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Effect of financial inclusion on poverty reduction and livelihood security in backward districts of Bihar

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Abstract

This research explores how financial inclusion initiatives such as banking services, credit access, and savings programs influence poverty reduction and livelihood security in economically backward districts of Bihar. Using a combination of secondary sources, state data, and financial inclusion indices, the paper examines the contribution of schemes like Pradhan Mantri Jan Dhan Yojana (PMJDY) and financial literacy interventions to economic resilience. The findings reveal that increased access to financial tools correlates with enhanced income stability, greater participation in formal savings, and improved livelihood outcomes, though structural challenges in Bihar persist.

Keyword: Financial inclusion, poverty reduction, livelihood security and backward districts of Bihar etc.

Introduction

Financial inclusion—defined as the availability and usage of affordable financial services by underprivileged segments—is a critical driver for socioeconomic development. In Bihar, historically low inclusion has limited rural access to savings, credit, and insurance, perpetuating poverty and livelihood insecurity. Post-2014, the PMJDY has substantially expanded banking reach across Bihar, integrating rural households into the formal financial system and enabling direct benefit transfers, subsidy reception, and savings mobilization.

Status of Financial Inclusion in Bihar

The status of financial inclusion in Bihar has improved significantly over the past decade due to focused government and institutional interventions. Schemes such as the Pradhan Mantri Jan Dhan Yojana (PMJDY) have expanded basic banking access, resulting in a substantial increase in bank account ownership, especially among rural and low-income households. Most districts in Bihar now report a high proportion of households with at least one formal bank account, enabling access to savings, direct benefit transfers, and insurance schemes.

Institutions like NABARD have played a vital role by supporting financial literacy programs, self-help groups (SHGs), and rural credit delivery. Financial literacy campaigns covering thousands of panchayats have enhanced awareness and usage of banking services. However, challenges persist, including dormant accounts, limited access to institutional credit, digital illiteracy, and infrastructure gaps in remote areas. Overall, while access to financial services has expanded, deeper usage and quality of inclusion remain key priorities for Bihar's sustainable development.

Literature Review

Research shows that financial inclusion significantly bolsters poverty alleviation. Nationally, composite financial inclusion indices are negatively associated with extreme poverty, indicating that inclusion reduces deprivation among low-income groups. (PMC) In Bihar, studies demonstrate that access to financial services encourages savings habits, enhances income stability, and provides security against economic shocks. (commercejournal.in) However, gaps remain due to infrastructure challenges and varying levels of financial literacy, which limit full utilization at the grassroots level. (businessmanagementeconomic.org) Thakur (2019) investigates the role of microfinance and financial inclusion in Bihar's economic growth.

The study finds that while credit outreach and client extension through microfinance institutions did not significantly influence Bihar’s Gross State Domestic Product (GSDP). This suggests that saving behaviour influenced by financial inclusion mechanisms can contribute to broader economic stability, even in contexts where credit markets underperform.

Saha & Qin (2022) provide an empirical examination linking financial inclusion to poverty alleviation across 156 developing countries. Their findings show that higher financial inclusion indexes are associated with *significant reductions in extreme poverty*, especially when institutions target poor and underserved populations.

Applied Science and Technology Research Excellence (2024) ^[9] highlights that access to formal banking services (through schemes such as PMJDY and AEPS) is key to advancing financial inclusion in Bihar’s rural communities. Improved banking accessibility, however, can enable savings, credit access, and direct benefit transfers, thereby aiding poverty reduction and livelihood security.

Research Objectives

- 1. To examine the level of financial inclusion in backward districts of Bihar.
- 2. To assess the contribution of financial inclusion schemes in enhancing savings habits.
- 3. To identify major challenges faced in achieving effective financial inclusion in Bihar.
- 4. To study the impact of financial inclusion on poverty reduction among rural households.
- 5. To analyse the role of banking and credit facilities in improving livelihood security.

Research Methodology

The present study adopts a descriptive and analytical research design to examine the effect of financial inclusion on poverty reduction and livelihood security in backward districts of Bihar. Both primary and secondary data sources are utilized. Primary data are collected through a structured questionnaire and interviews conducted with households in selected backward districts such as Gaya, Purnea, Kishanganj, Araria, and Madhepura. Secondary data are obtained from government reports, RBI publications, NABARD reports, Census data, and published research

articles. A multistage random sampling technique is applied to select respondents, ensuring representation of marginalized and low-income groups.

The study employs descriptive statistics (percentages, averages) to analyze levels of financial access and usage, while comparative analysis is used to assess changes in income, savings, and livelihood security before and after financial inclusion. The findings are interpreted to understand the role of banking access, credit availability, and financial literacy in reducing poverty in Bihar.

Theoretical Perspective on the Effects of Financial Inclusion in Bihar

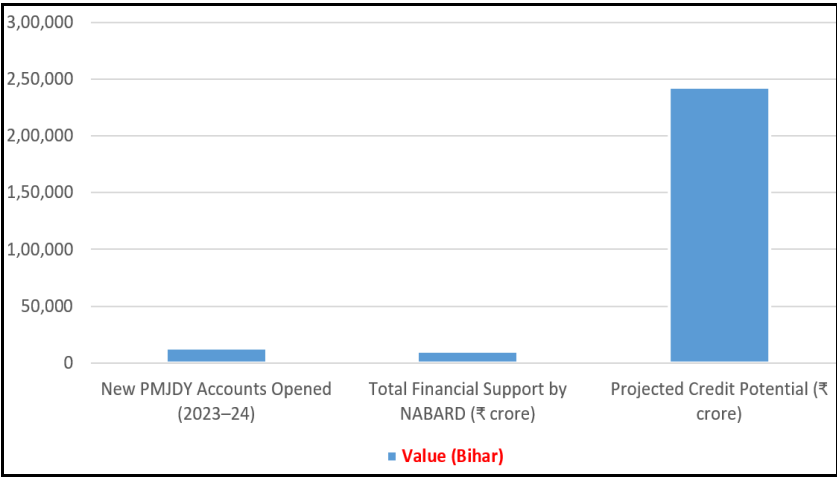
Financial inclusion plays a crucial theoretical role in promoting inclusive economic development, particularly in a socio-economically backward state like Bihar. From a development economics perspective, financial inclusion reduces structural inequality by integrating marginalized populations into the formal financial system. Access to banking services enables households to save securely, manage risks, and smooth consumption, which is essential for poverty reduction. The theory of financial intermediation suggests that formal financial access lowers dependence on informal moneylenders, thereby reducing exploitation and enhancing income stability.

In Bihar, financial inclusion also strengthens livelihood security by facilitating access to institutional credit, insurance, and government welfare transfers. The social inclusion theory emphasizes that financial access empowers disadvantaged groups, especially women, by increasing their economic participation and decision-making power. Overall, financial inclusion acts as a catalyst for sustainable development by enhancing financial capability, promoting self-employment, and fostering long-term economic resilience in Bihar.

Table 1: Showing how financial inclusion efforts have translated into bank access, insurance uptake, and social security coverage

Indicator	Value (Bihar)
New PMJDY Accounts Opened (2023-24)	13,039
Total Financial Support by NABARD (₹ crore)	₹ 10,372.86
Projected Credit Potential (₹ crore)	₹ 2,43,093

Source: NABARD annual report



Source: Prepared with MS-Excel from data Table- 01

Fig 1: Financial inclusion coverage social security

Interpretation: Above Table No.-01 and Figure No.-01. The data highlight the expanding role of institutional finance in Bihar’s development process. The opening of 13,039 new PMJDY accounts during 2023-24 reflects continued efforts to bring financially excluded households into the formal banking system, enabling access to savings, insurance, and direct benefit transfers. The substantial ₹10,372.86 crore financial support by NABARD indicates

strong institutional backing for rural credit, livelihood promotion, and financial inclusion initiatives. Further, the projected credit potential of ₹2,43,093 crore reveals significant untapped opportunities for expanding institutional credit. Effective utilization of this potential can enhance livelihood security, stimulate rural employment, and contribute to sustained poverty reduction in Bihar.

Table 2: Financial Inclusion and Poverty Indicators in Selected Backward Districts of Bihar

Indicator	Value/Status	Explanation/Source
Bank accounts per 1,000 adults	↑ Large increase post-2014	Reflects rapid PMJDY uptake in Bihar districts. (Zenodo)
Financial Literacy Campaigns Held	4,540 + panchayats covered (2025)	State campaign expanded rural access. (The Times of India)
% Rural Households with Formal Accounts	High (most districts)	Significant inclusion penetration (PMJDY data). (Zenodo)
Poverty Rate (Multidimensional)	Decreasing trend	Multidimensional poverty lowered with inclusion & livelihood programs. (BPAS Journals)
Livelihood Security Index (qualitative)	Improved but varied	Inclusion supports self-employment & asset building. (NABARD)

Source: Internet website

Interpretation: Above Table No.-01 shows that a clear improvement in financial inclusion and its socio-economic outcomes in Bihar. The sharp rise in bank accounts per 1,000 adults after 2014 reflects the strong impact of PMJDY in expanding formal financial access across districts. Coverage of over 4,540 panchayats through financial literacy campaigns indicates active efforts to enhance awareness and usage of financial services, particularly in rural areas. The high proportion of rural households with formal accounts suggests deepening inclusion beyond mere access. Simultaneously, the declining multidimensional poverty trend highlights the positive linkage between financial inclusion and livelihood programs. However, improvements in the livelihood security index remain uneven, indicating the need for targeted credit and skill-based interventions.

Findings and Discussion

1. Bank Account Penetration and Poverty Reduction

The widespread adoption of PMJDY bank accounts has enabled households in backward Bihar districts to receive subsidies and welfare benefits directly, reducing transaction costs and leakage. Financial inclusion has also facilitated savings accumulation, mitigating dependence on informal credit and smoothing consumption during lean periods.

2. Financial Literacy and Livelihood Security

Large-scale financial literacy campaigns covering thousands of panchayats improved understanding of bank services and digital payments. Enhanced literacy increases the probability that individuals use savings, credit, and insurance products to secure stable livelihoods and withstand economic shocks.

3. Challenges and Inequities

Despite progress, disparities persist. Access to credit remains uneven in remote areas, and many accounts remain dormant due to low engagement or limited financial knowledge. (Zenodo) Additionally, socio-economic barriers (such as caste and gender) influence the degree of financial participation and its effectiveness in reducing poverty. (ijefm.co.in)

Conclusion

Financial inclusion has been instrumental in enhancing poverty reduction and livelihood security in backward districts of Bihar. The PMJDY and related financial literacy efforts have increased banking access, assisted in income-stabilizing mechanisms, and connected rural households to formal financial systems. However, challenges such as digital literacy gaps, dormant accounts, and infrastructural limitations hinder the full impact. Continued policy focus on tailored inclusion strategies, enhanced credit access, and targeted financial education is crucial to sustaining long-term socioeconomic progress.

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