



Research Paper

## Regional Rural Banks in India – Post-Amalgamation

Dr. A. Sudharsana Reddy\* Dr.S.Siva Prasad<sup>®</sup>

Academic Consultants, Dept. of Economics,  
Sri Venkateswara University, Tirupati – 517502.AP.

### ABSTRACT

Rural economy progress with efforts of rural farmers in any country. Many studies were proven that the rural economy depends on the rural agriculture and artisan activities. So, the rural economy progress through the agriculture. Agriculture is the main stay contributing to the rural economy of India. As an agriculture and rural economy-based country, the farmers required the investment for farming activities. The Government of India has established the Regional Rural Banks (RRB's) as state-sponsored, regionally based and rural oriented institutions under the Regional Rural Banks Act, 1976 with any one commercial bank as sponsor bank. Within two decades, the RRBs plagued with financial difficulties and Government of India (GoI) started recapitalisation of the RRBs along with several other policy reforms to have operational freedom for increasing their business and profitability. In September, 2005, GoI initiated the first phase amalgamation of RRBs, sponsor bank-wise, at state level. By March, 2010, RRBs of the same sponsor banks within a State were amalgamated bringing down their number from 196 to 82. In the second and on-going phase, starting from October, 2012, geographically contiguous RRBs within a State under different sponsor banks are being amalgamated to have just one RRB in medium-sized and two/three RRBs in large states. During the year 2013-14, 13 RRBs have been amalgamated into 6 new RRBs in 5 States (Chhattisgarh, Uttar Pradesh, Kerala, Karnataka and Haryana). With this, the effective number of RRBs as on 31st March, 2021 stands at 43 playing a significant role in developing agriculture and rural economy. This paper tries to review the performance due to the amalgamation of Regional Rural Banks in India through advances and deposits and non-performing assets.

**Keywords:** Regional Rural banks, restructuring, amalgamation.

\* and <sup>®</sup> Academic Consultants, Department of Economics, S.V. University, Tirupati - 517 502.

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### I. INTRODUCTION

Rural Economy changes with maximum efforts of rural Farmers in any Country. So, the rural economy changes through the changes in agriculture. Agriculture sector is the foremost important economy in India. Agriculture is the main sector for the contribution of rural economy of India. Natural resources and human resources in rural areas have great potential to be developed in the agricultural sector. Land and water are the main natural resources in rural areas and are used for farm management by rural residents who mostly work in the agricultural sector. India is agricultural and rural economy-based country, and the farmers required the investment for farming activities. So, the Government of India has facilitated the establishment of RRB's by appointing various committees for this purpose. Regional Rural Banks (RRB's) were set up as state-sponsored, regionally based and rural oriented institutions under the Regional Rural Banks Act, 1976. RRB's meant to provide the credit needs of the small and marginal farmers, agricultural labourers, socio-economically weaker section of population for development of agriculture, trade, commerce, industry and other productive activities.

### II. REGIONAL RURAL BANK

The Regional Rural Banks (RRBs) were established in the year 1975 with the Ordinance on 26 September 1975 by the Narasimham Working Group and the legislation of the Regional Rural Banks Act, 1976. Prathama Grameen Bank, the first Regional Rural Bank was established on 2nd October 1975. Prathama Bank is headquartered in Moradabad, Uttar Pradesh and it was sponsored by Syndicate Bank and had an authorized capital of Rs.5 crores. A total of 5 RRBs were set up on the recommendation of the Narasimhan Committee. The other 4 RRBs were,

- Gaur Gramin Bank (sponsored by UCO Bank),
- Gorakhpur Kshetriya Gramin Bank (sponsored by State Bank of India),
- Haryana Kshetriya Gramin Bank (sponsored by Punjab National Bank), and
- Jaipur-Nagpur Anchalik Gramin Bank (sponsored by UCO Bank).

RRBs are intended to provide adequate credit and other banking facilities for agriculture and other rural sectors. Each RRB has jurisdiction as notified by the Government. RRBs has the nature of a cooperative by solving rural problems and a commercial bank by organizing financial resources. After reforms in 1990, the government started the consolidation of Regional Rural Banks which has declined from 196 in 2005 to 43 in the year 2021, while 30 of the total 43 RRBs reported their net profits.

The equity shares of Regional Rural Banks are distributed among the Central Government with 50.0 per cent, the Sponsor Bank 35.0 per cent and the State Government in with 15 per cent. As such RRBs are owned by the Government of India as the maximum share capital is owned by the Central Government.

**a. AIMS OF REGIONAL RURAL BANKS**

The objectives with which Regional Rural Banks came into existence are;

- to provide credit and banking facilities to the small farmers (1 or 2 hectares of land) and marginal farmers (less than 1 hectare of land), agricultural laborers, small artisans, and entrepreneurs in the rural areas.
- The Regional Rural Banks (RRBs) were conceptualized to combine the local feel and familiarity of rural problems characteristic of cooperatives with the professionalism and large resource base of commercial banks.
- developing the banking systems in rural parts of India for the credit needs of agriculture, commerce, industries and other purpose.
- to serve scattered population that demands smaller loans and operate under strict operational and lending norms of sponsored commercial banks.

**b. WORKING OF REGIONAL RURAL BANKS**

The Regional Rural Bank in India is a scheduled commercial bank whose primary function is to accept deposits and provide loans. The other important functions of RRBs in India are as follows,

- ❖ RRBs provide various banking facilities to rural and semi-urban areas.
- ❖ Another function of RRBs is to disburse wages of Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) and Pradhan Mantri Gram Sadak Yojana (PMGSY) workers and distribute pensions.
- ❖ RRBs provide para-banking facilities such as locker facilities, debit and credit cards, mobile banking, internet banking, and UPI services.
- ❖ They provide basic banking needs for the development of Agriculture, Trade and Commerce, Industry and other productive activities in rural areas by providing credit and other facilities, particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs.

**c. OPERATIONAL SETUP OF REGIONAL RURAL BANK**

Each Regional Rural Bank has a chairman. Under the provision of Section 11 of the RRB Act, 1976, the chairman of the RRBs is appointed by the Sponsor Banks of the respective RRBs with the consultation with NABARD. But there are no guidelines for the selection of a chairman.

**TABLE 1: LIST OF REGIONAL RURAL BANKS IN INDIA TILL 2024**

S.No	State	Bank Name	Head Office	Sponsor Bank
1	Andhra Pradesh	Andhra Pragathi Grameena Bank	Kadapa	Canara Bank
		Chaitanya Godavari Grameena Bank	Guntur	Union Bank of India
		Saptagiri Grameena Bank	Chittoor	Indian Bank
2	Telangana	Andhra Pradesh Grameena Vikas Bank	Warangal	State Bank of India
		Telangana Grameena Bank	Hyderabad	State Bank of India
3	Assam	Assam Gramin Vikash Bank	Guwahati	Punjab National Bank
4	Arunachal Pradesh	Arunachal Pradesh Rural Bank	Naharlagun	State Bank of India
5	Bihar	Uttar Bihar Gramin Bank	Muzaffarpur	Central Bank of India
		Dakshin Bihar Gramin Bank	Patna	Punjab National Bank
6	Chhattisgarh	Chhattisgarh Rajya Gramin Bank	Raipur	State Bank of India
7	Gujarat	Saurashtra Gramin Bank	Rajkot	State Bank of India
		Baroda Gujarat Gramin Bank	Vadodara	Bank of Baroda
8	Haryana	Sarva Haryana Gramin Bank	Rohtak	Punjab National Bank

9	Himachal Pradesh	Himachal Pradesh Gramin Bank	Mandi	Punjab National Bank
10	Jharkhand	Jharkhand Rajya Gramin Bank	Ranchi	State Bank of India
11	Jammu & Kashmir	J&K Grameen Bank	Jammu	J&K Bank Ltd.
		Ellaquai Dehati Bank	Srinagar	State Bank of India
12	Karnataka	Karnataka Gramin Bank	Ballari	Canara Bank
		Karnataka Vikas Grameena Bank	Dharwad	Canara Bank
13	Kerala	Kerala Gramin Bank	Malappuram	Canara Bank
14	Maharashtra	Maharashtra Gramin Bank	New Aurangabad	Bank of Maharashtra
		Vidharbha Konkan Gramin Bank	Nagpur	Bank of India
15	Madhya Pradesh	Madhya Pradesh Gramin Bank	Indore	Bank of India
		Madhyanchal Gramin Bank	Sagar	State Bank of India
16	Manipur	Manipur Rural Bank	Imphal West	Punjab National Bank
17	Meghalaya	Meghalaya Rural Bank	Shillong	State Bank of India
18	Mizoram	Mizoram Rural Bank	Aizawl	State Bank of India
19	Nagaland	Nagaland Rural Bank	Kohima	State Bank of India
20	Orissa	Utkal Grameen Bank	Bolangir	State Bank of India
		Odisha Gramya Bank	Bhubaneshwar	Indian Overseas Bank
21	Punjab	Punjab Gramin Bank	Kapurthala	Punjab National Bank
22	Puducherry	Puduvai Bharathiar Grama Bank	Muthialpet	Indian Bank
23	Rajasthan	Baroda Rajasthan Kshetriya Gramin Bank	Ajmer	Bank of Baroda
		Rajasthan Marudhara Gramin Bank	Jodhpur	State Bank of India
24	Tamilnadu	Tamil Nadu Grama Bank	Salem	Indian Bank
25	Tripura	Tripura Gramin Bank	Agartala	Punjab National Bank
26	Uttar Pradesh	Aryavart Bank	Lucknow	Bank of India
		Baroda UP Bank	Rae Bareli	Bank of Baroda
		Prathama UP Gramin Bank	Moradabad	Punjab National Bank
27	Uttarakhand	Uttarakhand Gramin Bank	Dehradun	State Bank of India
28	West Bengal	Bangiya Gramin Vikash Bank	Berhampore	Punjab National Bank
		Paschim Banga Gramin Bank	Howrah	UCO Bank
		Uttar Banga Kshetriya Gramin Bank	Cooch Behar	Central Bank of India

**Source:** Various issues of NABARD, Mumbai.

At present, there are 43 Regional Rural Banks (RRBs) in India with 21,856 branches across 28 States and 3 UTs. They are sponsored by 12 Scheduled Commercial Banks (SCBs). RRBs in India have 28.3 crore depositors and 2.6 crore borrowers.

#### **d. FEATURES OF REGIONAL RURAL BANK**

The following are the important features of Regional Rural Banks in India,

- RRBs are a new form of scheduled commercial banks which is backed by a strong commercial bank.
- Each RRB is operated within a certain limit only.
- RRBs provide banking facilities to small, marginal farmers, artisans, etc. in rural areas.
- RRBs reduce regional imbalances by checking the outflow of rural deposits to urban areas. This will increase the employment generation in rural areas.
- RRBs provide 75% of their total credit as Priority Sector Lending to fulfil the criterion applicable to commercial banks.

### **3. AMALGAMATION OF REGIONAL RURAL BANKS**

Regional Rural Banks played an important role in financing rural areas since establishment in 1976. When financial reforms in the country introduced in 1991-92, the financial viability of RRBs became the most crucial factor in deciding the role it can perform. As the quantum of its loans were small as well as risk prone, restrictive interest rate policy with limited business flexibility and limited scope of diversification or expansion, the RRBs were incurring losses and their Non-Performing Assets (NPAs) were mounting. Following it, the Government of India and the Reserve Bank of India took many reforms to strengthen RRBs and improve their performance. In 1994-95 re-capitalization of RRBs was initiated as part of the restructuring programme. 187 RRBs were covered under this program till 1999-2000 with aggregate financial support of Rs. 2188.44 crore

from the shareholders, viz. Government of India, State governments and Sponsor banks in the ratio 50:15:35 respectively. The branch licensing policy was liberalised. The RRB's applications to open new branches were sanctioned by the empowered committees at the regional offices of RBI. The RRBs were given relaxation in branch expansion even beyond their designated districts. The branches of RRBs, with the prior approval of RBI and the concerned government authority, were allowed to undertake government business including the foreign exchange business.

#### a. COMMITTEES ON RRBs

Many committees had constituted at various times to give suggestions to tackle the financial non-viability of RRBs.

**TABLE 2: COMMITTEES CONSTITUTED FOR RESTRUCTURING OF RRBs**

S.No	Name of the Committee	Year	Recommendations
1	<i>Kelkar Committee</i>	1984	Small and uneconomic RRBs should be merged
2	<i>Agriculture Review Committee (Khusro Committee)</i>	1989	The RRBs should be merged with the sponsor Banks as the weaknesses of RRBs were endemic to the system and thus becomes non-viable entities. A self-sustaining credit institution can only serve the weaker sections effectively
3	<i>Bhandari Committee</i>	1994	Identified 49 RRBs for comprehensive restructuring. It recommended that in the matters of business development and staff, greater devolution of decision-making powers should be given to the boards of RRBs
4	Basu Committee	1996	The option of liquidation was suggested by the Committee on Revamping of RRBs
5	Thingalaya Committee	1997	Suggested very weak RRBs should be viewed separately and possibility of their liquidation be recognized. Also they might be merged with neighbouring RRBs.
6	<i>V.S.Vyas Committee</i>	2001	Suggested autonomy for the RRBs by the Sponsor Bank in their credit and other portfolio management system
7	<i>Internal Working Group of the Reserve Bank of India.</i>	2004	Merger and amalgamation of RRBs may help in improving their viability and suggested bringing of new banks both public and private as Sponsor Banks of the merged RRBs

#### b. AMALGAMATION OF RRBs

The Reserve Bank of India in 2001 constituted a Committee with Dr. V S Vyas on “Flow of Credit to Agriculture and Related Activities from the Banking System” to examine the relevance of RRBs in the rural credit system and the alternatives for making it operational. As on 31st March 2004, 33 RRBs were having operational losses. To overcome the problems of reduction of expenditure and enhancing efficiency, in August 2004 Reserve Bank of India decided to merge all the RRBs sponsored by one bank and operating in a state into one single RRB. This decision was more important and relevant in the context of better financial products in the market, encouraging the RRBs to grow bigger.

In the year 2005, the consolidation process was initiated as recommended by Dr. V.S. Vyas Committee. In 2005, the first phase of amalgamation was initiated by the Sponsor Bank-wise within a State. The amalgamation process brought down the number of RRBs from 196 to 82. The process of amalgamation started in early 2005. 145 RRBs were merged on 31st march 2007, reducing the total number of RRBs to 96 from 196 and to 88 at the end of June 2008. This consisted of 45 amalgamated banks, 42 standalone banks and one new bank called the Pudukkottai Bharathiar Gramin Bank in the Union Territory of Puducherry. The amalgamation was carried out in the year 2011 with a view to providing better customer service by having better infrastructure, computerization, an experienced workforce, common publicity and marketing efforts.

The strategy of which was to amalgamate RRBs functioning in contiguous geographies even if different public sector banks sponsored them. A major Bank operating in the region then sponsored the newly amalgamated RRB. In a medium or small sized state, geographically extensive RRBs under different sponsor Banks, within a state amalgamated to form just one RRB. In a large state, the RRBs were amalgamated to form two or three RRBs. This amalgamation finally led to the reduction of number of RRBs to 56 by 2016. The finance Ministry had put on hold further amalgamation of RRBs in 2014, as these Banks face challenges in meeting capital adequacy norms according to the existing standards.

The amalgamated RRBs also benefit from large areas of operation and enhanced credit exposure limits for high-value and diverse banking activities. As a result of the second phase of amalgamation during 2011-2014, the number of RRBs was brought down to 56 from 82. In the year 2018-2019, the amalgamation of RRBs was done based on the roadmap provided by NABARD and consultation with respective Sponsor Banks and State Governments. As of April 2019, the number of RRBs has been brought down to 43 from 56. The

amalgamation has been made with the expectation of bringing better efficiency of scale, higher productivity, improved financial health of the RRBs, and greater credit flow to rural areas.

Nearly 70 per cent of the people reside in rural areas in India, which has a larger impact on the country's economic situation. Consequently, there is a need for strong and efficient banking system in rural areas, to offer timely credit at affordable rates, as traditional moneylenders who provide loans at exorbitant interest rates. In developing countries like India, RRBs play a vital role in the growth and development of rural and backward areas.

**TABLE 3  
TOTAL AMALGAMATION OF RRBS IN INDIA**

S.No.	Year	RRBs
1	1975	6
2	1980	85
3	1985	188
4	1990	196
5	1995	196
6	2000	196
7	2006	133
8	2011	82
9	2013	64
10	2014	56
11	2023	43

**Source:** Various Annual Reports of NABARD.

#### 4. POST-AMALGAMATION PERIOD (2006-2016)

Amalgamation of RRBs was done in two phases in this period. The first phase started in 2005 when all RRBs working under a sponsor Bank were amalgamated to form minimum numbers of RRBs possible. In the 2nd phase, inter sponsor Bank amalgamation of RRBs were done which started in 2013 and stopped after 2014.

**Table 4: EXPANSION OF RRBS IN INDIA**

S.No.	Year	No. of RRBs	No. of Districts Covered	No. of Branches	Total Deposits	Total Advances
1	2006	133	523	14494	64195	36050
2	2007	96	525	14520	81620	48420
3	2008	91	534	14761	94412	57417
4	2009	86	594	15181	113828	64011
5	2010	82	616	15480	135814	79016
6	2011	82	618	16001	156702	94545
7	2012	82	620	16909	173393	111082
8	2013	64	635	17861	196422	129936
9	2014	57	642	19082	220624	152051
10	2015	56	644	20024	254226	173972
11	2016	56	644	20904	293754	197111
12	2017	56	644	21251	345573	213247
13	2018	56	654	21805	390550	245375
14	2019	53	662	22042	425799	276345
15	2020	45	696	21847	467203	293575
16	2021	43	696	21856	510435	331277
17	2022	43	696	21892	548312	357076
18	2023	43	696	21856	607540	412925

**Source:** Various Annual Reports of NABARD.

In the post-amalgamation period the RRBs were merged even inter- sponsor bank wise. The table above shows that the number of RRBs are falling and have reduced gradually from 133 in 2006 to 43 in 2023. But still the number of districts covered by RRBs are showing a rise to 696 and branches have also expanded significantly from 14,494 in 2006 to 21,856 in 2023.

#### 5. PROBLEMS OF RRBS

The Regional Rural Banks were set up to meet the credit needs of small farmers, artisans, and rural entrepreneurs. However, with the time, these banks are not been able to meet the desired objectives mainly because of certain problems which have been discussed. The major problems faced by Regional Rural Banks are as follows:

- a) Lack of capital: The authorised capital of RRBs is very low as compared to that of commercial banks. This limits their ability to expand their business and serve the rural people effectively.

- b) Lack of trained personnel: Most of the RRBs are located in remote and backward areas, where it is difficult to attract and retain trained personnel. As a result, they have to depend heavily on their sponsor banks for advice and guidance.
- c) High cost of operations: The high cost of operations is another problem faced by RRBs. This is due to the small size of their business and the lack of economies of scale.
- d) Dependence on Sponsor Banks: RRBs are generally dependent on their sponsor banks for day-to-day operations as well as for financial assistance. This dependence often leads to a conflict of interest between the two institutions.
- e) Political interference: Another major problem faced by RRBs is political interference. This is because they are often used as a tool for political mileage.

## **6. ADVANTAGES OF REGIONAL RURAL BANKS**

Despite these problems, RRBs also have certain advantages. They are:

- a. Provides banking facilities to the rural people who were hitherto not served by the commercial banks.
- b. helps in the development of agriculture and small-scale industries in rural areas.
- c. promotes thrift and entrepreneurship among the rural people.
- d. create employment opportunities in rural areas.
- e. help in checking migration from rural to urban areas.
- f. They play an important role in the implementation of government schemes like the Integrated Rural Development Programme (IRDP), Minimum Support Price (MSP) scheme, etc.
- g. help in the development of social and economic infrastructure in rural areas.
- h. checking the monopoly of moneylenders and traders in rural areas.
- i. providing credit at reasonable rates to rural people.
- j. Promote financial inclusion by providing banking facilities to the marginalised sections of society such as women, SC/STs, and minorities.

## **7. SUGGESTIONS**

As the areas of operation of a RRB branch never offer sufficient potential for business and thus to attain viability, this branches may cover the neighbouring districts. But the chances of extending the area of operation are very remote due to the introduction of the programme of Service Area Approach (SSA).

- 1. Within the service area, the RRBs must be allowed to finance the project of non-target groups after meeting the credit needs of target groups. Although CRAFTCARD and Kelkar Committee did not favour the idea of RRBs financing non-target groups but recommended to lend to those public bodies established for the benefit and welfare of weaker sections.
- 2. In order to increase the resource base, the RRBs may be permitted to open their branches in the semi-urban and urban areas having larger business potential. Such branches will help the RRBs to mobilise the much-needed resources required to meet rural obligations.
- 3. In order to diversify their deposit base, RRBs may be permitted to tap NRI deposits in those areas when they have such potential.
- 4. District administration should help the RRBs to recover the overdue loan amounts as the present recovery percentage remains as low as 23 per cent.

## **8. STRATEGIES FOR TURNAROUND OF RRBS**

The following measures can be taken to improve the functioning of Regional Rural Banks:

- a) to increase their authorised capital so that they can expand their business and serve the rural people effectively.
- b) to provide them with adequate financial assistance so that they can meet their day-to-day expenses.
- c) to attract and retain trained personnel in RRBs by providing them with better working conditions and salaries.
- d) to reduce the cost of operations of RRBs by rationalising their branch network and using technology.
- e) to make RRBs more autonomous so that they can make decisions without depending on their sponsor banks.
- f) to check political interference in the functioning of RRBs to serve the rural people without any bias.
- g) to provide RRBs with adequate resources so that they can play their role effectively in the development of rural areas.
- h) to increase public awareness about the functioning of RRBs so that more people can avail themselves of their services.
- i) to make RRBs more customer-friendly so that they can attract more customers.
- j) to use technology effectively to improve the efficiency and reach of Regional Rural Banks.

- k) need for consolidation in the banking sector which would help reduce the number of small banks and enable them to serve the rural people more effectively.

### **III. CONCLUSION**

Despite the problems faced by Regional Rural Banks, they have played an important role in the development of rural areas. There is a need to take measures to improve their functioning so that they can serve the rural people more effectively. The advances to priority sector have increased after amalgamation. The deposit mobilisation also showed increase in from Rs.64,195 crores in 2006 to Rs.6,07,540 in 2023. With the help of technology and consolidation, it is possible to make RRBs more efficient and reach a larger number of people.

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