The Journey of Regional Rural Banks in India: Evolution Towards Consolidation

The development of India's rural credit system has been marked by institutional reforms and policy-driven initiatives. Beginning with the recommendations of the Rural Credit Survey Committee Report (1954)[1], a series of milestones such as the nationalisation of commercial banks in 1969 and 1980, the establishment of Regional Rural Banks (RRBs) in 1975[2], and the creation of NABARD in 1982, shaped the country's rural banking architecture. Initially only five RRBs were set up in October 1975. These efforts were subsequently bolstered by the financial sector reforms initiated in 1991[3] and complemented by specific programmes including the Kisan Credit Card, Rural Infrastructure Development Fund, and the expansion of Self-Help Groups.

Establishment and Mandate of RRBs

Regional Rural Banks were established in 1975 through an Ordinance (later codified under the RRB Act, 1976)[4] to provide institutional mechanism for delivering credit to the rural poor. Their primary objective was to support the development of agriculture, trade, commerce, and productive activities in rural areas, with particular focus on small and marginal farmers, agricultural labourers, artisans, and small entrepreneurs.

RRBs were envisaged as a hybrid model combining the local reach of cooperatives with the business expertise of commercial banks. Ownership was structured in a tripartite format with the Central Government holding 50%, the State Government 15%, and the Sponsor Bank 35%. While regulated by the Reserve Bank of India (RBI), RRBs are supervised by NABARD[5], which conducts inspections under Section 35(6) of the Banking Regulation Act, 1949. NABARD's Board of Supervision (BoS) provides policy directions and ensures institutional oversight through periodic on-site inspections, off-site surveillance, and supplementary monitoring mechanisms.

Challenges in Operations and Structure

The performance of RRBs over time has been affected by several structural, operational, and financial challenges. These include the issues arising from multi-agency control, which created ambiguities in accountability and decision-making. Many RRBs operated under overlapping jurisdiction of Central and State Governments, and Sponsor Banks, resulting in inefficiencies and lack of coordinated policy direction. The incidence of non-performing assets was high due to poor credit appraisal, weak monitoring, and ineffective recovery mechanisms. Many branches were opened in non-viable areas under administrative or political pressure, leading to unsustainable operating costs.

Staffing-related challenges were prominent, with inadequate recruitment processes and lack of training infrastructure leading to capacity deficits. The banks also suffered from low levels of deposit mobilisation due to limited financial literacy in their target geographies and lack of trust among rural populations. Political interference, wilful defaults, and the inability to enforce credit discipline further compounded these issues. As a result, a significant number of RRBs registered accumulated losses, eroding their capital base and impeding their ability to function as viable banking institutions.

Financial Year (FY) 2018-19, RRP reported consolidated net losses on account of implementation of the Pension Scheme in RRBs after the verdict of the Hon'ble Supreme Court which entail huge financial liability of INR 27,444 on the RRBs. Post sanction of INR 10,890 crores as recapitalisation assistance during FY 2021-22 all RRBs rolled out a three-year Viability Plan in 2022-23 at achieving viability through credit expansion, business diversification, assets

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[1]https://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/91951_DECEMBER1955D3AE6668DA614C8B99E6776BCF975DFC.PDF
[2] ttps://financialservices.gov.in/beta/en/regional-rural-bank-page#:~:text=The%20Regional%20Rural%20Banks%20(RRBs,commerce%2C%20industry%20and%20other%20productive
[3] https://ibbi.gov.in/uploads/resources/Narasimham%20Committee%20I-min.pdf
[4] https://www.indiacode.nic.in/bitstream/123456789/1492/1/197621.pdf
[5] https://www.nabard.org/demo/auth/writereaddata/File/RRBs.pdf

quality improvement etc. Post this RRBs posted net profit of INR 4974 crores during FY 2022-23 and their consolidated Capital to Risk Weighted Assets Ratio (CRAR) was at 13.43% as on 31st March 2023[6].

Prior to the capital infusion, the average CRAR of RRBs stood at 10.2%. Following the recapitalization efforts during the fiscal year 2021-22, this ratio improved to 12.7% by March 31, 2022. The number of RRBs with CRAR below the regulatory requirement of 9% decreased from 16 to 13, and those with negative CRAR reduced from 8 to 3 during the same period.

Policy Responses and Reform Measures

In light of these concerns, several reform-oriented committees were constituted. The Dr. V.S. Vyas Committee (2001)[7] highlighted the need for structural reforms, including consolidation of RRBs to enable economies of scale and strengthen viability. The Dr. K.C. Chakrabarty Committee (2009) recommended recapitalisation of weak RRBs and stipulated capital adequacy norms—CRAR of at least 7% by March 2011 and 9% from March 2012 onwards.

Following these recommendations, the Government of India approved a recapitalisation package in 2011 comprising:

- INR 1,100 crore from the Central Government (with matching contributions from State Governments and Sponsor Banks);
- INR 100 crore for setting up a capacity-building fund under NABARD;
- INR 700 crore as contingency support for weaker RRBs, particularly in the Northeastern and Eastern regions.

Consolidation of RRBs: A Structured Policy Initiative

The consolidation of RRBs has been a phased and strategic reform initiative led by the Ministry of Finance, Government of India. In response to persistent structural inefficiencies and to enhance scale, the Government launched a comprehensive amalgamation plan guided by the principle of "One State, One RRB".

- **Phase I (2006–2010)**: Reduced the number of RRBs from 196 to 82
- **Phase II (2013–2015)**: Further reduced from 82 to 56
- **Phase III (2019–2021)**: Consolidated from 56 to 43
- **Phase IV (2025)**: Amalgamation of 26 RRBs into 11 new entities in 10 States and 1 Union Territory
- States of Goa and Sikkim did not have any RRBs.

Pursuant to the above, the Department of Financial Services (DFS) notified[8] the fourth phase of amalgamation following stakeholder consultations. The objective was to enhance operational efficiency, scale of operations, and cost rationalisation. In FY 2021-22 Government of India infused INR 10,890 of capital in RRBs

Post the fourth phase, 28 RRBs are now functioning across 26 States and 2 Union Territories, with over 22,000 branches covering 700 districts. Notably, 92% of these branches are located in rural and semi-urban areas, focussing on rural financial inclusion.

Amalgamations effective from May 1, 2025, include:

- **Andhra Pradesh**: Four RRBs merged into Andhra Pradesh Grameena Bank, sponsored by Union Bank of India
- **Bihar**: Two RRBs merged into Bihar Gramin Bank, sponsored by Punjab National Bank
- **Gujarat**: Baroda Gujarat Gramin Bank and Saurashtra Gramin Bank merged into Gujarat Gramin Bank- sponsored by Bank of Baroda.
- **Jammu & Kashmir Gramin Bank- J**&K Grameen Bank and Ellaquai Dehati Bank will be amalgamated into Jammu and Kashmir Grameen Bank- sponsored by J&K Bank.

[6] https://financialservices.gov.in/beta/sites/default/files/2024-08/Consolidated-Review-of-RRBs-2022-23.pdf
[7] https://www.nabard.org/auth/writereaddata/tender/0607175124Vyas%20Committee%20Report.pdf
[8] https://static.pib.gov.in/WriteReadData/specificdocs/documents/2025/apr/doc202548536401.pdf

- **Karnataka**: Karnataka Vikas Grameena Bank and Karnataka Gramin Bank merged into Karnataka Grameena Bank- sponsored by Canara Bank.
- **Madhya Pradesh-** Madhya Pradesh Gramin Bank and Madhyanchal Gramin Bank, sponsored by Bank of India and State Bank of India, are being amalgamated into Madhya Pradesh Gramin Bank, under the sponsorship of Bank of India.
- **Maharashtra -** Maharashtra Gramin Bank and Vidharbha Konkan Gramin Bank, sponsored by Bank of Maharashtra and Bank of India, will be amalgamated into Maharashtra Gramin Bank, under the sponsorship of Bank of Maharashtra**.**
- **Odisha -** Odisha Gramya Bank and Utkal Grameen Bank, sponsored by Indian Overseas Bank and State Bank of India, are being amalgamated into Odisha Grameen Bank under the sponsorship of Indian Overseas Bank.
- **Rajasthan -** Rajasthan Marudhara Gramin Bank and Baroda Rajasthan Kshetriya Gramin Bank, sponsored by State Bank of India and Bank of Baroda, are amalgamated into Rajasthan Gramin Bank, under the sponsorship of State Bank of India, effective May 1, 2025.
- **Uttar Pradesh**: Three RRBs consolidated into Uttar Pradesh Gramin Bank, sponsored by Bank of Baroda
- **West Bengal**: Three RRBs amalgamated into Bangla Gramin Bank, sponsored by Punjab National Bank

This journey of RRBs in India from 196 to 28 banks highlight the evolution of rural banking from fragmented, small-scale institutions into robust, consolidated entities better equipped to serve rural India. The amalgamation efforts under the "One State, One RRB" policy[9] which is a step towards operational consolidation, technology adoption, and professional governance, crucial to empower RRBs to play a pivotal role in rural development and inclusive finance.

Challenges Ahead Post Consolidation

Despite the structural benefits achieved through the consolidation of RRBs, several challenges remain in the post-merger landscape. Ensuring uniform integration of technology platforms, harmonisation of human resource policies, and alignment of operational procedures across the merged entities are complex and time-consuming tasks. Many amalgamated RRBs still continue to face difficulties in capital adequacy, credit risk management, and customer outreach. The success of consolidation will ultimately depend on the ability of the new entities to translate scale efficiencies into improved credit delivery and rural financial inclusion.

We trust you will find this an interesting read. For any queries or comments on this update, please feel free to contact us at insights@elp-in.com or write to our authors:

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[9] No. 7/6/2024- RRB- Dated November 04, 2024 of DFS