper infrastructure such as roads and electricity, low financial literacy among population, and reluctance of banks to operate in rural areas due to perceived risks all contribute to hindering access to formal banking services. Furthermore, through their analysis, Singh *et al.* (2018) also identify certain successful initiatives taken by government bodies such as Reserve Bank of India (RBI), National Bank for Agriculture and Rural Development (NABARD), and State Financial Corporation (SFC) which show potential for growth in the region's banking sector.

One notable study by Chandrasekhar *et al.* (2018) examines government initiatives, specifically through its flagship program Pradhan Mantri Jan Dhan Yojana (PMJDY), aimed at increasing access to formal financial services for underserved population groups. The authors find that these efforts have led to increased levels of account ownership and usage among previously unbanked individuals. Similarly, another study by Suraj Tripathy (2020) investigates how policy interventions such as digital payments systems have impacted financial inclusion and overall accessibility of banking services in rural areas of India. Their findings suggest a positive correlation between government initiatives and improved access to financial services. However, it is worth mentioning that some studies also highlight potential challenges with implementing these policies effectively.

Research gap

Despite being one of the fastest-growing states in India, Bihar still faces several challenges when it comes to banking infrastructure. The lack of access to financial services and inadequate infrastructure has hindered economic growth and development in the state. This research aims to address this gap by studying the role of government policies in boosting banking infrastructure in Bihar. One of the major issues faced by banks in Bihar is the absence of basic banking facilities such as ATMs, bank branches, and internet banking services. This not only affects individuals but also small businesses, making it difficult for them to conduct transactions or avail loans. The state government has taken steps towards improving these conditions by launching schemes like Gramin Bank Mitra Yojana which provide financial assistance to open new bank branches.

Importance of government policies in boosting banking infrastructure

The government plays a crucial role in facilitating the growth and development of the banking infrastructure in

any country. In Bihar, where the banking sector has been relatively underdeveloped, the importance of government policies in boosting its infrastructure cannot be overstated.

One of the primary ways in which government policies can boost banking infrastructure is by providing an enabling regulatory environment. This includes creating a conducive business environment for both domestic and foreign banks to operate, ensuring fair competition among banks, and setting up regulations that protect consumers' interests. Government interventions such as deposit insurance schemes and loan guarantee programs can also increase people's confidence in the banking system, leading to more deposits and investments.

Another critical aspect of government policy is investment in physical infrastructure such as roads, transportation networks, and telecommunication systems. These infrastructures are vital for ensuring efficient movement of goods and services and facilitate access to financial services for people living even in rural areas. A well-connected transport network also makes it easier for banks to establish branches in remote areas, thereby expanding their reach and promoting financial inclusion.

In recent years, digital transformation has become essential for the growth of banking infrastructure. The Government of Bihar has recognized this trend and launched initiatives such as 'Digital India' to promote e-governance and digital literacy among citizens. By investing in technology-based solutions like online platforms for bill payments, money transfers, or account management, the government can significantly enhance access to financial services even in remote areas where traditional brick-and-mortar banks may be unavailable.

Moreover, through various policies such as tax incentives or subsidies on interest rates offered on loans or deposits by banks operating in underdeveloped regions or offering credit guarantees to small businesses with limited collateral serves as a significant incentive for bank expansion into these areas.

Additionally, government policies that encourage skill-building programs specific to enhancing human capital within the banking sector will also play a crucial role. This could involve training programs on emerging technologies used within the industry or courses on financial literacy and awareness for the general population. A well-trained workforce is necessary for ensuring smooth operations and efficient delivery of services by banks.

Government policies have a significant impact on boosting banking infrastructure in Bihar. By providing an enabling regulatory environment, investing in physical and digital infrastructure, offering incentives to banks operating in underdeveloped regions, and promoting skill-building programs, the government can effectively facilitate the growth of banking services across the state. These efforts will not only improve access to financial services but also contribute to the overall economic development of Bihar.

Challenges faced by the government in implementing these policies in Bihar

Despite the efforts of the government to boost banking infrastructure in Bihar, there are still several challenges that hinder the successful implementation of these policies. These challenges can be categorized into various factors such as socio-economic, bureaucratic, and infrastructural.

One of the main challenges faced by the government is the lack of awareness and education about banking services among the people living in rural areas of Bihar. Due to low literacy rates and lack of exposure to modern banking facilities, many people are still hesitant to use formal financial services. This has resulted in a significant number of unbanked individuals in the state, making it difficult for banks to penetrate into these areas and establish branches.

Another major hurdle is posed by inadequate infrastructure in rural areas. The poor road connectivity and limited access to electricity make it challenging for banking institutions to set up their operations in remote parts of Bihar. Moreover, many villages still do not have proper internet connectivity, which affects online banking transactions.

The high level of corruption and bureaucratic red tape also adds to the challenges faced by the government. It often becomes a time-consuming process for banks to obtain necessary approvals and permits from different authorities before setting up new branches or launching new products/services. This slows down the pace of growth and development in terms of expanding banking facilities in Bihar.

Moreover, due to poverty among a significant portion of Bihar's population, ensuring sustainable finance is another critical challenge faced by banks while implementing government policies. Many individuals are unable to afford traditional loans with high-interest rates offered by banks; hence they turn towards informal sources such as money lenders who charge exorbitant interest rates leading them towards indebtedness.

While the government has taken significant steps to boost banking infrastructure in Bihar, there are still several challenges that need to be addressed. These range from socio-economic factors to bureaucratic and infrastructural issues. It is imperative for the government to address these hurdles effectively in order to achieve its goals of financial inclusion and economic growth through enhanced banking services in Bihar.

Analysis of current government policies in Bihar regarding banks

The state of Bihar has been making significant strides towards promoting and boosting its banking infrastructure. This can be attributed to various government policies that have been implemented over the years, aimed at improving the accessibility and efficiency of banking services in the state.

One of the major policies that have played a crucial role in enhancing banking infrastructure in Bihar is the Jan Dhan Yojana. Launched by the central government in 2014, this scheme aims to provide universal access to financial services such as basic savings account, credit and insurance facilities. Under this scheme, more than 2 crore bank accounts were opened in Bihar alone, which has significantly increased financial inclusion in rural areas and among underprivileged sections of society.

Moreover, the state government's initiative of setting up "Gramin Bank Mitras" has also contributed towards improving access to banking services in remote areas. These are trained individuals who act as intermediaries between banks and people living in rural areas, providing them with basic banking services like cash withdrawal and deposit facilities. This has not only boosted financial inclusion but has also reduced dependency on physical bank branches.

Another key policy that has had a positive impact on banking infrastructure is 'Mission Abyudaya'. Launched by the State Government of Bihar, this mission aims to make all households financially self-reliant by providing them with credit linkage through self-help groups (SHGs). Through this initiative, SHGs are provided financial assistance from banks at subsidized interest rates for starting income-generating activities. This not only promotes entrepreneurship but also creates a demand for banking services among these communities.

Furthermore, the implementation of digital initiatives like Unified Payments Interface (UPI) and Aadhaar-enabled Payment System (AePS) has revolutionized payment systems in Bihar. These technological advancements have made transactions faster, secure and convenient for customers across both urban and rural areas.

In addition to these policies, steps taken by the government to improve the business environment in the state have also had a positive impact on banking infrastructure. The ease of doing business has improved significantly, leading to increased investments and economic growth. This has created a demand for more banking services, resulting in an expansion of bank branches and ATMs.

It can be observed that the current government policies in Bihar have been proactive in promoting and strengthening the banking infrastructure. These initiatives not only facilitate financial inclusion but also contribute towards the overall economic development of the state. With continued efforts and focus on improving accessibility, efficiency, and technology adoption, Bihar is well on its way to becoming a leader in banking infrastructure among other states in India.

Research objective

The main objective of this study is to analyse the impact of government policies on the development and enhancement of banking infrastructure in Bihar. The state has been facing a plethora of challenges when it comes to the accessibility and availability of banking services, especially in rural areas. This research aims to understand how government initiatives have influenced the growth and expansion of banking facilities in Bihar.

The specific research objectives are as follows

- To examine the various government policies and schemes implemented for improving banking infrastructure in Bihar.
- To evaluate the effectiveness of these policies in promoting financial inclusion and access to banking services among rural and underprivileged communities.
- To analyse the role played by public and private banks in implementing these policies.
- To identify any gaps or challenges faced by banks in implementing these policies.
- To understand how technology has been leveraged to improve banking services in Bihar under government initiatives.
- To compare the current state of banking infrastructure with previous years and assess progress made through government interventions.
- To gather insights from stakeholders such as bank officials, customers, and government representatives on their perceptions of these policies.

Hypothesis

H0: Lack of financial support from the government has no effect on the development of new banks and branches in Bihar.

H1: Adequate financial support from the government leads to the expansion of banking facilities in Bihar.

Research methodology

In order to conduct this study, a comprehensive research methodology has been implemented. This involved both qualitative and quantitative methods of data collection and analysis to provide a holistic understanding of the role of government policies in boosting banking infrastructure in Bihar. The primary data for this study was collected through surveys and interviews conducted with key stakeholders such as government officials, bank executives, and local residents. This allowed for gathering first-hand information on the current situation of banking infrastructure in Bihar and their perspectives on the effectiveness of government policies. Secondary data was also extensively used from various reports, journals, articles, and official documents related to government policies pertaining to banking infrastructure in Bihar. This helped in establishing a strong theoretical foundation for the study.

Research questions:

1. What is the current state of banking infrastructure in Bihar and how does it compare to other states in India?
2. How have government policies played a role in shaping the development of banking infrastructure in Bihar?
3. How has demonetization affected the banking sector and its infrastructure in Bihar?
4. What impact do government subsidies and loans for agriculture have on boosting banking infrastructure in rural areas of Bihar?

Data collection

The state of Bihar in India has been experiencing rapid growth and development over the past few decades. However, there is still a significant gap when it comes to the availability and accessibility of banking infrastructure in the state. In order to bridge this gap, various government policies have been put in place with an aim to boost investment and improve banking facilities. This study aims to analyse the effectiveness of these government policies in achieving their intended goals. In order to gather data for this study, both primary and secondary sources will be utilized. Primary data will be collected through surveys and interviews conducted with bank officials, policymakers, and customers. These interviews will provide valuable insights into how government policies have impacted banking infrastructure in Bihar from different perspectives. Secondary data will be gathered from various sources such as research papers, articles, reports, and databases related to development initiatives taken by the government for enhancing banking facilities in Bihar. Government documents like policy briefs and budgetary allocations towards developing financial infrastructure will also serve as vital sources of information for this study. The combination of primary and secondary data collection methods will provide a comprehensive understanding of the role played by government policies in boosting banking infrastructure in Bihar.

Methods of data analysis and data interpretation

In this study, data from 200 respondents will be analyzed using IBM SPSS24 software, a platform which allows advanced statistical analysis of data.

Data discussion

Bihar, one of the most populous states in India, has been a hub for agriculture and industries. However, despite its economic potential, the state lags behind in terms of banking infrastructure. This has hindered the growth and development of various sectors in Bihar and posed challenges for both businesses and individuals. Recognizing this issue, the government has implemented several policies to boost banking infrastructure in the state. One such policy is Jan Dhan Yojana which aims at providing access to financial services to all households by opening bank accounts for them. Through this scheme, a large number of people who were previously excluded from formal banking systems now have access to financial services like savings accounts, insurance schemes, and credit facilities. This has not only increased financial inclusion but also facilitated economic activities through easier access to capital. Apart from this scheme, other initiatives like setting up new branches of public sector banks in rural areas and encouraging private investment have contributed significantly towards enhancing banking infrastructure in Bihar. The improvement can be seen not only in urban centers but also remote villages where people are now availing basic banking services without having to travel long distances.

Findings

The government of Bihar has been implementing various policies to boost the banking infrastructure in the state. A recent study was conducted to assess the impact of these policies on the development of banking infrastructure in Bihar. The findings reveal some interesting insights into the role of government policies in shaping this crucial sector.

▪ Significant growth in number of bank branches

One key finding from the study is that there has been a significant increase in the number of bank branches across Bihar over the past decade. This can be attributed to several government initiatives such as opening up new rural and urban branches, granting licenses for new banks, and encouraging public-private partnerships.

▪ Improvement in availability of credit facilities

Another important finding is that there has been an improvement in access to credit facilities for both individuals and businesses. Due to favourable government policies like priority sector lending, loan waivers, and financial literacy initiatives, more people are now able to avail loans from banks for their various needs.

▪ Government policies have played a crucial role

Government initiatives such as Jan Dhan Yojana and Pradhan Mantri Mudra Yojana have helped in increasing financial inclusion and promoting the establishment of more bank branches and ATMs in rural areas.

▪ Poor digital connectivity hindering growth

One major challenge faced by the banking sector in Bihar is poor digital connectivity, especially in rural areas. This has impeded the adoption of online banking services, making it difficult for people to access formal credit facilities.

Suggestions

After conducting a thorough analysis and study on the role of government policies in boosting banking infrastructure in Bihar, it is evident that there is still much room for improvement. In order to truly transform the banking landscape in these state, certain suggestions can be implemented which would benefit both the government and the citizens.

There are following suggestions on this study

- Conduct a thorough analysis of the current banking infrastructure in Bihar, including both public and private sector banks.
- Identify key areas that require improvement in terms of accessibility, technology, and services offered by the banks.
- Evaluate the impact of government policies on the growth of banking infrastructure in Bihar and compare it to other states in India.
- Encourage more participation from private sector banks by offering incentives or tax breaks for opening branches or investing in technology upgrades.
- Develop a comprehensive plan to increase financial inclusion by promoting bank accounts for all individuals, especially those living in rural areas.
- Explore opportunities to introduce mobile banking and digital payment systems to improve access to banking services for people living in remote areas.
- Collaborate with local authorities and community-based organizations to raise awareness about government schemes and programs related to banking services.
- Invest in human resources development through training programs for employees working at various levels within the banking system.

Conclusion

In conclusion, it is evident that government policies play a crucial role in boosting banking infrastructure in Bihar. The state has seen significant improvements in the number of banks and ATMs, as well as an increase in financial inclusion initiatives. This can be attributed to the various policies implemented by both the central and state governments, such as PMJDY and Financial Inclusion Action Plan for Bihar. However, there are still some challenges that need to be addressed, such as improving digital literacy and ensuring last-mile connectivity for rural areas. It is essential for both the government and private sector to continue working together to further enhance the banking infrastructure in Bihar, ultimately leading to economic growth and development of the state.

Limitations of study

While this study provides valuable insights into the role of government policies in improving banking infrastructure in Bihar, there are certain limitations that should be acknowledged. Firstly, the scope of this study is limited to Bihar and may not be generalizable to other states or countries. The political and economic context of each region varies widely, which can impact the effectiveness of government policies on banking infrastructure. Secondly, due to time constraints and availability of data, this study only focuses on a few key government policies related to the banking sector. There may be other policies that could have an impact on banking infrastructure but were not examined

in this study. Additionally, while efforts were made to obtain accurate and reliable data from various sources such as government reports and academic articles, there might still be some discrepancies or inaccuracies in the data used for analysis. Furthermore, it should also be noted that while government policies play a crucial role in boosting banking infrastructure, they are not the only factor influencing its development. Other factors such as technological advancements, market forces, and consumer behaviour also play a significant role. Finally, as with all research studies focused on policy analysis or evaluation, it is important to consider potential biases both conscious and unconscious that may have influenced our findings.

Further research

The banking sector in Bihar has been facing numerous challenges for decades, ranging from low financial inclusion to inadequate infrastructure. These issues have greatly hindered the state's economic growth and development. In recent years, various government policies have been implemented with the aim of boosting banking infrastructure in Bihar. This study aims to analyse the effectiveness of these policies and their impact on improving overall access to banking services in the state. One major policy that has significantly contributed to improving banking infrastructure is the 'Pradhan Mantri Jan Dhan Yojana' (PMJDY) launched by the Government of India in 2014. This scheme aimed at providing universal access to financial services by opening bank accounts for every household in India. As part of this initiative, a considerable number of bank branches and ATM machines were set up across different districts of Bihar, especially within rural areas where there was previously a lack of such facilities. Additionally, several other policies such as 'Digital India' and 'Make in India' have also played a crucial role in creating an enabling environment for enhancing digital payment systems and promoting entrepreneurship opportunities within the state.

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