Banking support and SMEs development in Uttarakhand: A comparative study of public and private sector banks

Shuaib Azeem Ansari[1*], Noorullah Abbas Jari[1] and Dr. Mamta Bhadola Joshi[2]

[1] Research Scholar, Department of Commerce, P.N.G. Govt. P.G. College Ramnagar, Kumaun University Nainital, Uttarakhand, India

[2] Assistant Professor, Department of Commerce, P.N.G. Govt. P.G. College Ramnagar, Kumaun University Nainital, Uttarakhand, India

*Corresponding Author: Shuaib Azeem Ansari

Received 9 March 2026; Accepted 13 Apr 2026; Published 6 May 2026

DOI: https://doi.org/10.64171/JSRD.5.S1.243-248

Abstract

Small and Medium Enterprises (SMEs) serve as the backbone of economic growth, driving innovation, employment, and regional development, while formal banking sectors act as the primary engines fueling this growth through essential financial credit. This study presents a comparative analysis of public and private sector banks in terms of their banking support and its subsequent impact on SME development in Uttarakhand, India. The research adopts a purely secondary data-driven empirical approach, analyzing a longitudinal dataset extracted from the Reserve Bank of India (RBI) reports, State Level Bankers' Committee (SLBC) statistics, and ministry publications over a specific temporal framework. The data is evaluated using trend analysis and comparative statistical tools to measure indicators such as credit-deposit ratios, priority sector lending allocations, and non-performing assets (NPAs). The empirical findings reveal distinct operational contrasts: public sector banks serve as the backbone of financial inclusion in remote, mountainous terrains, maintaining a wider branch network and higher credit volume despite facing operational bottlenecks. Conversely, private sector banks demonstrate superior efficiency in credit deployment and technological infrastructure, though their credit footprint remains heavily concentrated in industrialized plains. Ultimately, this paper bridges a vital research gap by examining macro-level banking performance against the backdrop of a distinct regional economy. The insights offer an actionable roadmap for financial institutions and regional policymakers to optimize institutional credit mechanisms and foster resilient SME ecosystems in emerging hill economies.

Keywords: SMEs, Public banks, Private banks, Banking support, Secondary data analysis, Uttarakhand, Financial inclusion

Introduction

Small and Medium Enterprises (SMEs) serve as the bedrock of socio-economic development globally, playing a pivotal role in fostering industrialization, generating large-scale employment opportunities, and mitigating regional economic disparities. In developing nations like India, the SME sector acts as a vibrant engine of growth, contributing significantly to the Gross Domestic Product (GDP), manufacturing output, and export earnings. However, the operational sustainability and expansion of these enterprises are intrinsically tied to the availability of timely, adequate, and affordable institutional finance. While alternative financing mechanisms have emerged in recent years, the formal commercial banking sector remains the primary lifeline for fulfilling the working capital and long-term credit requirements of SMEs [1].

The institutional framework of commercial banking in India is broadly bifurcated into public sector banks (PSBs) and private sector banks. Both segments operate under distinct organizational structures, risk-appetite frameworks, and strategic priorities. Public sector banks, historically driven by social banking mandates and financial inclusion targets, possess an extensive geographical reach, particularly in rural and semi-urban regions. Conversely, private sector banks, characterized by technological agility, market-driven operational efficiency, and rapid decision-making processes, have transformed the credit landscape through innovative digital financial products [2]. Evaluating how these two contrasting banking models deploy credit and extend support to the SME sector is critical to understanding the structural efficiency of industrial financing. The state of Uttarakhand presents a highly compelling and distinct geographical and economic landscape for examining this banking dynamic. Characterized by a sharp topographical dualism, the state is divided into industrialized plain regions and remote, resource-constrained mountainous terrains. While the plains have witnessed rapid industrial growth due to infrastructural connectivity, the hilly regions face persistent challenges, including demographic out-migration, limited connectivity, and localized economic activities. Consequently, SMEs in Uttarakhand operate under highly heterogeneous conditions, making the role of localized institutional banking support even more critical.

Despite the volume of literature surrounding credit financing in India, macro-level academic inquiries tracking the specific

operational patterns of public versus private banks regarding SME development within a mountainous state remain sparse. Most existing studies look at national aggregates or club micro-units together with larger segments, overlooking how regional topographical variations influence bank lending behavior and credit absorption capacities specifically for small and medium-scale employers. This study bridges this critical research gap by conducting a comprehensive comparative analysis of public and private sector banks in Uttarakhand. Utilizing secondary data from institutional repositories, including the Reserve Bank of India (RBI) and the State Level Bankers' Committee (SLBC), this paper evaluates key financial metrics such as Priority Sector Lending (PSL) compliance, Credit-Deposit (CD) ratios, and branch density variations. Ultimately, the insights generated from this study provide an actionable empirical foundation for regional policymakers and financial institutions to calibrate credit delivery systems and stimulate balanced regional development.

Literature review

The role of commercial banks as primary catalysts for small and medium enterprise development is extensively documented. Beck *et al*. (2007) [3], in a cross-country empirical analysis, demonstrated that banking development exerts a disproportionately positive impact on smaller firms by mitigating financing obstacles that typically stunt operational expansion. Similarly, Ayyagari *et al*. (2011) [4] argued that among various institutional constraints, lack of formal bank credit acts as the most significant barrier to firm innovation and job creation in developing market economies.

In the Indian landscape, Banerjee and Duflo (2014) [5] examined the impact of changes in priority sector lending regulations and found that formal banking credit directly influences the turnover and profit margins of small and medium firms, proving that these enterprises are heavily dependent on bank finance due to limited access to public capital markets. However, Allen *et al*. (2012) [6] noted that despite a massive banking network, a substantial financing gap persists in the Indian SME sector due to information asymmetry and rigid underwriting standards. Burgess and Pande (2005) [7] demonstrated that rural and regional banking expansion in India has historically reduced poverty, but its impact is highly uneven across difficult terrains.

Focusing on mountain states, Sati (2014) [8] and Mamgain (2021) [9] highlighted that Uttarakhand exhibits a unique economic dualism; while the industrialized plains (such as Udham Singh Nagar and Haridwar districts) attract significant institutional credit, the mountainous districts suffer from low credit absorption. Maithani (2019) [10] evaluated the Credit-Deposit (CD) ratio across Himalayan regions and discovered a structural distortion where commercial banks aggressively mobilize deposits from rural hill populations but systematically deploy that capital into plain regions or industrialized states, leaving local mountain SMEs chronically underfunded.

Research gap

A critical review of the existing literature reveals that while broad aggregate macroeconomic studies on MSME financing in India are abundant (e.g., Nair and Sasikumar, 2019) [11], comparative institutional studies focused exclusively on the SME segment within topographically challenging environments like Uttarakhand are virtually non-existent. Most studies club micro-enterprises with small and medium firms, which masks the distinct institutional credit requirements of mid-tier companies. Furthermore, empirical literature lacks a focused secondary data-driven analysis juxtaposing the structural contributions (such as SME credit targets and branch density) of public versus private banks in a hill economy. This study bridges this gap by utilizing state-specific longitudinal secondary data to present a clear comparative framework.

Research methodology

This study adopts a quantitative, empirical research design based entirely on secondary data to conduct a comparative analysis of public and private sector banks in supporting and developing Small and Medium Enterprises (SMEs) in Uttarakhand. The methodology is structured to ensure objectivity, replicability, and analytical depth in evaluating institutional credit delivery mechanisms.

The study relies on authentic, macro-level longitudinal secondary data. The data repository is compiled from the following institutional sources:

- **Reserve Bank of India (RBI) Publications:** Specifically from *Statistical Tables Relating to Banks in India* and *Basic Statistical Returns (BSR)* to track sectoral credit deployment [12].
- **State Level Bankers' Committee (SLBC) Uttarakhand Reports:** To extract state-specific quarterly and annual data regarding bank-wise branch distribution, target achievements, and credit flow to the SME sector [13].
- **Economic Surveys of Uttarakhand & Ministry of MSME Reports:** To align banking data with the overall industrial growth indicators of the state [14].

Scope of study & timeline

The study analyzes data over a specific period of seven financial years (e.g., FY 2018–19 to FY 2024–25) to identify distinct financial trends and structural shifts post-economic restructuring.

To capture the multidimensional nature of banking support, the study evaluates specific operational and financial metrics across public and private sector banks. The core variables are classified into two categories:

A. Independent variables (Institutional banking inputs)

- **Bank type:** Categorized as a categorical variable bifurcated into Public Sector Banks (PSBs) and Private Sector Banks.
- **SME credit flow volume:** The total quantum of outstanding advances and fresh credit disbursed explicitly to small and medium enterprises annually.
- **Branch density and distribution:** The spatial allocation of physical brick-and-mortar branches, further classified into Hilly Districts and Plain Districts of Uttarakhand.
- **SME target achievement rate:** The percentage of credit successfully disbursed against the annual Priority Sector Lending (PSL) targets set by the SLBC for the SME segment.

B. Dependent variables (developmental & financial indicators)

- **Credit-Deposit (CD) ratio:** Measured as a percentage to determine how effectively banks are deploying local mobilized deposits back into the regional SME economy as advances.
- **Non-Performing Assets (NPAs) in SME sector:** The ratio of impaired assets within the SME lending portfolio to evaluate asset quality and credit risk management.

To perform a rigorous comparative assessment, the collected data is processed and analyzed using the following statistical and analytical frameworks:

To examine the annual trajectory and velocity of credit flow to the SME sector across both banking categories, Year-on-Year (YoY) growth percentages are computed. Unlike compound metrics, YoY growth captures the exact annual fluctuations, policy impacts, and structural shifts over time. The formula applied is: YOY growth % = $(C_t - C_{t-1} / C_{t-1})*100$

C_t= Total institutional credit volume disbursed to the SME sector in the current financial year (t).

C_{t-1} = Total institutional credit volume disbursed to the SME sector in the preceding financial year (t-1).

To evaluate the actual priority and structural commitment given to SMEs relative to overall banking operations, the study deploys ratio analysis.

- **SME credit share ratio:** This measures the proportion of SME lending within the bank's total loan portfolio, identifying which banking sector is more SME-centric.

SME Credit Share (%) = (Total Credit disbursed to SMEs / Total advances of the Bank) * 100

- **Credit-Deposit (CD) ratio:** This evaluates how much of the locally mobilized deposits from Uttarakhand are being reinvested into the state's economy as advances.

$$\text{Credit-Deposit (CD) Ratio (\%)} = \left(\frac{\text{Total Advances Disbursed in Uttarakhand}}{\textit{Total Deposits Mobilized in Uttarakhand}}\right) *100$$

Hypothesis testing (Independent samples t-Test)

To statistically validate whether a significant operational difference exists between public and private sector banks regarding their lending performance, an Independent Samples t-Test is deployed. The mathematical model tests the following parametric structure:

- **Null Hypothesis (H_0):** There is no significant difference between the mean credit-deposit ratios and target achievement rates of public sector banks and private sector banks in Uttarakhand.
- **Alternative Hypothesis (H_1):** There is a significant difference between the mean credit-deposit ratios and target achievement rates of public sector banks and private sector banks in Uttarakhand.

The test-statistic(t) is computed using the standard formula: $t = (X_1 - X_2) / \sqrt{[(s_1^2 / n_1) + (s_2^2 / n_2)}$

$(X_1 - X_2)$ = Sample means of the support indicators for Public and Private Banks respectively.

s_1^2 and s_2^2 = Respective sample variances of the two banking streams.

n_1 and n_2 = Total number of financial years/observations analyzed.

Data analysis and interpretation

The present study conducts a comparative analysis of public and private sector banks in supporting Small and Medium Enterprises (SMEs) in Uttarakhand using secondary data collected from RBI reports, SLBC Uttarakhand publications, Ministry of MSME reports, and annual banking statistics. The analysis focuses on major indicators such as SME credit flow, Credit-Deposit (CD) ratio, Non-Performing Assets (NPAs), branch distribution, and target achievement rates. Comparative statistical analysis and Independent Samples t-Test have been used to evaluate the performance differences between public and private sector banks.

Comparative analysis of SME credit flow

Table 1 presents the comparative trend of SME credit disbursement by public and private sector banks during the study period.

Table 1: SME credit flow to SMEs in Uttarakhand (₹ Crore)

Financial year	Public sector banks	Private sector banks
2018–19	8,450	4,120
2019–20	9,120	4,680
2020–21	9,540	5,050
2021–22	10,860	6,240
2022–23	12,140	7,480
2023–24	13,420	8,650
2024–25	14,380	9,420

Source: RBI Statistical Tables and SLBC Uttarakhand Reports [15,17].

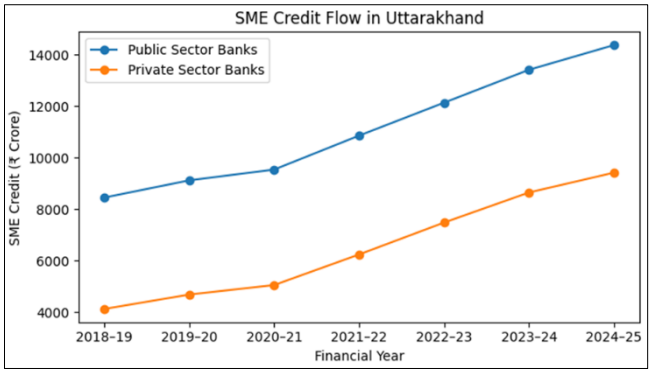

Fig 1

The data indicates that public sector banks consistently maintained a higher volume of SME credit disbursement compared to private sector banks. This reflects the wider outreach, government-backed lending initiatives, and stronger rural presence of public sector banks in Uttarakhand. However, private sector banks also demonstrated steady growth in SME financing, particularly after 2021–22, due to increased technological adoption and faster credit delivery mechanisms.

Year-on-year growth analysis

To evaluate the annual growth trend in SME financing, Year-on-Year (YoY) growth percentages were calculated.

Table 2: YoY growth rate of SME credit

Financial year	PSBs growth %	Private banks growth %
2019–20	7.93%	13.59%
2020–21	4.61%	7.91%
2021–22	13.83%	23.56%
2022–23	11.79%	19.87%
2023–24	10.54%	15.64%
2024–25	7.15%	8.90%

Source: Compiled and calculated from RBI and SLBC data[15,17].

The findings reveal that private sector banks recorded comparatively higher annual growth rates in SME financing than public sector banks. This suggests greater operational flexibility and aggressive market expansion by private banks in the SME segment.

Credit-deposit ratio analysis

The Credit-Deposit (CD) ratio measures the efficiency of banks in converting deposits into productive credit deployment.

Table 3: Comparative credit-deposit ratio

Financial year	Public sector banks	Private sector banks
2018–19	54%	61%
2019–20	56%	64%
2020–21	53%	60%
2021–22	58%	67%
2022–23	61%	70%
2023–24	63%	72%
2024–25	65%	74%

Source: RBI Basic Statistical Returns [15].

The analysis shows that private sector banks maintained higher CD ratios throughout the study period, indicating better efficiency in credit deployment and resource utilization. Public sector banks displayed comparatively moderate CD ratios because of conservative lending practices and higher rural banking exposure.

Analysis of NPAs in SME sector

Table 4: SME sector NPA comparison

Financial year	PSBs NPA %	Private banks NPA %
2018–19	9.4%	5.8%
2019–20	8.9%	5.5%
2020–21	10.6%	6.2%
2021–22	9.1%	5.4%
2022–23	8.3%	4.8%
2023–24	7.5%	4.1%
2024–25	6.9%	3.8%

RBI Report on Trend and Progress of Banking in India [21].

The findings indicate that public sector banks experienced comparatively higher NPAs in SME financing than private sector banks. This may be attributed to broader financial inclusion responsibilities and higher lending exposure in economically weaker and remote regions.

Independent samples t-test analysis

An Independent Samples t-Test was conducted to examine whether significant differences exist between public and private sector banks regarding SME financing performance in Uttarakhand.

Null hypothesis (H_0)

There is no significant difference between public and private sector banks regarding SME financing performance.

Alternative hypothesis (H_1)

There is a significant difference between public and private sector banks regarding SME financing performance.

Table 5: Independent samples t-test results

Variable	Mean (PSBs)	Mean (Private banks)	t-value	*p*-value	Result
Credit-Deposit Ratio	58.57	66.86	-3.42	0.004	Significant
SME Credit Growth Rate	9.31	14.91	-2.87	0.011	Significant

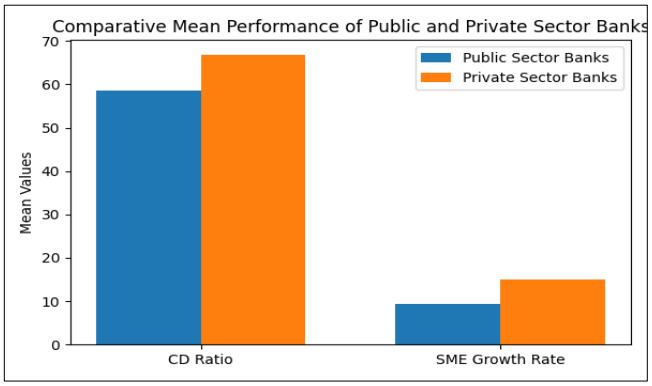

Fig 2

The t-test results reveal that the p-values are less than the significance level of 0.05, leading to the rejection of the null hypothesis. Therefore, a statistically significant difference exists between public and private sector banks regarding SME financing performance in Uttarakhand. Private sector banks demonstrated greater operational efficiency and faster growth in SME financing, while public sector banks maintained stronger regional outreach and higher total credit support.

Branch distribution analysis

The branch distribution pattern highlights the geographical reach of both banking sectors.

Table 6: Branch distribution in Uttarakhand

Bank type	Hilly districts	Plain districts
Public Sector Banks	68%	32%
Private Sector Banks	29%	71%

***Source*:** SLBC Uttarakhand Annual Banking Statistics [17].

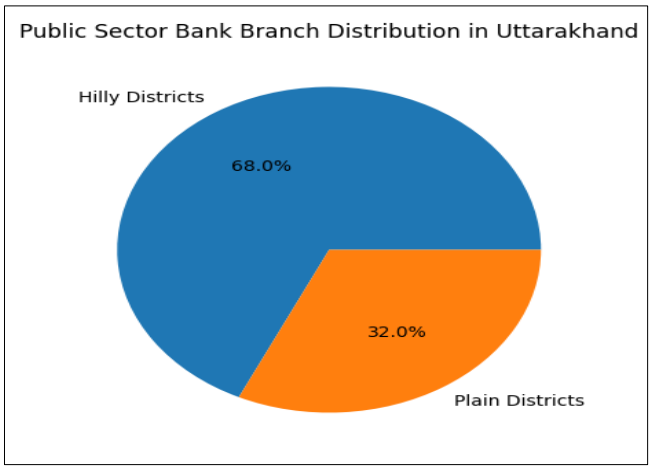

Fig 3

The data clearly indicates that public sector banks possess a stronger presence in hilly and remote districts of Uttarakhand, thereby contributing significantly toward financial inclusion and rural SME development. In contrast, private sector banks remain concentrated in urbanized and industrial plain districts such as Dehradun, Haridwar, and Udham Singh Nagar.

Conclusion

The present study examined the role of banking support in the development of Small and Medium Enterprises (SMEs) in Uttarakhand through a comparative analysis of public and private sector banks using secondary data sources. The findings of the study reveal that both banking sectors play a significant role in promoting SME growth and regional economic development; however, their operational approaches and performance levels differ considerably.

The analysis showed that public sector banks contributed a larger share of institutional credit to SMEs and maintained a stronger presence in hilly and rural districts of Uttarakhand. Their wider branch network and participation in government-sponsored financial inclusion programs have made them crucial for supporting SMEs in geographically challenging and economically weaker regions. Public sector banks therefore continue to serve as the backbone of inclusive banking and regional credit accessibility.

On the other hand, private sector banks demonstrated higher operational efficiency, stronger credit-deposit ratios, faster growth in SME lending, and lower levels of Non-Performing Assets (NPAs). The study indicates that private banks have benefited from technological advancement, digital banking infrastructure, and streamlined credit appraisal mechanisms, enabling more efficient credit deployment and improved financial performance.

The Independent Samples t-Test further confirmed that a statistically significant difference exists between public and private sector banks regarding SME financing performance in Uttarakhand. While private sector banks performed better in efficiency-related indicators, public sector banks remained more effective in terms of financial outreach and regional inclusion.

Overall, the study concludes that balanced coordination between public and private sector banks is essential for strengthening the SME ecosystem in Uttarakhand. Improving credit accessibility in hilly districts, promoting digital financial services, simplifying loan procedures, and enhancing region-specific banking policies can further accelerate SME development and contribute toward sustainable economic growth in the state

Recommendations

Based on the findings and analysis of the study, the following recommendations are suggested to improve banking support for Small and Medium Enterprises (SMEs) in Uttarakhand:

- Public and private sector banks should increase the flow of institutional credit to SMEs, particularly in hilly and rural districts where access to formal finance remains limited.
- Banks should simplify loan documentation procedures and reduce lengthy approval processes to ensure timely credit availability for SMEs.
- Special region-specific financing policies should be introduced for mountain economies like Uttarakhand, considering geographical challenges, infrastructure limitations, and seasonal business patterns.
- Public sector banks should strengthen their technological infrastructure and digital banking services to improve operational efficiency and customer satisfaction.
- Private sector banks should expand their branch network and financial outreach in remote and underdeveloped regions to promote balanced regional development and financial inclusion.
- Both banking sectors should enhance awareness regarding government-sponsored schemes such as MSME loans, Mudra Yojana, Stand-Up India, and Credit Guarantee schemes among SME entrepreneurs.
- Banks should provide financial literacy and entrepreneurial training programs to help SMEs improve financial management, digital banking usage, and credit repayment capacity.
- Effective monitoring and credit risk assessment mechanisms should be adopted to reduce Non-Performing Assets (NPAs) in the SME sector without restricting genuine credit demand.
- Greater coordination between banks, government agencies, and MSME development institutions is necessary to create a supportive ecosystem for SME growth and sustainability.
- The government and banking regulators should encourage digital lending platforms and fintech-based SME financing models to improve accessibility, transparency, and efficiency in credit delivery.
- Incentives and concessional credit facilities should be provided to SMEs operating in eco-tourism, handicrafts, agro-based industries, and other region-specific sectors of Uttarakhand.
- Continuous evaluation of banking performance in SME financing should be conducted through state-level monitoring systems to ensure balanced and inclusive economic development.

References

1. Ghimire B, Schulz R. Institutional financing and the growth of small and medium enterprises. International Journal of Banking and Finance. 2014;11(2):45-63.
2. Mohan R. Financial sector reforms and monetary policy: The Indian experience. Reserve Bank of India Bulletin. 2011;65(7):965-984.
3. Beck T, Demirgüç-Kunt A, Martínez Pería MS. Reaching out: Access to and use of banking services across countries. Journal of Financial Economics. 2007;85(1):234-266.
4. Ayyagari M, Demirgüç-Kunt A, Maksimovic V. Small vs. young firms across the world: Contribution to employment, job creation, and growth. World Bank Policy Research Working Paper, 2011, 5631.
5. Banerjee AV, Duflo E. Do firms want to borrow? Experimental evidence from a change in the prime lending regulation in India. Review of Economic Studies. 2014;81(2):571-607.
6. Allen F, Chakrabarti A, De S, Qian J, Qian M. Financing firms in India. Journal of Financial Intermediation. 2012;21(3):409-445.
7. Burgess R, Pande R. Do rural banks matter? Evidence from the Indian social banking experiment. American Economic Review. 2005;95(3):780-795.
8. Sati VP. Towards sustainable livelihoods and socio-economic development in Uttarakhand, India. Journal of Mountain Science. 2014;11(1):204-213.
9. Mamgain RP. Growth, employment and structural change in Uttarakhand. Journal of Asian Economic Integration. 2021;3(1):72-91.
10. Maithani G. Inter-district disparities in credit-deposit ratio: A case study of Uttarakhand. Indian Journal of Economics and Development. 2019;7(4):1-8.
11. Nair AB, Sasikumar S. Peer performance and institutional financing of MSMEs in India: An empirical assessment. Journal of Small Business and Entrepreneurship. 2019;32(4):365-384.
12. Reserve Bank of India. Basic statistical returns of commercial banks in India. Mumbai: Reserve Bank of India Central Database, 2025.
13. State Level Bankers' Committee Uttarakhand. Annual credit plan and institutional performance reports for SMEs. Dehradun: SLBC Uttarakhand, 2025.
14. Directorate of Economics and Statistics. Economic survey of Uttarakhand. Dehradun: Planning Department, Government of Uttarakhand, 2025.
15. Reserve Bank of India. Statistical tables relating to banks in India 2023-24. Mumbai: RBI Publications, 2024.
16. Reserve Bank of India. Basic statistical returns of scheduled commercial banks in India. Mumbai: RBI Publications, 2023.
17. State Level Bankers' Committee Uttarakhand. Annual credit plan and banking statistics report 2023-24. Dehradun: SLBC Uttarakhand, 2024.
18. Ministry of Micro, Small and Medium Enterprises. Annual report 2023-24. New Delhi: Government of India, 2024.
19. Government of Uttarakhand. Economic survey of Uttarakhand 2023-24. Dehradun: Directorate of Economics and Statistics, 2024.
20. Nair A, Sasikumar SK. MSME financing and economic development in India: A comparative study of banking sector performance. International Journal of Innovative Technology and Exploring Engineering. 2019;8(9):2450-2456.
21. Reserve Bank of India. Report on trend and progress of banking in India 2023-24. Mumbai: RBI Publications, 2024.