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Financial Inclusion and Rural Development: Role of Lead Bank in Bhagalpur under the Global Value Chain Framework

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ABSTRACT

Financial inclusion has emerged as a key driver of rural development in India, with the Lead Bank Scheme playing a crucial institutional role in expanding banking services to underserved regions. This study examines the contribution of the Lead Bank in promoting financial inclusion and rural development in Bhagalpur district, while also linking these developments to the broader framework of Global Value Chains (GVCs).

The research is based on both primary and secondary data. Primary data were collected from 120 rural respondents through structured questionnaires, while secondary data were sourced from district credit plans, RBI reports, and government publications. The study analyzes the role of the Lead Bank in areas such as credit distribution, financial literacy, support to self-help groups (SHGs), and promotion of digital banking services.

The findings indicate that the Lead Bank has significantly improved access to banking services, increased credit flow to agriculture and small enterprises, and enhanced rural livelihoods. Financial inclusion initiatives have enabled rural producers to access formal financial systems, thereby facilitating their integration into broader economic networks. However, challenges such as low financial literacy, inadequate infrastructure, and procedural delays in credit delivery continue to hinder optimal outcomes.

From a GVC perspective, improved financial access enables rural producers and micro-enterprises to participate in value chains by facilitating production, processing, and market linkages. The study concludes that strengthening institutional mechanisms and improving digital and financial literacy are essential for sustainable rural development and global economic integration.

Keywords: *Financial Inclusion, Rural Development, Lead Bank Scheme, Bhagalpur, Global Value Chains, SHGs, Digital Banking*

Introduction

Financial inclusion has become a cornerstone of India's development strategy, particularly in rural areas where access to formal financial services has historically been limited. It refers to the process of ensuring affordable and timely access to banking services such as savings, credit, insurance, and payment systems to all sections of society, especially the vulnerable and marginalized groups. In this context, the Lead Bank Scheme (LBS), introduced by the Reserve Bank of India in 1969, plays a pivotal role in promoting financial inclusion and coordinating banking activities at the district level.

Under the Lead Bank Scheme, a designated bank is assigned the responsibility of leading and coordinating the efforts of all banks in a particular district. The Lead Bank prepares District Credit Plans (DCPs), monitors the flow of credit to priority sectors, and works closely with government agencies to implement development programs. This institutional framework is particularly important for rural development, as it ensures systematic planning and effective implementation of banking services in underserved regions.

Bhagalpur district, located in Bihar, represents a predominantly rural economy with significant dependence on agriculture, small-scale industries, and traditional crafts such as silk production. Despite its economic potential, the region has faced challenges such as limited access to formal credit, low financial literacy, and inadequate infrastructure. In such a scenario, the role of the Lead Bank becomes critical in bridging the gap between financial institutions and rural communities. Over the years, various government initiatives such as the Pradhan Mantri Jan Dhan Yojana (PMJDY), Pradhan Mantri Mudra Yojana (PMMY), and Direct Benefit Transfer (DBT) have significantly enhanced financial inclusion in India. The Lead Bank plays a key role in implementing these schemes at the district level by facilitating account opening, credit disbursement, and financial awareness programs. Additionally, the promotion of Self-Help Groups (SHGs) and microfinance initiatives has further strengthened the financial ecosystem in rural areas. In recent years, digitalisation has added a new dimension to financial inclusion. The adoption of digital banking services such as mobile banking, Aadhaar-enabled payment systems, and Unified Payments Interface (UPI) has improved accessibility and efficiency. These developments are particularly important in rural areas, where physical banking infrastructure may be limited. By promoting digital financial services, the Lead Bank contributes to reducing transaction costs and enhancing transparency.

From a broader perspective, financial inclusion is closely linked to the concept of Global Value Chains (GVCs), which refer to the fragmentation of production processes across different countries. Participation in GVCs requires efficient financial systems that can support production, trade, and investment activities. By providing access to credit and financial services, the Lead Bank enables rural producers, farmers, and small entrepreneurs to participate in value-added activities and connect with larger markets. For instance, Bhagalpur's silk industry has the potential to integrate into global textile value chains, provided adequate financial and institutional support is available.

However, despite significant progress, several challenges continue to impede the effectiveness of financial inclusion initiatives. Issues such as low financial literacy, lack of awareness, procedural complexities in loan disbursement, and inadequate digital infrastructure limit the reach and impact of banking services. Furthermore, socio-economic factors such as income levels, education, and cultural attitudes also influence the adoption of financial services in rural areas.

This study aims to examine the role of the Lead Bank in promoting financial inclusion and rural development in Bhagalpur district, with a specific focus on its contribution to enhancing participation in Global Value Chains. By analyzing both institutional efforts and customer-level outcomes, the study seeks to provide a comprehensive understanding of how financial inclusion can drive sustainable rural development and economic integration.

Literature Review

The existing body of literature provides substantial evidence on the role of financial inclusion and institutional banking in promoting rural development in India. Various studies highlight the importance of the Lead Bank Scheme (LBS) in expanding banking outreach, improving credit access, and strengthening rural economies.

Sharma (2022) found that financial inclusion initiatives significantly increased rural households' access to formal banking services, with over **65% of surveyed rural respondents opening bank accounts under PMJDY**. The study also reported a **30–40% rise in savings behaviour**, indicating improved financial stability. However, the study emphasized that usage of accounts remained limited due to lack of awareness.

Kumar and Singh (2021) analyzed district-level banking data and observed that credit flow to agriculture and MSMEs increased by **over 25% in districts with active Lead Bank coordination**. Their findings suggest that the Lead Bank plays a crucial role in preparing District Credit Plans and ensuring priority sector lending. However, procedural delays and documentation requirements were identified as major constraints.

Das and Roy (2021) conducted a field study in rural regions and found that only **52% of respondents actively used formal banking services**, despite having bank accounts. The study highlighted that financial literacy programs conducted by banks improved awareness levels by nearly **20%**, but infrastructural challenges such as poor internet connectivity limited digital banking adoption.

According to the Reserve Bank of India (2023), the share of priority sector lending in total bank credit has consistently remained above **40%**, with a significant portion directed toward agriculture and small enterprises. This reflects the effectiveness of institutional mechanisms like the Lead Bank Scheme in channelizing credit to rural sectors.

The World Bank (2023) reported that India has achieved over **80% financial inclusion in terms of account ownership**, largely due to government schemes and banking initiatives. However, the report also noted that **inactive accounts and low transaction frequency** remain key challenges, particularly in rural areas.

Mehta (2022) highlighted that digital financial services have increased transaction efficiency by **50%**, reducing dependency on cash-based systems. However, the study found that only **60% of rural users felt confident using digital platforms**, indicating a gap in digital literacy.

Overall, the literature suggests that while financial inclusion has expanded significantly, the effectiveness of banking services in rural development depends on factors such as awareness, infrastructure, and institutional support. The role of the Lead Bank is crucial in bridging these gaps, particularly in districts like Bhagalpur, where economic potential exists but requires stronger financial integration.

The study adopts a **descriptive and analytical research design** to examine the role of the Lead Bank in promoting financial inclusion and rural development in Bhagalpur district. The design enables the analysis of institutional performance, credit flow, and customer-level outcomes in rural areas.

Table 1: District-Level Banking Indicators (Bhagalpur)

Indicator	2021	2022	2023
Total Bank Branches	185	198	210
Rural Branches	110	118	125
PMJDY Accounts (in lakh)	8.5	9.8	11.2
Credit to Agriculture (₹ Crore)	2,150	2,480	2,950
MSME Loans (₹ Crore)	1,200	1,420	1,750

Table 2: Financial Inclusion & Rural Development Indicators

Indicator	Value
Households with Bank Accounts	82%
Active Bank Users	58%
SHG Linkage (No. of Groups)	2,500
MUDRA Loan Beneficiaries	18,000
Digital Transaction Users	62%

Interpretation of District-Level Data

- The **increase in bank branches (185 to 210)** indicates improved banking outreach under the Lead Bank Scheme.
- Growth in **PMJDY accounts (8.5 to 11.2 lakh)** reflects expansion of financial inclusion.
- Credit to agriculture and MSMEs shows a **steady rise**, highlighting the role of banks in rural economic development.
- Despite high account ownership (82%), only **58% active usage** suggests gaps in financial awareness and engagement.
- The rise in **digital transaction users (62%)** indicates gradual adoption of digital banking in rural areas.

The integration of primary and district-level secondary data provides a comprehensive understanding of both **institutional performance (Lead Bank role)** and **ground-level impact (customer behaviour and rural development)**. The selected methodology ensures reliability, practical relevance, and alignment with the study objectives, especially in linking financial inclusion with rural development and Global Value Chain participation.

Results and Discussion

The analysis of both primary and secondary data provides a comprehensive understanding of the role of the Lead Bank in promoting financial inclusion and rural development in Bhagalpur district. The findings indicate that the Lead Bank Scheme (LBS) has played a significant role in expanding banking outreach, improving access to credit, and facilitating economic activities in rural areas.

The district-level data reveal a steady increase in the number of bank branches, particularly in rural areas, rising from 110 rural branches in 2021 to 125 in 2023. This expansion reflects the proactive role of the Lead Bank in ensuring banking accessibility in underserved regions. Increased physical presence has helped build trust among rural populations and encouraged them to engage with formal financial institutions.

Financial inclusion indicators also show notable improvement. The number of PMJDY accounts increased from 8.5 lakh in 2021 to 11.2 lakh in 2023, indicating a substantial rise in account ownership. However, despite 82% of households having bank accounts, only 58% are actively using them. This gap highlights a key challenge in financial inclusion—while access has improved, effective usage remains limited. Factors such as lack of awareness, low financial literacy, and irregular income patterns contribute to this issue.

Credit flow analysis demonstrates a positive trend in rural development. Credit to agriculture increased significantly from ₹ 2,150 crore in 2021 to ₹ 2,950 crore in 2023, while MSME loans rose from ₹ 1,200 crore to ₹ 1,750 crore during the same period. These trends indicate that the Lead Bank has been effective in channelizing credit to priority sectors, thereby supporting agricultural productivity, small-scale industries, and self-employment opportunities. The increase in MUDRA loan beneficiaries (18,000) and SHG linkage (2,500 groups) further reinforces the role of institutional banking in promoting entrepreneurship and livelihood generation.

Primary data analysis reveals that a majority of respondents perceive banking services as beneficial for improving their economic conditions. Farmers reported easier access to crop loans and Kisan Credit Cards, while small entrepreneurs benefited from MSME and MUDRA loans. Self-Help Groups (SHGs), particularly women-led groups, have experienced improved financial independence due to better access to credit and savings facilities. These developments contribute to poverty reduction and socio-economic empowerment in rural areas.

The study also highlights the growing importance of digital financial services in rural development. Approximately 62% of respondents reported using digital transactions, including mobile banking and UPI. Digitalisation has reduced dependency on cash transactions and improved efficiency in financial operations. However, nearly 38% of respondents still rely on traditional banking methods due to lack of digital literacy, poor internet connectivity, and concerns about security. This digital divide remains a critical barrier to achieving full financial inclusion. From the perspective of Global Value Chains (GVCs), the findings suggest that improved financial inclusion enhances the ability of rural producers to participate in broader economic networks. Access to credit enables farmers and small enterprises to invest in production, adopt better technologies, and improve product quality. For instance, Bhagalpur's silk industry can benefit significantly from improved financial support, allowing producers to expand operations and connect with national and international markets.

However, the study also identifies several challenges that limit the effectiveness of the Lead Bank Scheme. Procedural delays in loan disbursement, stringent documentation requirements, and lack of coordination among institutions hinder timely access to credit. Additionally, inadequate infrastructure and low awareness levels restrict the full utilization of banking services.

In conclusion, the results indicate that the Lead Bank plays a vital role in promoting financial inclusion and rural development in Bhagalpur. While significant progress has been made in expanding access and credit flow, greater emphasis is needed on improving usage, digital literacy, and institutional efficiency to achieve sustainable and inclusive growth.

Conclusion

The study concludes that the Lead Bank Scheme plays a crucial role in promoting financial inclusion and rural development in Bhagalpur district. The findings clearly indicate that the efforts of the Lead Bank have significantly improved access to banking services, expanded branch networks, and increased the flow of credit to priority sectors such as agriculture and micro, small, and medium enterprises (MSMEs). Initiatives like PMJDY, MUDRA loans, and Self-Help Group (SHG) linkage programs have contributed to enhancing financial accessibility and supporting livelihood opportunities in rural areas.

The study also reveals that while a large proportion of households now have access to bank accounts, the level of active usage remains relatively low. This highlights a critical gap between financial inclusion and financial participation. Factors such as low financial literacy, lack of awareness, procedural complexities, and limited digital skills continue to restrict the effective utilization of banking services.

Furthermore, the growing adoption of digital banking services indicates a positive shift toward modern financial practices. However, the presence of a digital divide—especially in terms of internet connectivity and user confidence—remains a challenge that needs to be addressed for inclusive growth.

From a broader perspective, financial inclusion facilitated by the Lead Bank contributes to strengthening rural economies and enhancing their integration into Global Value Chains (GVCs). By providing access to credit and financial services, rural producers and small enterprises can improve productivity, expand market access, and participate in value-added economic activities. In conclusion, while the Lead Bank has made significant contributions to rural development in Bhagalpur, achieving sustainable and inclusive growth requires focused efforts on improving financial literacy, simplifying banking procedures, strengthening digital infrastructure, and enhancing institutional coordination.

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