A Study of How Amalgamation of RRB Is Contributing in Making India a Developed Nation

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Abstract

After the nationalisation of banks in 1969 the faith of the general public in Indian banking system has become stronger. Due to cultural problems the farmers of the nation can't get lending from commercial banks in an easy way, even after nationalisation. A vital component of the nation's economic development is rural development. The people in rural area comprises of farmers, landless labourers, artisans, retail traders etc. out of 60% of the total population. The main demographic characteristics of rural areas are socioeconomic backwardness, unemployment, and underemployment. As people in the rural area were facing difficulties while procuring loan from commercial bank. As a result, government of India to initiative to establish a bank which could provide loans on easy terms to the people of rural area, such kind of bank were known as Regional Rural Bank (RRB). These banks were formed under the Regional Rural Banks Act in 1976 as state-sponsored, regionally based, and rurally orientated organisations, with any one commercial bank serving as the sponsor bank. The Indian government began recapitalising the RRBs along with a number of other policy reforms to give them operational independence for boosting their operations and profitability after the RRBs had financial challenges within 20 years. In order to make the functioning of the RRB more effective, the first phase of amalgamation was started in September 2005. After the amalgamation of Regional Rural Banks in India, there has been a rise in advancements in the priority sector. Further, there was a surge in deposit mobilisation from Rs. 64,195 crores in 2006 to Rs. 6,07,540 crores in 2023. RRBs can be made more effective and accessible to a wider audience with the aid of technology and amalgamation. The present study tries to analyse how amalgamation of RRB is contributing in making India a developed nation. For the purpose of research annual reports of NABARD and RBI is taken into consideration. Additionally, various other published sources will be used in this research paper.

Keyword: Regional Rural Bank, Nationalization, Amalgamation, Rural Development, Agricultural Producers.

1. Introduction

India's rural economy continues to be hampered by poor infrastructure and other persistent issues facing farmers. Rural areas commercial banks pay less attention because these banks prioritize deposits above credit. The situation did not improve even with the nationalization of the big commercial banks. Less than 1% of communities in the village areas used commercial banks for financial services. Therefore, it becomes necessary to establish regional rural banks. By promoting financial inclusion, these banks are largely contributing in achieving the goal of sustainability. Evan today in many parts of rural area people are dependent on money lenders for procuring loan instead of banking service. In reality, the rural sector determines industrial development and economic advancement. Presently in India almost 50% of GDP contribution is done by rural sector, and agriculture is India's top source of foreign exchange earnings. Financial institutions—especially banks—neglect this crucial and important sector. The main aim of Regional Rural Bank is to provide financial services to the people in the rural area who face difficulties in availing financial services. These banks were established in India in 1975, especially in areas where there was no access to banking institutions. RRBs are commercial banks in general, but they also embrace some cooperative concepts, like geographical location. RRBs in India were experiencing operational losses due to various reasons, as a result the Reserve Bank of India decided in August 2004 to combine all of the RRBs operating in a state and sponsored by a single bank into a single organization in order to reduce costs and increase efficiency.

Regional Rural Bank (RRB)

Thus, the scheduled commercial banks which are owned by the Government which conduct business at the regional level throughout the nation's states are known as Regional Rural Banks (RRBs). The Ministry of India owns 50%, the Sponsored Bank owns 35% and the relevant state government owns 15% share in Regional Rural Banks (RRB Wikipedia). Regional Rural Bank was established by passing RRB act 1976 and with an ordinance of September 26, in 1975 to provide enough banking and credit facilities for rural areas, including agriculture. These banks are established to provide services related to banking and financial for rural section people and also operates in urban branches. In this way during the Indira Gandhi's government, on October 2nd 1975, five RRBs were established on the rural credit recommendation of Narasimhan committee. Hence, about 70% of Indians lived in rural areas, the objective behind this was to include these areas into country's economic widespread.

“Prathama Bank was the first RRB, which has its headquarters in Moradabad, Uttar Pradesh. With Syndicate Bank as its sponsor, it was authorized to have Rs. 5 crores in capital. The other four RRBs were Jaipur-Nagaur Anchalik Gramin Bank (sponsored by UCO Bank), Haryana Kshetriya Gramin Bank (sponsored by Punjab National Bank), Gaur Gramin Bank (sponsored by UCO Bank), and Gorakhpur Kshetriya Gramin Bank (sponsored by State Bank of India). The ownership of the RRBs is in the hands of the government and the sponsored banks, in which, 35% of the share are held by sponsored bank, 50% shares held by central government and 15% are under the ownership of state government” (RRB Wikipedia).

Regulation of Regional Rural Bank in India:

In India there are two prime regulators of Regional Rural Bank-(financialservices.gov.in)

1. Reserve Bank of India (RBI)
2. National bank for Agriculture and Rural Development (NABARD)

Amalgamation of RRB

Amalgamation refers to the process of joining of two or more entities. More than 190 RRBs were in operation in the beginning of the 1990s. As a result, ten banks and 25 RRBs combined in January 2013. Consequently, during phase 1 alone, the number dropped from 190 to 67. In phase 2, they were further cut to 56 banks in March 2016. In phase three of the Amalgamation of Regional Rural Banks, the total number of RRBs were bought down from 56 to 43. As a result, now 43 RRBs are working around in India. In 2005 the amalgamation process was initiated on the recommendation of Dr. V.S. Vyas Committee (Reddy, D. M., & Prasad, K. V. N. 2011). The Sponsor Bank within a State started the first phase of amalgamation in 2005. There were 82 RRBs after the merging procedure reduced the number to 196. Early in 2005, the amalgamation process got underway. On March 31, 2007, 145 RRBs combined, bringing the overall number of RRBs down from 196 to 96 at the end of June 2008. This included one new bank named the Puduvai Bharathiar Gramin Bank in the Union Territory of Puducherry, forty-five merged institutions, and forty-two standalone banks.

Despite exceptions from the Competition Commission of India (CCI), the regional rural banks (RRBs) would merge in the current fiscal year (2023–2024) Data from the National Bank for Agriculture and Rural Development (NABARD) reveal that at the end of 2021–2022 the CAR of RRBs was 12.7%. By providing online banking services, core banking solutions, and account aggregator platform on boarding, the Ministry of Finance and NABARD are assisting RRBs in modernizing their technological infrastructure. RRBs have been instructed by the sponsor banks to concentrate on loan recovery.

Large operating territories and improved credit exposure limitations for high-value and varied banking activities are other benefits enjoyed by the amalgamated RRBs. The second phase of amalgamation, which took place between 2011 and 2014, reduced the number of RRBs from 82 to 56. Based on the NABARD-provided roadmap and discussions with the relevant Sponsor Banks and State Governments, the RRBs were merged in 2018–2019.

Table–1 Amalgamation of RRBs From 2019 to 2020

S. No.	State/UT	Name of Regional Rural Bank	Name of Amalgamated Entity	Sponsor Bank of New RRB	Date
1 2	Bihar Bihar	Bihar Gramin Bank Madhya Bihar Gramin Bank	Dakshin Bihar Gramin Bank	Punjab National Bank	2019
1 2 3	Punjab Punjab Punjab	Malwa Gramin Bank Punjab Gramin Bank Sutlej Gramin Bank	Punjab Gramin Bank	Punjab National Bank	2019
1 2	Assam Assam	Assam Gramin Vikash Bank Langpi Dehangi Rural Bank	Assam Gramin Vikash Bank	United Bank of India	2019
1	Gujrat	Baroda Gujrat Gramin Bank	Baroda Gujrat Gramin Bank	Bank of Baroda	2019

2	Gujrat	Dena Gujrat Gramin Bank			
1 2	Jharkhand Jharkhand	Jharkhand Gramin Bank Vananchal Gramin Bank	Jharkhand Rajya Gramin Bank	State Bank of India	2019
1 2	Karnataka Karnataka	Kaveri Grameen Bank Pragathi Krishna Gramin Bank	Karnataka Gramin Bank	Canara Bank	2019
1 2	M.P. M.P.	Central Madhya Pradesh Gramin Bank Narmada Jhabua Gramin Bank	Madhya Pradesh Gramin Bank	Bank of India	2019
1 2	Tamil Nādu Tamil Nādu	Pallavan Gramin Bank Pandyan Gama Bank	Tamil Nadu Grama Bank	Indian Bank	2019
1 2	U.P. U.P.	Allahabad U.P. Gramin Bank Gramin Bank of Aryavart	Aryavart Bank	Bank of India	2019
1 2	U.P. U.P.	Prathama Bank Sarva U.P. Gramin Bank	Prathama U.P. Gramin Bank	Punjab National Bank	2019
1 2 3	U.P. U.P. U.P.	Baroda Uttar Pradesh Gramin Bank Kashi Gomti Samyut Gramin Bank Purvanchal Bank	Baroda U.P. Bank	Bank of Baroda	2020

(Source: www.nabard.org)

Post amalgamation the number of RRBs has decreased from 56 to 43 as of April 2019. It was anticipated that the merger would result in increased production and improved scale efficiency. enhanced lending flow to rural areas and better RRB financial standing. The RRBs that are working in India at Present, they are mentioned in the Table 2.

Table–2 List of RRBs in India

Sr. No.	**Name of RRB**		**State/UT**
1	Andhra Pragathi Gramin Bank		Andhra Pradesh
2	Chaitanya Godavari Gramin Bank		Andhra Pradesh
3	Saptagiri Gramin Bank		Andhra Pradesh
4	Arunachal Pradesh Rural Bank		Arunachal Pradesh
5	Assam Gramin Vikash Bank		Assam
6	Dakshin Bihar Gramin Bank		Bihar
7	Uttar Bihar Gramin Bank		Bihar
8	Chhattisgarh Rajya Gramin Bank		Chhattisgarh
9	Baroda Gujrat Gramin Bank		Gujrat
10	Saurashtra Gramin Bank		Gujrat
11	Sarva Haryana Gramin Bank		Haryana
12	Himachal Pradesh Gramin Bank		Himanchal Pradesh
13	Ellaquai Dehati Bank		Jammu & Kashmir
14	J & K Grameen Bank		Jammu & Kashmir
15	Jharkhand Rajya Gramin Bank		Jharkhand
16	Karnataka Gramin Bank		Karnataka
17	Karnataka Vikash Gramin Bank		Karnataka
18	Kerala Gramin Bank		Kerela
19	Madhya Pradesh Gramin Bank		Madhya Pradesh
20	Madhyanchal Gramin Bank		Madhya Pradesh
21	Maharashtra Gramin Bank		Maharashtra
22	Vidharbha Konkan Gramin Bank		Maharashtra
23	Manipur Rural Bank		Manipur
24	Meghalaya Rural Bank		Meghalaya
25	Mizoram Rural Bank		Mizoram
26	Nagaland Rural bank		Nagaland

27	Odisha Gramya Bank		Odisha
28	Utkal Grameen Bank		Odisha
29	Pondicherry Bhamthiyar Grama Bank		Pondicherry
30	Punjab Gramin Bank		Punjab
31	Baroda Rajasthan Kshatriya Gramin Bank		Rajasthan
32	Rajasthan Marudhara Gramin Bank		Rajasthan
33	Tamil Nadu Gramin Bank		Tamil Nadu
34	Andhra Pradesh Grameen Vikash Bank		Telangana
35	Telangana Grameen Bank		Telangana
36	Tripura Gramin Bank		Tripura
37	Aryavan Bank		Uttar Pradesh
38	Baroda U.P. Bank		Uttar Pradesh
39	Prathama U.P. Bank		Uttar Pradesh
40	Uttarakhand Gramin Bank		Uttarakhand
41	Bangiya Gramin Vikash Bank		West Bengal
42	Paschim Banga Gramin Bank		West Bengal
43	Uttar Banga Kshatriya Gramin Bank		West Bengal

(Source: https://financialservices.gov.in/beta/en/list-rrbs-functioning-country)

2. REVIEW OF LITERATURE

T. sarker 2024, "Performance of RRBs in pre-Merger and post-Merger period",[1] The goal of regional rural banks, which were established on September 26, 1975, was to ensure that agriculture and other rural industries would have access to adequate institutional financing. Back then, rural banks mostly catered to the Argo industry. In India, RRBs have spread throughout the nation and played a vital role in the development of the nation. The purpose of this study is to examine RRBs' financial performance both before and after mergers. The Reserve Bank of India's (RBI) internal working group proposed that the consolidation and merging of Regional Rural institutions (RRBs) might contribute to the betterment of these institutions' health and sustainability, while also attempting to attract additional public and private banks to become sponsors of the combined RRBs.

MS Ibrahim 2013, "A Study on the Performance of Regional Rural Banks (RRB's) in India before and After Amalgamation", [2] the soundness of the rural sector has a major impact on how well the rural economy is doing. One of the fundamental engines of economic expansion is the banking sector. Under the terms of the decree issued on September 26, 1975, the Government of India established the Regional Rural Banks (RRBs) in 1975 with the goal of fostering the rural economy. The majority of small and marginal farmers, agricultural labourers, rural craftsmen, and other priority sector segments receive loans and advances from the RRBs, which predominantly mobilize deposits from rural and semi-urban areas. The study reveals that since their merging, the Regional Rural Banks (RRBs) have greatly increased their operating performance.

Dr. A. Sudharsana Reddy Dr. S. Siva Prasad, 2024, "Regional Rural Banks in India- post amalgamation",[3] any nation's rural farmers work for advancement the rural economy. The country's economy is centered on agriculture; hence the farmers needed the money for farming operations. Under the Regional Rural Banks Act, 1976, the Indian government established the Regional Rural Banks (RRBs), which are state-sponsored, regionally based, and rurally oriented institutions with a single commercial bank serving as the sponsor bank. The Government of India (GoI) began recapitalizing the RRBs along with various other policy reforms within two decades after the RRBs had financial difficulties. This allowed the RRBs to have more operational independence, which increased their operations and profitability. After amalgamation, there has been a rise in advancements to the priority sector. Additionally, there was a surge in deposit mobilization from Rs. 64,195 crores in 2006 to Rs. 6,07,540 in 2023. RRBs can be made more effective and accessible to a wider audience with the aid of technology and consolidation.

Lavanya, G.K. 2016, "Role of RRB In Indian Economy",[4] Regional disparities between banking facilities in India have significantly decreased as a result of RRB's quick expansion. It is commendable that RRB is making efforts in branch expansion, deposit mobilization, rural development, and credit deployment in the most vulnerable parts in rural areas. RRB successfully accomplishes its goals, which include bringing banking to rural households' doorsteps, especially in areas where there is a lack of banks; providing easy and affordable credit to the weaker rural population that is dependent on private lenders; encouraging rural savings for productive uses; creating jobs in rural areas; and lowering the cost of providing credit in rural areas. To make Gramin Banks sustainable, the government should implement some practical corrective measures.

Kher, B. M. 2013, "The Role of Rural Banks in the Development of rural Socio-economy",[5] the emancipation of rural populations from poverty, unemployment, and other forms of socioeconomic regression is the true driver of the Indian economy's growth. retaining this goal in mind. The Indian government developed Regional Rural Banks to boost the rural economy. After thirty years, the RRBs are now viewed as having the potential to revitalize rural India. Priority and non-priority sectors make up the rural finance framework. The loan disbursement to both sectors has been quite successful. For the purpose of fostering the agricultural sector's growth within the economy, RRBs have provided short- and long-term loans to the agricultural industry. Additionally, there is a growing tendency in the loans that the RRBs give to different priority sector groups. The growth rates for 2007–08 and 2008–09 were greater. Agriculture receives the largest percentage of loans when compared to non-agricultural businesses. Nonetheless, it is also the management's and the banks' duty to investigate whether or not enough loans are being given to non-priority sectors. It is necessary to reduce the difference between term loans for agriculture and related enterprises and short-term loans for crops.

Jariwala, D. M. M., & NORONHA, D. M. R. 2014, "Performance of RRBs Before and after Amalgamation",[6] Regional rural banks (RRBs) were established in 1975 with the specific objective of serving the credit requirements of rural impoverished groups, such as small and marginal farmers, rural artisans, and agricultural labourers. RRB was established in order to address the overabundance of demand for institutional credit in rural areas, especially among the economically and socially disenfranchised population, despite the fact that commercial and cooperative banks had enough track records for geographical coverage and loan distribution. Back then, rural banks mostly catered to the agricultural industry. The RBI's internal working group proposed that RRB mergers and amalgamations might improve the health and profitability of the amalgamated entities while simultaneously attempting to attract new banks, both public and private, to become sponsors of the combined RRBs.

3. OBJECTIVES OF THE STUDY

1. To know the effect of Amalgamation on Performance of RRB.
2. To know how amalgamation of RRB promotes economic growth of India.

4. EFFECT OF AMALGAMATION ON PERFORMANCE OF RRB

To know the effect of amalgamation on the performance of RRB some parameters are taken into consideration. To analyse the performance of RRB data has been used from 2017 to 2023.

Parameters to be used:

Parameter	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
No. of RRB	56	56	53	45	43	43	43
Branches	21422	21747	21871	21847	21856	21892	21995
Share Capital (cr.)	6401	6436	6721	7849	8393	14880	17232
Net Profit/Loss(cr.)	2218	1525	-652	-2208	1682	3219	4774
Deposit(cr.)	371910	400459	434444	478737	525226	562538	608509
Credit Disbursements(cr.)	226175	253978	280755	298214	334171	362838	429530
Net NPA (%)	5.06	5.90	6.81	5.83	4.80	4.68	3.20

- Number of RRB and its Branches,
- Share capital of RRB,
- Net profit/loss of RRB,

- Deposits of RRB,
- Credit Disbursement of RRB, and
- Net Non-Performing Assets of RRB.

Table–3 Performance Evaluation of RRB from 2017-2023

(Source: www.nabard.org)

- **Number of RRB and its Branches:**

Before amalgamation of Regional Rural Bank in India there were 56 RRB in the year 2017 and 21442 branches of RRB in the same year. After the amalgamation of RRB there are total 43 Regional Rural Bank and 21995 branches of RRB in the year 2023.

- **Share Capital of RRB:**

Table 3 shows that the share capital of RRB were Rs. 6401 crores in 2017 prior to amalgamation, which has increased to Rs. 17232 crores in 2023 after amalgamation.

- **Net Profit/Loss of RRB:**

Table 3 shows that the net Profit/Loss of Regional Rural Bank were Rs. 2218 crores in 2017 which initially started to fall after amalgamation. But ultimately the net profit/loss of Regional Rural Bank started increasing from 2022 and raised to Rs. 4774 crores in 2023.

- **Deposits of RRB:**

Table 3 reveals that amalgamation has a positive impact on the deposit of Regional Rural Bank. Prior to amalgamation deposits of RRB was Rs. 371910 crores which started increasing and increased to Rs. 608509 crores in year 2023 after amalgamation.

- **Credit Disbursement of RRB:**

One of the main purpose of amalgamation of Regional Rural Banks were to strengthen the credit disbursement system in the rural area. The amalgamation of RRB has raised the credit disbursement system which is clear from table 3 as the credit disbursement has increased from ₹226175 crores in 2017 to ₹429530 crores in 2023.

- **Net Non-Performing Assets of RRB:**

Table 3 shows that RRBs' net non-performing assets (NPA) reduced from 5.06% in 2017 to 3.20% in 2023. This shows that the RRBs' Net NPA has decreased as a result of amalgamation.

5. ROLE OF AMALGAMATION OF RRB ON ECONOMIC DEVELOPMENT OF INDIA

In order to upraise rural area and promote economic development of the country RRBs were setup with the following objectives:

- **Making Banking Service available for rural market:**

The amalgamation of RRB helps in bringing financial services to the masses in rural occasion, especially those which are unreserved and unbanked.

- **Identifying financial need of rural area:**

RRB helps to determine the financial requirement particularly in rural area Post amalgamation it becomes more easier to identify the financial needs of people in rural areas.

- **Making credit available for weaker section of society:**

RRB provides institutional credit to the under privileged segment of the population which were earlier dependent on informal credit sources and had very little or no access to cheaper loans. But after amalgamation of RRB credit were more easily available for the under privileged segment.

- **Enhancing financial facilities in backword area:**

RRB helps to improve lending facilities and other banking services in backword area, unbanked or under developed area, this was further boosted after amalgamation.

- **Providing finance to farmers and rural labourers:**

After Amalgamation of Regional Rural Banks, it was easier to lend money to the people residing in rural area, such as small farmers, rural craftspeople, small producers, labourers in rural areas, etc.

- **Providing finance to cooperative society:**

Regional Rural Bank post amalgamation becomes efficient enough to provide financial aid to various cooperative society such as agricultural cooperative societies, primary credit societies etc.

- **Employment generation in rural area:**

One of the most important Objective of RRB is to generate employment opportunity in the rural area.

- **Enhancing banking facility in semi-urban area:**

Regional Rural Banks becomes more strong post amalgamation which enhanced and improved banking facilities in underserved areas, such as semi-urban and rural areas.

6. CONCLUSION

In order to provide financial facilities in rural and economically disadvantaged communities Regional Rural Banks (RRBs) were founded in 1975. While commercial and cooperative banks had sufficient track records for geographical coverage and loan distribution, RRB was established to meet the credit needs of people in rural area, particularly among the economically and socially marginalized population. The internal working group of the RBI proposed that RRB mergers and amalgamations might potentially enhance the well-being and financial performance of the combined entities while concurrently seeking to entice fresh banks, both public and private, to sponsor the amalgamated RRBs. As a result, the RRBs' operations and profitability were boosted and they were given greater operational independence.

The present study reveals that, there has been a rise in profitability from ₹2218 crores in 2017 to ₹4974 crores in 2023. Additionally, there was a surge in deposit mobilization from ₹371910 crores in 2017 to ₹608509 crores in 2023. And the net non-performing assets (NPA) reduced from 5.06% in 2017 to 3.20% in 2023. RRBs can be made more effective and accessible to a wider audience with the aid of technology and consolidation.

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