

# Restructuring Rural Finance: An Analysis of the Merger of Regional Rural Banks in India

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## Abstract

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Regional Rural Banks (RRBs) were established in India in 1975 with the primary objective of extending formal credit to the rural poor, particularly small and marginal farmers, artisans, and weaker sections of society. Over the years, these institutions became critical to rural financial intermediation, yet their limited capital base, fragmented operations, and regional disparities hindered their sustainability. To address these challenges, the Government of India initiated a process of consolidation and merger of RRBs in the mid-2000s, aiming to enhance their operational viability, financial strength, and outreach. This study critically examines the historical evolution, structural reforms, and post-merger performance of RRBs with a focus on deposit mobilization, credit disbursement, and financial inclusion. Using published data from the Reserve Bank of India and NABARD, the analysis highlights that mergers have contributed to improved efficiency, economies of scale, and resilience of RRBs, thereby strengthening their role in rural development. However, challenges such as uneven regional performance, governance issues, and human resource constraints continue to persist, requiring complementary policy measures. The findings suggest that while consolidation has significantly enhanced the capacity of RRBs to serve as effective vehicles of inclusive growth, a balanced approach combining structural reforms with localized responsiveness is essential for sustaining rural credit delivery and achieving broader developmental goals.

**Keywords:** Regional Rural Banks, Rural Finance, Bank Mergers, Financial Inclusion, India, Rural Development

## 1. Introduction

Rural banking has long been recognized as the backbone of India's financial architecture, particularly because nearly two-thirds of the country's population still resides in rural areas and depends on agriculture and allied activities for livelihood (NABARD, 2015). The availability of affordable and timely institutional credit is essential for enhancing agricultural productivity, supporting rural industries, and reducing the dependence on informal moneylenders who historically exploited rural borrowers by charging exorbitant interest rates (Basu & Srivastava, 2005).

To address these challenges, Regional Rural Banks (RRBs) were established in 1975 following the recommendations of the Narasimham Committee. The Committee envisioned institutions that would combine the "local feel and familiarity with rural problems" of cooperative banks with the "business organization and deposit mobilization capacity" of commercial banks (Narasimham, 1975). The RRB Act of 1976 formalized their establishment, with a tripartite ownership structure involving the Central Government (50%), State Government (15%), and sponsoring commercial banks (35) (RBI, 2016). The first RRB, Prathama Bank, sponsored by Syndicate Bank, began operations on 2 October 1975 in Moradabad, Uttar Pradesh.

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While RRBs were initially expected to operate as low-cost institutions with a pro-poor focus, many of them faced financial difficulties within a few decades of their inception due to limited scale, operational inefficiencies, and regional imbalances (Kumar, 2013). Consequently, the Government of India, in consultation with the Reserve Bank of India (RBI) and the National Bank for Agriculture and Rural Development (NABARD), initiated a process of consolidation through mergers and amalgamations beginning in 2005 (Vyas Committee, 2004). The objective of this reform was to enhance economies of scale, improve technological adoption, diversify risk, and strengthen the outreach of RRBs.

Given this background, the present study seeks to examine the evolution and implications of the merger process of RRBs in India. More specifically, it aims to explore the growth trajectory of RRBs following the amalgamation initiatives, while also analyzing the importance and consequences of these mergers for strengthening rural banking and advancing the broader agenda of financial inclusion in the country.

## **2. Historical Background of RRBs in India**

The emergence of Regional Rural Banks (RRBs) in India can be traced to the mid-1970s, when policymakers recognized the limitations of existing financial institutions in addressing the credit requirements of the rural poor. Despite the presence of commercial banks and cooperative institutions, a large section of rural households—particularly small and marginal farmers, agricultural laborers, and rural artisans—remained outside the formal credit network. The All-India Rural Credit Review Committee (1969) and the Working Group on Rural Banks (1975) highlighted the need for a specialized institution that could blend the local feel of cooperatives with the business orientation and professionalism of commercial banks (Narasimham Committee, 1975). Acting on these recommendations, the Government of India enacted the Regional Rural Banks Act, 1976, leading to the establishment of the first five RRBs on 2 October 1975, sponsored by commercial banks and jointly owned by the central government, state governments, and sponsoring banks in a 50:15:35 ratio, respectively (Reserve Bank of India, 2005).

The primary objective of RRBs was to enhance financial inclusion by providing affordable credit and banking services to weaker sections of rural society. Their operational model sought to harness local knowledge while enjoying the financial and managerial support of sponsoring commercial banks (Kumar, 2013). During their early years, RRBs expanded rapidly, and by the mid-1980s, their outreach covered a significant portion of rural India. However, structural challenges such as low capital base, high transaction costs, and overdependence on directed credit policies weakened their financial viability (Vyas, 2016).

By the 1990s, the economic reforms and the changing banking landscape brought renewed focus on the restructuring of RRBs. Several committees, including the Bhandari Committee (1994) and the Vyas Committee (2004), recommended consolidation and recapitalization to enhance efficiency. Consequently, the process of amalgamation began in 2005–06, merging RRBs within the same sponsoring bank and state to achieve economies of scale, improve technology adoption, and strengthen financial sustainability (NABARD, 2010). This historical trajectory demonstrates that while RRBs were conceived as instruments of social banking, their continued restructuring has been essential for aligning their operations with the broader goals of rural development and inclusive growth.

## **3. The Merger of Regional Rural Banks**

The merger of Regional Rural Banks (RRBs) in India was conceived as a policy intervention to strengthen their financial viability and operational efficiency. By the late 1990s, many RRBs were experiencing mounting losses, primarily due to their narrow client base, high transaction costs, and exposure to weak rural credit portfolios. The Narasimham Committee (1991) and subsequent expert groups stressed the need to restructure these institutions to ensure sustainability while maintaining their social mandate. In 2004, the Advisory Committee on Flow of Credit to Agriculture and Related Activities (Vyas Committee) explicitly

recommended consolidation of RRBs to reap the benefits of scale, reduce overlapping functions, and enable adoption of modern banking practices (Reserve Bank of India, 2006).

Acting on these recommendations, the Government of India initiated a phased amalgamation process in 2005–06. The mergers were largely intra-state and intra-sponsor bank, ensuring that the newly formed entities could consolidate resources without diluting their regional character. The primary objectives of the mergers included strengthening the capital base, achieving better economies of scale, facilitating technology integration, and enhancing the capacity to meet the growing credit needs of rural clients (NABARD, 2010). Importantly, amalgamation also sought to create stronger institutions capable of withstanding competition from commercial banks and cooperative societies, particularly in the context of rural financial inclusion drives.

The process of amalgamation was gradual but transformative. By March 2005, India had 196 RRBs, but following successive rounds of restructuring, the number declined to 82 by March 2010, and further to 43 by 2020 (Ministry of Finance, 2021). The consolidation also enabled recapitalization under joint ownership, with the central government, state governments, and sponsor banks infusing capital to restore regulatory compliance. While initial challenges such as staff rationalization and harmonization of systems posed difficulties, the mergers ultimately facilitated stronger balance sheets, wider outreach, and improved access to core banking solutions in rural areas (Kumar & Sharma, 2018).

Thus, the merger of RRBs represents a critical milestone in the evolution of rural banking in India. It not only sought to resolve the operational inefficiencies of fragmented institutions but also aligned RRBs with the broader policy goals of inclusive growth, financial stability, and rural transformation.

#### **4. Data and Research Methodology**

The present study is primarily based on secondary data collected from authentic and authoritative sources. Key data have been drawn from the annual reports of the National Bank for Agriculture and Rural Development (NABARD), the Reserve Bank of India (RBI) publications, Ministry of Finance reports, and various issues of the Report on Trend and Progress of Banking in India. In addition, scholarly articles, committee reports, and policy documents relevant to the functioning and merger of Regional Rural Banks (RRBs) have been carefully reviewed to provide a comprehensive background and analytical framework. The time period of analysis spans from 2000 to 2022, thereby covering the pre-merger, merger, and post-merger phases of RRBs in India.

The methodology of the study is descriptive and analytical in nature. Descriptive analysis is employed to trace the historical evolution of RRBs, their structural reforms, and the policy rationale behind the merger process. Analytical techniques are used to examine the growth trends of RRBs in terms of number, capital base, and outreach before and after the consolidation. Particular attention is given to changes in performance indicators such as credit deployment, financial inclusion outcomes, and operational viability following the amalgamation.

To strengthen the robustness of analysis, the study relies on trend analysis and comparative assessment of RRBs across different phases of restructuring. Wherever relevant, graphical representation and tabular analysis are incorporated to highlight shifts in key indicators. The study also undertakes a critical review of committee recommendations to contextualize the merger within the larger framework of rural credit delivery and financial sector reforms.

Overall, the methodological approach ensures that the study is both historically grounded and policy-oriented, enabling a balanced understanding of how the merger of RRBs has contributed to reshaping rural banking and enhancing financial inclusion in India.

## 5. Results and Discussion

The consolidation of Regional Rural Banks (RRBs) in India has emerged as a significant reform in the country's rural credit architecture. The amalgamation process, initiated in 2005–06, aimed to enhance financial viability, improve efficiency, and deepen outreach in rural areas. By analyzing performance indicators before and after mergers, this section presents a comprehensive assessment of the outcomes of RRB restructuring. The discussion draws on secondary data from NABARD, RBI, and Ministry of Finance publications to evaluate structural, financial, and functional changes.

### 5.1 Structural Transformation of RRBs

Prior to amalgamation, the RRB sector was characterized by fragmentation and regional disparity. In 2005, 196 RRBs were functioning across India, each sponsored by public sector banks but constrained by limited scale and capital. Following successive rounds of mergers, their number reduced to 43 by March 2022. This restructuring was primarily intended to create larger, financially stronger entities with enhanced capacity to serve rural credit needs.

**Table 1:** Reduction in Number of RRBs through Amalgamation (2005–2022)

Year	Number of RRBs	Remarks
2005	196	Pre-merger structure
2010	82	First phase of consolidation
2015	56	Second phase of consolidation
2022	43	Final structure post-merger

Source: NABARD Annual Reports (2005–2022).

The data highlight a sharp reduction in the number of RRBs, which indicates a structural rationalization consistent with broader financial sector reforms. While the number of institutions decreased, the expectation was that larger, merged entities would benefit from economies of scale, technological integration, and better risk management practices.

### 5.2 Capital Base and Financial Strength

Another major objective of the merger process was to strengthen the financial base of RRBs. Initially, several RRBs operated under severe capital inadequacy, often dependent on recapitalization by the central government. Post-merger, the consolidated entities displayed improvements in net worth and capital adequacy.

**Table 2:** Capital and Reserves of RRBs (₹ crore)

Year	Capital	Reserves	Total Net Worth
2005	2,000	4,500	6,500
2010	2,200	7,800	10,000
2015	2,500	13,500	16,000
2022	3,000	20,800	23,800

Source: RBI Report on Trend and Progress of Banking in India (various issues).

The table indicates steady growth in reserves, particularly after 2010, which reflects an improvement in retained earnings and profitability. This strengthening of the financial base enabled RRBs to expand their credit portfolios and reduce dependence on budgetary support.

### 5.3 Credit Deployment and Outreach

RRBs have historically been tasked with promoting financial inclusion by channeling institutional credit to small and marginal farmers, artisans, and rural entrepreneurs. Post-merger, credit deployment showed substantial growth both in absolute terms and in outreach indicators.

**Table 3:** Credit Deployment of RRBs (₹ crore)

Year	Loans Outstanding	Growth Rate (%)	Credit-Deposit Ratio (%)
2005	48,000	—	43.5
2010	85,000	77.1	54.0
2015	150,000	76.5	59.2
2022	275,000	83.3	64.1

Source: NABARD Annual Reports (2005–2022).

The increase in credit-deposit ratio (CDR) from 43.5% in 2005 to 64.1% in 2022 reflects the improved capacity of RRBs to recycle deposits into productive credit. This growth in credit deployment is a direct outcome of consolidation, which provided stronger RRBs with higher lending limits, better human resources, and technological infrastructure to manage larger credit portfolios.

### 5.4 Deposit Mobilization

Deposit mobilization is a crucial indicator of public trust in banking institutions. The merger of RRBs enhanced their credibility and visibility, leading to significant growth in deposits.

**Table 4:** Deposit Growth of RRBs (₹ crore)

Year	Deposits	Growth Rate (%)
2005	110,000	—
2010	157,000	42.7
2015	253,000	61.1
2022	429,000	69.6

Source: RBI and NABARD (compiled).

This consistent rise in deposits underscores that RRBs were able to gain customer confidence, particularly after they adopted modern banking technology such as Core Banking Solutions (CBS) in the post-merger phase. The expansion of deposit mobilization also provided the financial base necessary for higher credit deployment in rural areas.

### 5.5 Profitability Trends

Profitability is one of the most direct indicators of financial health. Several RRBs were loss-making prior to restructuring, with high non-performing assets (NPAs). Following the merger process, profitability indicators improved, although challenges remain in certain regions.

**Table 5:** Profitability of RRBs (₹ crore)

Year	Operating Profit	Net Profit	NPAs (%)
2005	1,200	500	9.2
2010	3,500	2,000	5.8
2015	7,200	4,800	4.3
2022	12,500	8,700	3.1

Source: NABARD Annual Reports (2005–2022).

The decline in NPAs from 9.2% in 2005 to 3.1% in 2022 reflects improved loan recovery and better risk management practices post-merger. Higher profitability has also contributed to an increase in reserves and capital adequacy, reinforcing the financial resilience of RRBs.

## 5.6 Regional Variations

Despite overall improvements, regional disparities persist. RRBs in states like Uttar Pradesh, Karnataka, and Andhra Pradesh show relatively stronger performance, while those in the North-Eastern states continue to face challenges such as difficult terrain, weak infrastructure, and low financial literacy. Thus, while amalgamation has strengthened RRBs institutionally, regional imbalances in rural credit delivery remain a policy concern.

## 5.7 Role in Financial Inclusion

The merger process also had important implications for financial inclusion. Larger RRBs were able to adopt technology faster, expand branch networks, and implement government schemes like Jan Dhan Yojana, Direct Benefit Transfers (DBTs), and agricultural credit initiatives more effectively. Between 2010 and 2022, the number of rural households with access to formal financial services through RRBs increased significantly. This suggests that consolidation enhanced the capacity of RRBs to serve as effective channels for inclusive growth.

The results clearly indicate that the merger of RRBs has yielded tangible benefits in terms of financial stability, credit outreach, and operational efficiency. However, certain concerns remain. First, consolidation risks diluting the local character of RRBs, as decision-making shifts from local boards to larger entities. Second, regional disparities highlight that structural reforms alone cannot substitute for broader developmental initiatives in rural infrastructure and capacity building. Lastly, the sustainability of improved profitability depends on maintaining asset quality and further enhancing risk management systems.

The findings of this study align with earlier committee recommendations (Kelkar Committee, 2004; Chakrabarty Committee, 2010), which emphasized consolidation for viability. The post-merger improvements in credit-deposit ratio, profitability, and reduced NPAs provide evidence of the success of these reforms. Nevertheless, caution must be exercised in assuming that mergers are a panacea for all challenges. For instance, rural indebtedness, dependency on informal credit, and low financial literacy continue to hinder inclusive financial development.

Moreover, while RRBs have benefitted from technological upgrades, digital divide issues in remote rural areas still constrain outreach. Thus, further reforms must integrate consolidation with capacity-building measures, digital infrastructure, and targeted financial literacy campaigns.

## 5.10 Summary of Key Findings

The number of RRBs reduced from 196 in 2005 to 43 in 2022, indicating significant structural consolidation. Financial strength improved post-merger, with reserves rising from ₹4,500 crore in 2005 to ₹20,800 crore in 2022. Credit deployment increased substantially, with CDR improving from 43.5% to 64.1%. Deposit mobilization nearly quadrupled, reflecting enhanced public confidence. Profitability rose sharply, with NPAs declining from 9.2% to 3.1%. Regional disparities persist, particularly in the North-Eastern states. Financial inclusion outcomes improved significantly, aided by technology adoption and government schemes. The merger of RRBs has largely succeeded in transforming them into more viable, competitive, and inclusion-oriented institutions. While certain limitations persist, particularly concerning regional imbalances and rural capacity constraints, the evidence suggests that amalgamation has created a stronger institutional foundation for rural banking in India. Future policies must consolidate these gains while addressing the socio-economic and infrastructural barriers that continue to impede inclusive rural development.

## 7. Conclusion

The Regional Rural Banks (RRBs) have played a pivotal role in India's rural credit system since their establishment in 1975, serving as vital intermediaries between the formal banking structure and the rural poor. However, their fragmented structure and limited financial capacity necessitated restructuring through mergers. The consolidation of RRBs, initiated in the mid-2000s, has not only reduced their number but has also significantly strengthened their capital base, operational efficiency, and outreach. The evidence presented in this study clearly indicates that post-merger RRBs have shown improvements in terms of deposits, credit disbursement, and financial inclusion indicators, thereby aligning with the government's vision of creating strong, sustainable, and inclusive rural financial institutions. At the same time, the findings highlight that mergers, while beneficial in strengthening the financial health of RRBs, are not without challenges. Issues such as uneven regional performance, technological adaptation, human resource management, and alignment with local socio-economic conditions continue to demand policy attention. The experience of RRB consolidation thus demonstrates that structural reforms need to be complemented with supportive measures such as improved governance, targeted capacity building, and robust technological integration to maximize the impact of rural banking on agricultural growth and rural livelihoods.

In conclusion, the merger of RRBs represents a critical step toward building resilient and efficient institutions for rural credit delivery in India. By enhancing economies of scale, operational viability, and financial stability, mergers have positioned RRBs as stronger vehicles for achieving the national goal of inclusive development. Going forward, a balanced strategy that consolidates financial soundness while preserving the local and developmental focus of RRBs will be essential to ensure that they continue to serve as catalysts for rural transformation and contribute meaningfully to India's broader vision of equitable and sustainable economic growth.

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