

Role of Regional Rural Banks in Promoting Rural Development in Karnataka: A Conceptual Study with Reference to Karnataka Grameen Bank and Karnataka Vikas Grameena Bank

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Abstract- In India, regional rural banks have been instrumental in fostering inclusive development and bolstering rural credit delivery. By providing banking services, agricultural credit, self-help group financing, microenterprise support, and financial inclusion to rural and semi-urban populations, organizations like Karnataka Grameen Bank and Karnataka Vikas Grameena Bank have aided in rural development in Karnataka. With particular reference to these two banks, this conceptual paper investigates the function of regional rural banks in fostering rural development in Karnataka. The study is theoretical in nature and draws from secondary sources, including published reports, banking regulations, policy documents, and previous research on inclusive growth and rural finance. In order to support priority sectors, encourage entrepreneurship, mobilize savings, offer affordable credit, and lessen reliance on unofficial moneylenders, Regional Rural Banks serve as a bridge between rural communities and formal financial institutions. Additionally, it emphasizes how crucial rural banking is to raising agricultural productivity, generating income, empowering women through self-help organizations, and providing access to government-sponsored financial programs. The study's conceptual framework connects financial inclusion, profitable investment, livelihood enhancement, and general rural development with rural banking services. The study comes to the conclusion that regional rural banks are still crucial institutional tools for Karnataka's balanced regional development. However, operational effectiveness, digital inclusion, credit awareness, repayment discipline, and cooperation with government development initiatives are all necessary for their success.

Keywords: Regional Rural Banks, Rural Development, Karnataka Grameen Bank, Karnataka Vikas Grameena Bank, Financial Inclusion, Agricultural Credit, Priority Sector Lending, Self-Help Groups.

I. INTRODUCTION

Rural development in Karnataka may be understood as the multidimensional process through which agriculture, allied activities, rural enterprises, local employment, financial inclusion, basic services, and the living standards of weaker sections are strengthened in a balanced and sustainable manner, and its importance is especially high because Karnataka's growth pattern combines a strong urban service economy with large rural populations dependent on farming, dairy, livestock, fisheries, horticulture, wage labour, artisanal work, micro-trade, and small enterprises; the Government of Karnataka's Economic Survey 2025–26 notes that agriculture continues to anchor rural livelihoods, which makes timely, affordable, and purpose-oriented credit a key development input rather than merely a banking product. In rural areas, informal finance often involves high interest rates, weak borrower protection, and unproductive debt cycles; hence institutional credit from banks is required to convert savings into productive investment, reduce dependence on moneylenders, support crop production and allied activities, finance micro and small businesses, enable women's self-help groups, and link rural households with insurance, pension, remittance, direct benefit transfer, and digital payment systems; Regional Rural Banks were created in India through the Regional Rural Banks Act, 1976, with the explicit objective of developing the rural economy by providing credit and other facilities for agriculture, trade, commerce, industry, and other productive activities in rural areas, particularly to small and marginal farmers, agricultural

labourers, artisans, and small entrepreneurs. Their institutional design is development-oriented because they combine local knowledge with formal banking discipline, operate within notified areas, and are sponsored by commercial banks while being linked with national rural credit policy, priority sector lending, NABARD refinance and developmental support, and government-sponsored schemes; in Karnataka, the rural credit structure is coordinated through commercial banks, cooperative banks, Regional Rural Banks, the State Level Bankers' Committee, NABARD-supported planning, business correspondents, financial literacy centres, and district-level credit planning, and the scale of planned credit is evident from the Annual Credit Plan 2025–26, which set a total credit plan outlay of ₹11,88,986 crore, including priority sector credit of ₹4,38,016 crore, agriculture credit of ₹2,22,204 crore, crop production loans of ₹1,40,108 crore, and MSME credit of ₹1,90,891 crore. Against this background, Karnataka Gramin Bank and Karnataka Vikas Grameena Bank are highly relevant for studying rural development because both were Canara Bank-sponsored RRBs serving rural, semi-urban, and underserved regions of the state through agricultural loans, SHG finance, micro-enterprise credit, savings mobilization, financial literacy, and implementation of social security and development schemes; the Government of India amalgamated Karnataka Vikas Grameena Bank and Karnataka Gramin Bank into a single Regional Rural Bank named Karnataka Grameena Bank with effect from 01 May 2025 under Canara Bank sponsorship. The merged Karnataka Grameena Bank, with head office at Ballari, reported performance highlights as at 30 April 2025 showing total business of ₹1,03,625 crore, deposits of ₹54,934 crore, advances of ₹48,691 crore, a credit-deposit ratio of 88.64 percent, and a clientele base of 1.90 crore, while its branch network comprised 1,750 branches, including 1,265 rural, 293 semi-urban, 159 urban, and 33 metropolitan branches, demonstrating its strong rural orientation. Therefore, information available up to 15 April 2026 justifies a conceptual study that does not test primary data but synthesizes legal provisions, policy documents, banking structure, institutional evolution, credit planning, and development theory to explain how RRBs promote rural development in Karnataka through financial inclusion, agricultural transformation, livelihood diversification, women's

empowerment, rural entrepreneurship, poverty reduction, and balanced regional growth; such a conceptual approach is also useful because the merger changed the institutional identity of the two banks, making it necessary to interpret their historical role and the developmental significance of consolidation in terms of reach, efficiency, customer service, digital inclusion, credit monitoring, and capacity to support farmers, SHGs, artisans, micro-enterprises, and vulnerable rural households in the coming period, while also providing a base for future empirical assessment using district-wise credit and beneficiary data.

II. STATEMENT OF THE RESEARCH PROBLEM

The central research problem of the proposed conceptual study is that, although Regional Rural Banks were created as development-oriented banking institutions with the legal mandate of strengthening the rural economy by providing credit and allied banking facilities for agriculture, trade, commerce, industry and other productive rural activities, especially to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs, the actual developmental role of Karnataka-based RRBs remains insufficiently understood in an integrated theoretical manner because most discussions either describe their financial performance in terms of deposits, advances, profitability and branch expansion or examine isolated aspects such as agricultural lending, self-help group finance or priority-sector achievement, while comparatively less attention is given to how Karnataka Grameen Bank and Karnataka Vikas Grameena Bank, now institutionally consolidated as Karnataka Grameena Bank from 1 May 2025 under Canara Bank sponsorship, function as rural development intermediaries connecting formal credit, savings mobilization, financial inclusion, government-scheme delivery, women's empowerment, micro-enterprise promotion, allied agricultural activities, digital banking access and poverty reduction within the wider socio-economic conditions of Karnataka; this gap is significant because Karnataka's rural economy continues to depend on farming, dairy, livestock, fisheries, horticulture, wage labour, artisanal occupations and micro-businesses, while rural households still face recurring challenges such as

seasonal income, inadequate collateral, dependence on informal lenders, uneven financial literacy, vulnerability to crop and price risks, limited digital readiness and regional disparities in access to productive capital, making the availability, affordability and suitability of institutional credit a major determinant of rural livelihood improvement; the problem becomes more relevant in the current policy context because the State Annual Credit Plan for 2025–26 projected a total credit outlay of ₹11,88,986 crore, including priority-sector credit of ₹4,38,016 crore, agriculture credit of ₹2,22,204 crore, crop production loans of ₹1,40,108 crore and MSME credit of ₹1,90,891 crore, showing that rural development in Karnataka is heavily mediated through planned institutional credit flows, yet such aggregate targets do not by themselves explain whether credit delivery through RRBs leads to inclusive outcomes for marginal farmers, SHGs, rural women, artisans, small entrepreneurs and weaker sections; the issue is also sharpened by RBI and Government of India policy emphasis on priority-sector lending, Kisan Credit Card coverage, SHG support, collateral-free short-term agricultural loans up to ₹2 lakh from January 2025, and agriculture sub-targets for small and marginal farmers, because these instruments require local institutions that can identify beneficiaries, assess productive credit needs, monitor utilization and reduce exclusion; similarly, Karnataka Grameena Bank's reported position as on 30 April 2025, with total business of ₹1,03,625 crore, deposits of ₹54,934 crore, advances of ₹48,691 crore, a credit-deposit ratio of 88.64 percent and a clientele base of 1.90 crore, along with a branch network of 1,750 branches of which 1,265 were rural and 293 semi-urban, indicates strong institutional reach, but it also raises the research question of how such reach should be conceptually interpreted as rural development capacity rather than only banking scale; therefore, the research problem is to theoretically analyse and explain the role of Regional Rural Banks in Karnataka, with reference to Karnataka Grameen Bank and Karnataka Vikas Grameena Bank, as institutions that translate public rural-credit policy, priority-sector mandates and local banking presence into development outcomes, while also identifying the conceptual limitations, operational challenges and policy conditions that affect their contribution to agricultural development, livelihood diversification, rural entrepreneurship, social

inclusion and balanced regional growth up to the information available on 15 April 2026, thereby creating a structured base for future empirical research, policy evaluation and bank-level development strategy in rural Karnataka, especially after the recent statewide RRB consolidation process.

III. REVIEW OF LITERATURE RELATED TO THE STUDY

The literature on the role of Regional Rural Banks in rural development can be categorized into four main streams: studies on rural banking and development credit, studies on financial inclusion, studies on agricultural and priority-sector lending, and studies on self-help groups and rural livelihoods. Together, these streams demonstrate that RRBs occupy a unique position between commercial banking and grassroots development because they were created to expand institutional credit for agriculture and rural sectors, serve small and marginal farmers, agricultural laborers, artisans, and small entrepreneurs, and promote rural development through localized banking outreach. The Department of Financial Services reported in 2026, confirming their continued relevance as rural financial institutions. The Consolidated Review of RRBs, which stated that as of March 31, 2024, RRB deposits stood at ₹6.60 lakh crore and that RRBs held only 3.0 percent of total commercial-bank deposits but 11.2 percent of deposit accounts, supports the general argument made by studies on RRBs that these banks support rural development not only through loan disbursement but also through savings mobilization, crop loans, Kisan Credit Cards, micro-enterprise support, and weaker-section lending. The RBI Financial Inclusion Index, which was reported at 67.0 for March 2025 compared with 64.2 for March 2024, shows improvement across access, usage, and quality dimensions. Policy literature also links inclusion with entrepreneurship, risk management, and women's empowerment. Studies on financial inclusion further expand this argument by treating banking access, savings accounts, credit availability, insurance, pensions, remittances, and digital banking as instruments of rural empowerment. By highlighting branchless modes, economic growth, General Credit Cards, and Kisan Credit Cards as ways for rural customers to connect with formal finance. The RBI priority-sector framework stipulates that RRBs must

achieve 75 percent of outstanding advances under priority-sector lending, including agriculture, MSMEs, small and marginal farmers, micro-enterprises, and weaker sections, making them crucial to credit planning and rural livelihood support. This makes studies on agricultural and priority-sector credit particularly pertinent. RRBs are policy-linked institutions expected to direct credit toward socially necessary sectors. According to official data, 41.16 lakh SHGs were savings-linked with RRBs and held ₹19,018 crore in savings as of March 31, 2024, while 19.13 lakh SHGs were credit-linked through RRBs during 2023–2024, and SHG loan NPAs among RRBs decreased to 1.62 percent. Studies on SHG-bank linkage and rural livelihoods demonstrate that RRBs also serve as social development organizations. Discussions about policy also highlight how rural women's Self-Help Groups (SHGs) have proven to be creditworthy and how SHG financing can help women members become micro-entrepreneurs, thereby connecting credit discipline with livelihood diversification and empowerment. By demonstrating that Karnataka Grameen Bank and Karnataka Vikas Grameena Bank can be viewed as development-oriented RRBs whose contribution to Karnataka's rural development lies in connecting institutional credit, financial inclusion, agricultural finance, SHG empowerment, rural enterprise creation, and weaker-section support, the reviewed literature thus supports the conceptual foundation of the current study. It also highlights the need for a conceptual analysis that integrates these dimensions rather than treating RRB performance solely in terms of deposits, advances, and profitability.

IV. RESEARCH GAP

Although the available literature on Regional Rural Banks has considerably examined bank performance through measurable indicators such as deposits, advances, branch expansion, profitability, recovery performance and non-performing assets, the specific research gap in the present study lies in the absence of a sufficiently integrated conceptual explanation of how Karnataka Grameen Bank and Karnataka Vikas Grameena Bank, and their post-amalgamation identity as Karnataka Grameena Bank, translate rural banking operations into broader rural development outcomes in Karnataka, because official and policy materials

available up to 15 April 2026 show that the institutional environment has changed significantly after the Government of India approved the merger of Karnataka Gramin Bank and Karnataka Vikas Grameena Bank into one RRB with effect from 1 May 2025, while the academic discussion still tends to treat such banks mainly as financial units rather than as rural development intermediaries serving agriculture, allied occupations, women's groups, micro-enterprises, artisans, weaker sections and geographically uneven rural markets ; this gap is important because Karnataka's current rural credit planning is not limited to conventional crop finance but extends to livelihood diversification, MSME growth, agriculture infrastructure, government-sponsored schemes, financial literacy, digital banking, insurance, remittances and social security delivery, as reflected in the SLBC Karnataka framework that reviews Annual Credit Plans, priority-sector credit flow, branch expansion, government programmes and credit-deposit ratios, and in NABARD's State Focus Paper for 2026–27, reported before the cut-off date, which assessed Karnataka's exploitable priority-sector credit potential at ₹4.99 lakh crore, with agriculture and allied sectors accounting for 45 percent, MSMEs ₹2.14 lakh crore or 42 percent and other priority activities ₹0.57 lakh crore or 11.62 percent ; however, there remains limited conceptual work that connects these credit potentials and institutional mechanisms with the qualitative development effects expected from RRBs, such as reduced dependence on informal finance, timely access to working capital, improved farm investment, rural self-employment, women's collective agency through SHGs, small enterprise formation, household financial resilience and inclusive local economic transformation, particularly in districts where small and marginal farmers, tenant cultivators, landless labourers and informal entrepreneurs require local appraisal rather than standardized urban lending methods; the gap is further widened by the revised regulatory context, since the RBI's updated Priority Sector Lending clarification of 22 January 2026 stresses activity-based classification, borrower-level due diligence, monitoring of end use and inclusion of weaker sections, which indicates that the developmental value of RRB lending depends not only on target achievement but also on whether credit is suitable, traceable, productive and inclusive ; similarly, the National Strategy for Financial Inclusion

2025–30 emphasizes equitable, affordable and responsible access to savings, payments, remittances, credit, investments, insurance and pensions for households and micro-enterprises, but existing studies have not adequately located Karnataka-based RRBs within this wider inclusion ecosystem after the consolidation of the two banks, nor have they clearly explained how digital channels, business correspondents, financial literacy centres and government scheme linkages can strengthen or weaken the relationship between access to finance and actual livelihood improvement ; therefore, the unresolved research gap is the lack of a systematic conceptual framework that links the historical roles of Karnataka Grameen Bank and Karnataka Vikas Grameena Bank with post-2025 institutional consolidation, priority-sector mandates, rural branch presence, SHG-bank linkage, agricultural and non-farm credit delivery, financial inclusion architecture and rural development outcomes, thereby creating the need for a theoretical study that moves beyond financial performance review and explains how RRBs can be understood as policy-driven, community-facing and development-oriented institutions capable of supporting balanced regional growth in Karnataka while also identifying conceptual indicators for future empirical testing and policy evaluation.

Research Questions

1. How do Regional Rural Banks contribute to rural development in Karnataka?
2. What is the role of Karnataka Grameen Bank and Karnataka Vikas Grameena Bank in promoting financial inclusion?
3. How do RRBs support agriculture, rural entrepreneurship, and livelihood generation?
4. What conceptual relationship exists between rural credit, financial inclusion, and rural development?
5. What challenges limit the developmental role of RRBs in Karnataka?

Objectives of the Study

1. To examine the conceptual role of Regional Rural Banks in rural development.
2. To study the contribution of Karnataka Grameen Bank and Karnataka Vikas Grameena Bank toward financial inclusion in Karnataka.
3. To analyze the role of RRBs in agricultural credit, rural entrepreneurship, and self-employment.

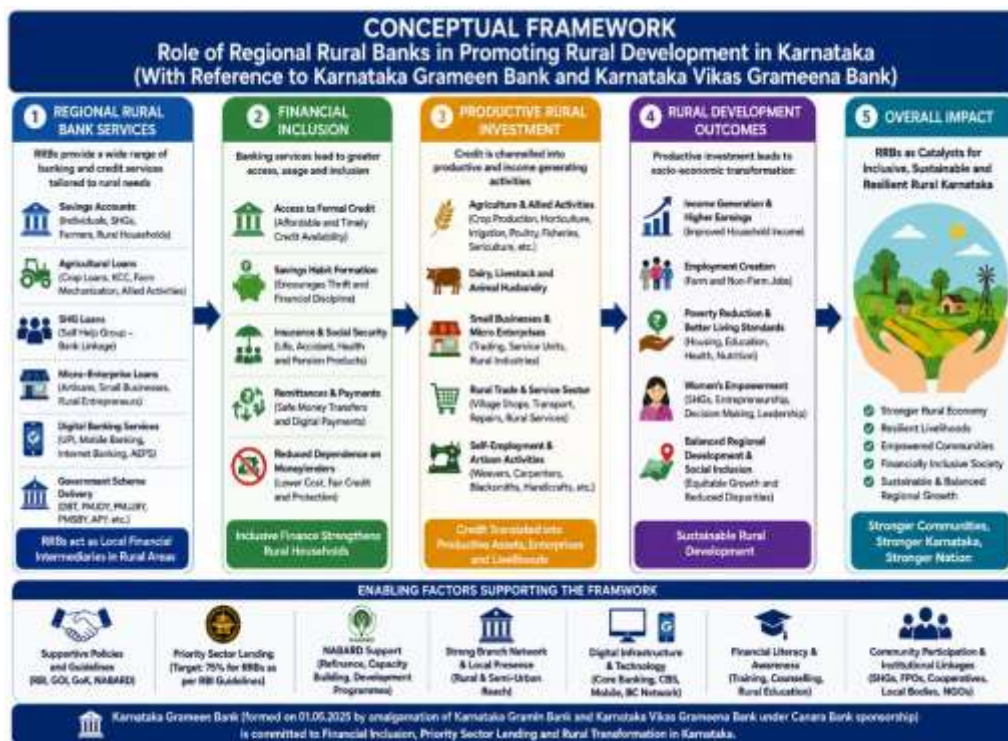
4. To understand how RRBs support weaker sections, small farmers, women, and rural households.
5. To develop a conceptual framework linking rural banking services with rural development outcomes.

V. CONCEPTUAL FRAMEWORK

The conceptual framework of the study views Regional Rural Banks as development-oriented financial intermediaries whose rural services form the first causal layer of development, because Karnataka Grameen Bank and Karnataka Vikas Grameena Bank, now functioning in the consolidated institutional environment of Karnataka Grameena Bank, operate through rural and semi-urban banking channels that connect savings accounts, current accounts, recurring and term deposits, agricultural loans, Kisan Credit Card-type crop finance, dairy and allied activity loans, SHG credit, micro-enterprise loans, MSME support, business correspondent outreach, mobile banking, internet banking, UPI support, ATM and mobile ATM facilities, Aadhaar-linked services, insurance, PMJDY, PMJJBY, PMSBY, APY and government-scheme delivery with rural customers who otherwise face distance, collateral, literacy and information barriers, and this service layer is conceptually important because the post-amalgamation bank reported a large rural presence of 1,750 branches, including 1,265 rural and 293 semi-urban branches, and a business scale of ₹1,03,625 crore with ₹54,934 crore deposits, ₹48,691 crore advances, an 88.64 percent credit-deposit ratio and 1.90 crore clientele as on 30 April 2025, indicating that its developmental relevance rests on both outreach and credit capacity; the second layer of the framework is financial inclusion, where these services convert physical banking presence into practical access to savings, affordable credit, remittances, payments, insurance, pension products, social-security enrolment, digital transactions and grievance channels, and this layer is supported by the national RRB policy environment in which 28 RRBs operated through 22,158 branches across 26 States and three Union Territories, served 32.4 crore deposit accounts and 3.2 crore loan accounts, and opened over 45.68 lakh new PMJDY accounts during FY 2025–26 up to December 2025, showing that RRBs are increasingly evaluated not only by profitability but by their ability to deepen rural

usage of formal finance; the third layer is productive rural investment, because access becomes developmental only when savings and credit are directed toward crop production, irrigation, farm mechanization, horticulture, dairy, livestock, fisheries, rural trade, artisanship, women-led self-help groups, small shops, service units and village-level micro-enterprises, and this aligns with Karnataka’s future credit absorption pattern as NABARD’s State Focus Paper for FY 2026–27 assessed ₹4.99 lakh crore of exploitable priority-sector credit potential, with agriculture and allied sectors forming 45 percent, MSMEs ₹2.14 lakh crore or 42 percent and other priority activities ₹0.57 lakh crore or 11.62 percent; the fourth layer is livelihood transformation, where productive credit and inclusion are expected to generate income, employment, enterprise creation, repayment discipline, women’s collective agency, reduced dependence on moneylenders, household financial resilience and stronger participation in government development programmes, while the final layer is rural development outcomes, understood as

poverty reduction, agricultural productivity, non-farm diversification, women’s empowerment, balanced regional development and social inclusion; the intervening assumptions in the framework are that borrowers must receive credit in time, use it for productive purposes, understand repayment and insurance conditions, receive adequate post-credit support, and access digital or branch services without exclusion based on gender, caste, location or scale of occupation; therefore, the framework proposes that RRB services do not automatically produce development, but create a pathway in which institutional reach, inclusive access, suitable credit design, digital readiness, beneficiary awareness, credit monitoring, financial literacy, SHG networking, local appraisal and policy coordination mediate the relationship between rural banking and development outcomes, thereby allowing the study to conceptually analyse Karnataka Grameen Bank and Karnataka Vikas Grameena Bank as instruments that link public credit policy with local economic transformation in Karnataka.



Above diagram showing Conceptual Framework related to the study

VI. MAJOR DISCUSSION AREAS

The major discussion areas of the study indicate that Regional Rural Banks in Karnataka, with reference to Karnataka Grameen Bank and Karnataka Vikas Grameena Bank, may be conceptually understood as rural development agencies rather than merely deposit-taking and loan-granting institutions, because their first major role is in agricultural development, where they support crop production, seasonal working capital, Kisan Credit Card-type credit, farm mechanization, irrigation, horticulture, dairy, poultry, fisheries, livestock and other allied activities, thereby helping farmers convert credit into productive assets and income-generating capacity, while Karnataka Grameena Bank's agriculture loan service profile confirms the continuing institutional emphasis on farm and allied-sector finance; their second role is in financial inclusion, since rural households require accessible savings accounts, small-value deposits, affordable credit, insurance, pension enrolment, remittance facilities, digital payments and direct benefit transfer access, and the national financial inclusion ecosystem had expanded substantially by 25 February 2026, with 57.78 crore PMJDY accounts, deposits of ₹2,94,702 crore, 55.8 percent women account holders and 78.2 percent accounts in rural and semi-urban areas, showing that rural banks act as last-mile channels for formal financial participation; their third role is in women's empowerment, particularly through self-help group financing, microcredit, savings discipline, group-based repayment culture and linkage with social security schemes, because women's access to accounts, credit, insurance and pension products strengthens household-level decision-making, encourages micro-enterprise formation and reduces dependence on informal borrowing, and PMJDY-linked accounts are eligible for DBT, PMJJBY, PMSBY, APY and MUDRA-related support, thereby making RRBs useful institutional platforms for connecting women beneficiaries with wider welfare and livelihood schemes; their fourth role is in rural entrepreneurship, as they finance small traders, artisans, service providers, rural youth, self-employed workers, shopkeepers, transport operators, village industries and micro-enterprises, while the RBI's MSME priority-sector clarification states that all bank loans to MSMEs qualify for priority-sector classification and

that a 7.5 percent micro-enterprise sub-target applies to domestic commercial banks, foreign banks with 20 or more branches, RRBs and small finance banks, which makes micro-business lending a direct development responsibility of RRBs; their fifth role is in poverty reduction, because affordable institutional credit enables low-income households to avoid exploitative informal lenders, invest in productive activities, smooth seasonal consumption, protect themselves through insurance and improve resilience during crop failure, illness, unemployment or price shocks; their sixth role is in government scheme implementation, where RRBs provide operational support for schemes such as PMJDY, PMJJBY, PMSBY, APY, MUDRA, Stand-Up India, DBT-linked benefits and other rural-development programmes, and this function is particularly important because the Government reported 26.88 crore PMJJBY enrolments, 57.11 crore PMSBY enrolments, 8.84 crore APY enrolments and 57.26 crore MUDRA loans amounting to ₹39.48 lakh crore by February 2026; therefore, the discussion establishes that the developmental contribution of Karnataka-based RRBs lies in their ability to connect agricultural credit, inclusion, women's collective finance, micro-enterprise lending, poverty alleviation and government-scheme delivery into a single rural transformation pathway, while the RBI's priority-sector framework, including the 75 percent priority-sector target for RRBs, provides the policy foundation through which these banks are expected to serve agriculture, small and marginal farmers, micro-enterprises and weaker sections in a structured and accountable manner.

VII. CHALLENGES FACED BY REGIONAL RURAL BANKS

The challenges faced by Regional Rural Banks in Karnataka, particularly in relation to the earlier Karnataka Grameen Bank and Karnataka Vikas Grameena Bank and their consolidated form as Karnataka Grameena Bank after 1 May 2025, may be conceptually understood as a combination of social, operational, technological, credit-risk and institutional challenges, because although RRBs have been created to serve small and marginal farmers, agricultural labourers, rural artisans, weaker sections and micro-

entrepreneurs, their developmental effectiveness is restricted when rural borrowers possess low financial literacy, limited awareness of loan terms, insurance benefits, repayment schedules, digital safety, KYC requirements and government-linked banking schemes, which makes borrower education essential since RBI's financial education initiative itself emphasizes awareness of financial products, good financial practices, digital usage and consumer protection; another major challenge arises from the seasonal and uncertain nature of agriculture-based income, as many rural borrowers depend on monsoon conditions, crop prices, input costs, irrigation access, livestock health and market demand, making repayment capacity uneven and exposing RRBs to overdue loans and asset-quality pressure, even though the Government reported that RRBs' gross NPA ratio improved from 7.2 percent in FY 2022–23 to 5.4 percent in FY 2024–25 and stood provisionally at 5.6 percent as on 31 December 2025, while net NPA stood at 2.2 percent on the same date, showing improvement but also indicating that credit risk remains a continuing concern; the Karnataka-specific challenge is visible from the fact that the erstwhile Karnataka Gramin Bank recorded net losses of ₹174.27 crore in FY 2023–24 and ₹791.31 crore in FY 2024–25, whereas Karnataka Vikas Grameena Bank recorded profits of ₹104.17 crore and ₹126.04 crore in the same years, and after amalgamation the new Karnataka Grameena Bank reported ₹1,02,063 crore total business and only ₹32 crore provisional net profit during April–December 2025, suggesting that consolidation improves scale but does not automatically remove profitability, integration and legacy-stress issues; remote-area operations also increase costs because rural branches must serve scattered villages, small-value accounts, low-ticket loans and labor-intensive credit monitoring, while nearly 92 percent of RRB branches are located in rural and semi-urban areas, creating a social mandate that may not always match commercial viability; digital banking is another challenge because all RRBs have implemented Core Banking Solution and most provide services such as mobile banking, internet banking, UPI and contactless debit cards, yet rural customers may lack smartphones, stable internet, language comfort, cyber-security awareness and confidence in digital transactions, thereby requiring continuous handholding; competition from commercial banks, cooperative

banks, small finance banks, microfinance institutions, fintech platforms and business correspondent networks also pressures RRBs to improve service quality, speed of loan processing, digital delivery and customer retention without weakening their rural-development orientation; in addition, credit monitoring and borrower training remain critical because RBI and Government policy now emphasize productive credit flow, agriculture lending, small and marginal farmer coverage, collateral-free short-term agricultural loans up to ₹2 lakh from 1 January 2025, SHG support and equitable district-wise priority-sector distribution, all of which require strong end-use verification, timely recovery follow-up, borrower counselling, livelihood-linked credit appraisal and coordination with NABARD, sponsor banks, SLBCs and local development agencies; therefore, the key challenge for Karnataka-based RRBs is to balance inclusion with viability, outreach with operational efficiency, digital expansion with customer protection, concessional rural lending with asset quality, and post-amalgamation scale with local responsiveness, so that their role in rural development remains sustainable, accountable and genuinely beneficial to farmers, SHGs, rural youth, artisans, micro-enterprises and weaker sections.

VIII. POLICY IMPLICATIONS

The policy implications of the conceptual study suggest that Karnataka-based Regional Rural Banks, with specific reference to Karnataka Grameen Bank and Karnataka Vikas Grameena Bank and their consolidated operational relevance under Karnataka Grameena Bank, should be positioned as frontline rural transformation institutions rather than only credit-delivery agencies, because the evidence available up to 15 April 2026 shows that RRBs nationally have moved toward stronger financial stability, digital banking, priority-sector deepening and institutional consolidation, with the Government reporting that the “One State, One RRB” process reduced 43 RRBs to 28 for scale efficiency and cost rationalization, that RRBs achieved a CRAR of 14.4 percent as on March 2025, and that their priority-sector loan outstanding reached 88.44 percent of Adjusted Net Bank Credit in FY 2024–25, exceeding the 75 percent target; therefore, the first policy implication is that financial literacy programmes in

rural Karnataka should be strengthened through repeated village-level camps, school and college outreach, SHG training, farmer meetings and digital safety sessions, especially because RBI's Financial Literacy Centres and Centres for Financial Literacy are expected to conduct free camps for farmers, micro-entrepreneurs, SHGs, school children, senior citizens and digital-finance users; the second implication is that digital banking access must be improved at the village level through reliable business correspondent points, mobile banking support, Aadhaar-enabled payment services, UPI awareness, grievance assistance and cyber-fraud prevention, since the national Financial Inclusion Index increased to 67.0 in March 2025 from 64.2 in March 2024, reflecting progress in access, usage and quality but also showing the need to convert access into safe and regular use; the third implication is that RRB credit should be linked with skill development, livelihood planning and post-loan handholding, because rural borrowers need not only loans but also guidance on enterprise selection, market linkage, record maintenance, crop diversification, dairy and allied activity management, repayment planning and insurance protection; the fourth implication is that SHG and women-oriented lending should be expanded with stronger mentoring, because women's collective finance can improve savings discipline, household bargaining power, micro-enterprise participation and social empowerment, while also supporting inclusive growth in rural Karnataka; the fifth implication is that RRBs, NABARD, the State Government, SLBC Karnataka, district administrations, panchayats, Krishi Vigyan Kendras, rural livelihood missions and local bodies should coordinate credit planning more closely, since SLBCs are designed to review Annual Credit Plans, government-sponsored programmes, priority-sector credit flow, branch expansion and credit-deposit performance; the sixth implication is that agricultural lending should be modernized through faster Kisan Credit Card processing, better crop-cycle-based repayment design and technology-enabled monitoring, especially because NABARD has introduced an e-KCC portal for RRBs and Rural Cooperative Banks to improve agricultural credit delivery; finally, the study implies that Karnataka Grameena Bank should be used as a strategic institutional platform for inclusive rural transformation by combining branch presence,

priority-sector lending, financial literacy, digital inclusion, borrower training, SHG promotion, MSME finance and government-scheme delivery, so that rural banking becomes directly connected with income generation, employment, poverty reduction, women's empowerment, enterprise creation and balanced regional development in Karnataka.

IX. CONCLUSION

The conceptual analysis of the research article establishes that Regional Rural Banks should not be viewed merely as financial institutions engaged in accepting deposits and granting loans, but as development-oriented rural agencies that connect formal banking policy with the livelihood needs of farmers, agricultural labourers, artisans, women, self-help groups, micro-entrepreneurs, small traders and weaker sections, and the Karnataka experience is especially significant because Karnataka Grameen Bank and Karnataka Vikas Grameena Bank have historically contributed to rural development through agricultural credit, savings mobilization, SHG-bank linkage, financial inclusion, priority-sector lending, government-scheme delivery, digital banking access and rural entrepreneurship support, while their later institutional consolidation into Karnataka Grameena Bank provides a wider platform for integrated rural credit delivery across the state; the study concludes that the developmental role of these banks is multidimensional because agricultural loans support crop production, irrigation, farm mechanization, dairy, livestock and allied activities, savings and deposit services encourage thrift and formal financial behaviour, SHG lending strengthens women's collective agency and credit discipline, micro-enterprise loans support rural non-farm employment, and government-linked banking services help rural households access social security, insurance, pension, remittance and direct benefit transfer facilities; the RBI's priority-sector framework reinforces this developmental character by requiring RRBs to direct a major share of lending toward agriculture, small and marginal farmers, micro-enterprises and weaker sections, while its updated clarifications also emphasize activity-based classification, borrower-level documentation, collateral relief for small agricultural loans and continuous monitoring of end

use, showing that rural credit must be suitable, productive and inclusive rather than merely target-oriented. Therefore, by lowering reliance on informal lenders, increasing access to affordable credit, facilitating productive rural investment, supporting women's empowerment, and promoting balanced regional development, Karnataka-based RRBs act as intermediaries between public policy and local rural transformation. This conclusion is further reinforced by NABARD's SHG-bank linkage approach, which views group savings, bank credit, and livelihood finance as tools of social and economic empowerment. According to the conceptual findings, Karnataka Grameen Bank and Karnataka Vikas Grameena Bank's ability to successfully promote rural development depends not only on branch expansion, deposit growth, or loan volume, but also on financial literacy, digital readiness, timely credit delivery, borrower training, credit monitoring, recovery discipline, coordination with NABARD and government agencies, and the capacity to transform rural banking access into income generation, employment creation, poverty reduction, women's participation, and sustainable village-level economic progress.

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