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Green Financial Inclusion through Small Finance Banks: A Conceptual Framework for Sustainable Development

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Abstract

This paper explores the potential role of Small Finance Banks (SFBs) in promoting green financial inclusion and its contribution to sustainable development. Financial inclusion and green finance have largely been discussed as separate areas, with limited attention to making environmentally sustainable finance accessible to financially underserved groups. Using a conceptual research approach based on existing academic literature, policy documents, and institutional reports, the paper brings these two perspectives together through the concept of green financial inclusion. It examines how the inclusion-oriented structure of SFBs could extend green finance to small farmers, micro-enterprises, women, and low-income households. The paper also identifies pathways through which green financial inclusion can generate social, economic, and environmental outcomes and contribute to selected Sustainable Development Goals (SDGs). A conceptual framework linking SFBs, green finance, green financial inclusion, and sustainable development is proposed as a basis for future empirical research.

Keywords: Small Finance Banks, Green Finance, Financial Inclusion, Green Financial Inclusion, Sustainable Development, Sustainable Development Goals.

1. INTRODUCTION

Sustainable development has increasingly become a concern not only for governments and businesses but also for the financial sector. Financial institutions influence how financial resources are mobilised and where they are directed, making finance an important part of the transition towards a more sustainable economy. In this context, financial inclusion and green finance have emerged as two important areas of discussion. Financial inclusion focuses on ensuring that individuals and businesses, particularly underserved groups, can access and use appropriate financial services. In contrast, green finance focuses on directing financial resources towards activities that support environmental sustainability. Bringing these two perspectives together provides an opportunity to explore how finance can contribute to development that is both socially inclusive and environmentally sustainable.

Financial inclusion has traditionally focused on improving access to savings, credit, payments, insurance, and other financial services for people with limited access to the formal financial system. Its importance goes beyond simply having a bank account, as appropriate financial services can support livelihoods, entrepreneurship, income generation and financial resilience. Research has also established links between financial inclusion and several Sustainable Development Goals, particularly those related to poverty reduction, gender equality and economic growth (Yap et al., 2023). Recent research further suggests that the contribution of financial inclusion to sustainable development can be influenced by factors such as digitalisation, human capital and access to renewable energy (Wang et al., 2026).

Alongside financial inclusion, growing environmental and climate concerns have increased the importance of green finance. Green finance directs financial resources towards activities such as renewable energy, sustainable agriculture, energy efficiency, clean transportation and climate-related projects. However, green finance has largely developed around large-scale projects, corporations, capital markets and institutional investors. This creates an important question about whether the benefits of green finance can also reach smaller businesses, farmers, households and other financially underserved groups. These groups may require relatively small amounts of finance to adopt solar energy, energy-efficient technologies, sustainable agricultural practices or other environmentally friendly activities, but may face difficulties in accessing suitable financial products.

The need to connect financial inclusion with environmental sustainability has therefore received increasing attention. The concept of inclusive green finance reflects this emerging approach by considering how financial systems can support vulnerable and underserved groups while addressing climate and environmental challenges (Alliance for Financial Inclusion [AFI], 2020). Recent literature also suggests that financial inclusion and sustainable finance can complement each other in promoting broader sustainability outcomes (Mamun & László, 2025). Nevertheless, the two areas have largely been examined separately. Financial inclusion research has generally focused on access, usage, digital finance and socioeconomic outcomes, while green finance research has concentrated more on environmental projects, climate finance, sustainable investment and corporate financing. As a result, the question of how environmentally sustainable finance can be made accessible to financially underserved groups remains relatively underexplored.

This gap provides the basis for the emerging concept of green financial inclusion. In this study, green financial inclusion refers to the provision of affordable, accessible and appropriate financial services to underserved individuals and businesses for environmentally sustainable and climate-resilient activities. The concept brings together the social objective of financial inclusion with the environmental objective of green finance.

The concept is particularly relevant to Small Finance Banks (SFBs) in India. SFBs were established with an inclusion-oriented objective and primarily serve groups such as small farmers, micro-enterprises, low-income households and other underserved customers. Their focus on small-value lending, rural and semi-urban customers and financially excluded groups gives them a potentially important position in extending financial services beyond traditional banking markets. Research has highlighted the contribution of SFBs to financial inclusion through credit access, technology and financial literacy (Kaur & Kapuria, 2021). Their existing outreach therefore provides a potential institutional pathway through which green financial products could reach smaller borrowers who may otherwise remain outside the formal green-finance ecosystem.

Against this background, the paper brings together financial inclusion, green finance, Small Finance Banks and sustainable development within a single conceptual perspective. It examines the potential role of SFBs in promoting green finance, explores green financial inclusion as an emerging concept, and considers how it can contribute to selected Sustainable Development Goals. The paper argues that the inclusion-oriented structure of SFBs could provide a bridge between green finance and financially underserved groups. Through such a connection, finance can potentially support not only access to economic opportunities but also investments in renewable energy, sustainable agriculture, green enterprises, energy efficiency and climate resilience.

The significance of this perspective lies in shifting the discussion of green finance beyond large corporations and institutional investors towards the participation of small farmers, micro-enterprises, women, rural households and other underserved groups

in the green transition. It also provides a conceptual basis for linking green financial inclusion with SDG 1 (No Poverty), SDG 5 (Gender Equality), SDG 7 (Affordable and Clean Energy), SDG 8 (Decent Work and Economic Growth), SDG 9 (Industry, Innovation and Infrastructure), SDG 12 (Responsible Consumption and Production) and SDG 13 (Climate Action). Thus, the paper seeks to highlight how an inclusive approach to green finance can potentially contribute to a form of sustainable development that is not only environmentally responsible but also financially accessible and socially inclusive.

2. OBJECTIVES

1. To understand green finance and financial inclusion.
2. To examine the potential role of Small Finance Banks in promoting green finance.
3. To explore the concept of green financial inclusion.
4. To examine the contribution of green financial inclusion to sustainable development and selected SDGs.

3. MATERIAL AND METHODS

This study adopts a conceptual research approach based on a review of existing literature on financial inclusion, green finance, Small Finance Banks, green financial inclusion, and sustainable development. Relevant academic articles, institutional reports, and policy documents were examined to understand the development and interrelationship of these concepts. Based on the literature, the study develops a conceptual framework linking Small Finance Banks, green financial inclusion, and selected Sustainable Development Goals. The framework also provides a basis for future empirical research.

4. DISCUSSIONS

4.1 Financial Inclusion: From Access to Inclusive Developments

Financial inclusion can be defined as the provision of suitable and affordable financial services in the form of payment, saving, credit, and insurance for people and businesses. The World Bank describes financial inclusion as “access to financial services provided responsibly and sustainably” (World Bank, 2022). Thus, financial inclusion is more than just the use of a bank account. It entails the actual use of financial services to suit individual financial requirements.

At first, financial inclusion was all about providing people with access to formal banking services when they did not have access to financial services at all. This involved expansion of branches, creation of accounts, and increased access to formal credit, especially for rural and poor areas. However, as research and studies progressed over time, it was observed that merely providing access to financial services did not mean much; therefore, greater focus was put on usage, affordability, quality, and suitability of services (World Bank, 2016).

In turn, the definition was further extended to financial literacy and capability. People require sufficient knowledge and competences to grasp financial products and services, and make informed decisions. As stated in the National Strategy for Financial Inclusion in India (2019-2024), India needs universal financial access, financial literacy, consumer protection, and use of financial services (Reserve Bank of India [RBI], 2020).

The concept was also reshaped by technological advancements. Mobile banking, digital payment systems, internet banking, and FinTech have made financial services accessible to people who were previously excluded from these services at reduced costs. According to the G20 High-Level Principles for Digital Financial Inclusion, digital financial services are a way to

enhance financial inclusion, especially for underserved and remote populations (Global Partnership for Financial Inclusion [GPFI], 2016). Therefore, the concept of modern financial inclusion not only includes traditional aspects such as access, affordability, and use but also digital access and digital financial capability.

Financial inclusion has also been recognized as a tool that can facilitate economic and social development. Financial inclusion has the potential to foster savings, productive investments, entrepreneurship, income generation, and financial resilience, thus promoting poverty alleviation and economic development (Demirgüç-Kunt et al., 2022).

It is such an expanded perception that forms the theoretical background for the analysis of the connection between financial inclusion and environmental sustainability. While financial inclusion aims to guarantee that financially excluded segments of the population have the ability to benefit from financial services, green finance aims to ensure that financial resources are allocated to environmentally sustainable actions. Such a combination gives rise to the concept of green financial inclusion.

4.2 Green Finance: Financing Transition to Sustainability

Green finance has become increasingly relevant due to the close connection between the environment and climate change issues on the one hand and economic and financial activities on the other. In simpler terms, green finance means financing the projects or activities that are environmentally positive. Green finance aims to ensure that economic decisions also consider the environmental aspect. Green finance can benefit various sectors, including renewable energy, sustainable agriculture, energy efficiency, transport that is environmentally friendly, and activities that are related to climate (OECD, 2021).

There are different types of green finance. These include green loans that are used to finance environmentally friendly projects. Similarly, there are green bonds that finance projects that meet the eligibility criteria for green finance. Moreover, financial institutions may provide funding for renewable-energy projects such as solar and wind energy, sustainable agriculture, energy efficiency, and environmentally friendly transport.

Green finance is the result of the gradual development of financial decision-making in its entirety. In the past, financial decisions had been mainly driven by considerations of profitability and risks involved in finance. As time went on, increasing realization of environmental and social challenges gave birth to sustainable finance, where financial decisions started considering their impact on the environment and society.

Further development of the Environmental, Social and Governance (ESG) criteria made such financial decision-making even more broad. ESG takes into consideration not only traditional factors that financial decision-makers pay attention to but also environmental and social aspects when assessing investments and firms. Thus, green finance may be seen as one of the particular fields of sustainable finance, with more focus on environmental considerations (OECD, 2021). The increasing significance of green finance means that there is increased focus on investing in renewable energy, sustainable infrastructure, green technologies, and climate-related initiatives. However, one key question that emerges is access to green finance.

Most of the discussions about green finance have largely been centered on large projects, corporates, institutional investors, and capital market tools. While the investments made through such instruments are significant in the context of meeting environmental goals, sustainable development needs the involvement of people and smaller players like small enterprises, farmers, and communities. This group does not have easy access to formal financing and, as such, may find it hard to embrace environmentally sustainable practices.

4.3 Small Finance Banks and Inclusive Financial Development

Small Finance Banks (SFBs) were introduced in India to address the continuing gaps in access to formal financial services. The idea behind SFBs was to bring banking closer to people and businesses that were often underserved by traditional banks. The Reserve Bank of India (RBI) specifically identified small and marginal farmers, micro and small enterprises, low-income households, and other underserved groups as important segments for SFBs (RBI, 2015). Thus, financial inclusion is central to the purpose and functioning of SFBs.

SFBs mainly cater to customers who may find it difficult to obtain financial services from conventional banking institutions. These include small farmers, micro-enterprises, low-income households, and rural and semi-urban customers. Women, Self-Help Groups (SHGs) and Joint Liability Groups (JLGs) are also important groups within their outreach.

By focusing on these customers, SFBs can help reduce barriers such as limited access to formal credit, geographical constraints, and lack of suitable financial products. Their role is therefore important not only in providing loans but also in helping underserved groups become part of the formal financial system.

SFBs use a combination of physical and digital channels to reach their customers. Branches provide direct access to banking services, while Business Correspondents and other outreach mechanisms help extend services to customers in areas where conventional banking facilities may be limited.

Their services include small loans, savings, microfinance, insurance, digital banking and digital payments. The increasing use of digital technologies has further improved the convenience and reach of these services.

Overall, the inclusion-oriented approach of SFBs makes them relevant to the discussion of green finance. Since they already have relationships with financially underserved groups, they have the potential to extend environmentally oriented financial products to customers who may otherwise have limited access to green finance. This provides the basis for examining the role of SFBs in promoting green financial inclusion.

4.4 Small Finance Banks as a Channel for Green Finance

Small Finance Banks (SFBs) have a distinctive position in the Indian financial system because their primary orientation is towards financially underserved sections of society. Their customer base includes small and marginal farmers, micro and small enterprises, low-income households, and other underserved groups. Research on SFBs also highlights their role in financial inclusion through mechanisms such as technology, financial literacy, and access to credit (Kaur & Kapuria, 2021).

This inclusion-oriented structure creates an important opportunity for SFBs to contribute to the development of green finance at the grassroots level. Green finance is often associated with large projects and corporate borrowers, but the transition towards a sustainable economy also requires smaller economic participants to adopt environmentally sustainable practices. SFBs, because of their existing relationships with small borrowers, could potentially provide a channel for extending green finance to these groups.

One potential role of SFBs is the provision of small-value green credit. Farmers, households and micro-enterprises may require relatively small amounts of finance for activities such as solar-powered irrigation, renewable-energy systems, energy-efficient equipment, sustainable farming practices and environmentally friendly businesses. SFBs could integrate such activities into their existing lending portfolio, thereby making green finance more accessible to customers who may not normally participate in the formal green-finance market.

SFBs can also support green finance through their microfinance and rural lending networks. Their close relationships with small borrowers provide an opportunity to identify environmentally sustainable activities at the local level. For example, financing energy-efficient equipment for a small enterprise or sustainable agricultural technology for a farmer can simultaneously address the borrower's financial needs and generate environmental benefits.

Another important opportunity is digital financial delivery. Digital banking and technology-enabled lending can reduce transaction costs and improve the reach of financial services. When combined with appropriate green-finance products, these channels could make small-value green loans more accessible to rural and semi-urban customers. Research on Indian banking also indicates that FinTech and green finance can complement each other in supporting sustainable development and financial inclusion.

The regulatory environment also provides a basis for SFB participation in green finance. The RBI's Framework for Acceptance of Green Deposits explicitly applies to Small Finance Banks. The framework allows regulated entities, including SFBs, to mobilise green deposits and allocate the proceeds to eligible activities such as renewable energy, energy efficiency, clean transportation, climate adaptation, sustainable water and waste management, green buildings and biodiversity conservation (Reserve Bank of India, 2023).

Importantly, the RBI framework also requires appropriate governance, third-party verification and impact assessment for green deposits. This creates an institutional mechanism through which SFBs can potentially mobilise resources for green activities while maintaining transparency and reducing greenwashing risks.

SFBs can therefore potentially contribute to green finance through several interconnected channels:

SFB capability	**Potential green-finance role**
Rural and semi-urban outreach	Reach underserved green-finance beneficiaries
Small-value lending	Finance small green investments
Microfinance	Support sustainable livelihoods and micro-enterprises
Agricultural lending	Promote sustainable agricultural practices
MSME finance	Support energy efficiency and cleaner technologies
Digital banking	Deliver green financial services at lower cost
Green deposits	Mobilise funds for eligible green activities
Financial literacy	Create awareness about green financial products

Table 1: SFBs' potential contribution to green finance

The significance of SFBs therefore lies not simply in their ability to provide more green finance, but in their potential to make green finance more inclusive. Their existing financial relationships with underserved groups can provide an institutional bridge between the environmental objectives of green finance and the social objectives of financial inclusion.

Accordingly, this study argues that Small Finance Banks can potentially act as facilitators of green financial inclusion by extending environmentally oriented financial services to groups that have traditionally remained outside both formal finance and the emerging green-finance ecosystem.

4.5 Integrating Financial Inclusion with Green Finance

Financial inclusion and green finance have traditionally developed around two different objectives. Financial inclusion is primarily concerned with ensuring that individuals and businesses, particularly those that are underserved, can access and use appropriate financial services. Green finance, on the other hand, focuses on directing financial resources towards activities that support environmental sustainability and the transition to a low-carbon economy. Bringing these two perspectives together creates an opportunity to consider not only whether people have access to finance, but also whether the finance available to them supports sustainable activities.

Recent research increasingly points towards a connection between the two areas. Oanh (2024), for example, found that financial inclusion and green finance can work together to support sustainable development, with their interaction having a positive association with sustainable development across countries with different levels of financial development. Similarly, a recent systematic review of Scopus-indexed research identifies a growing body of literature examining the relationship between financial inclusion and green economic growth, suggesting that financial inclusion can have implications beyond conventional economic development (Farah et al., 2026).

Financial inclusion is concerned with reaching groups that may face barriers to formal financial services, including low-income households, small farmers, micro-enterprises, and rural communities. Green finance focuses on activities such as renewable energy, sustainable agriculture, energy efficiency, clean transportation and climate-related investments.

Green financial inclusion can therefore be understood as extending the benefits of green finance to financially underserved groups. It goes beyond simply increasing the volume of green finance and considers whether such finance is accessible, affordable and appropriate for smaller and underserved economic participants. For example, financing a large solar-energy project would represent green finance, whereas providing an affordable solar loan to a low-income rural household would combine the objectives of both financial inclusion and green finance.

This distinction is important because the environmental transition cannot depend entirely on large corporations and institutional investors. Small farmers, households, and micro-enterprises also make decisions that affect energy use, production, transportation, and resource consumption. Providing these groups with appropriate financial resources can potentially enable them to adopt cleaner technologies and more sustainable practices. Recent research supports this broader perspective. Studies have found that financial inclusion can contribute to environmental sustainability by facilitating investment in cleaner technologies and improving energy efficiency (Malik et al., 2026; Abbass et al., 2026).

The convergence is therefore not simply about adding an environmental component to existing financial inclusion programmes. It involves rethinking the purpose and direction of inclusive finance. Financial services can potentially help underserved groups not only to save, borrow and make payments, but also to invest in renewable energy, adopt sustainable agricultural practices, improve energy efficiency and build resilience to climate-related risks.

This perspective also provides a useful role for Small Finance Banks. Since SFBs are oriented towards financially underserved groups, their existing outreach to small farmers, micro-enterprises, rural households and other small borrowers could provide an institutional channel through which green financial products can reach groups that may not traditionally participate in the formal green-finance market. Thus, SFBs can potentially serve as a bridge between the social objective of financial inclusion and the environmental objective of green finance.

The emerging literature supports the relevance of this convergence. Oanh (2024) demonstrates a positive interaction between financial inclusion and green finance in relation to sustainable development, while recent research on inclusive green finance has attempted to integrate financial access, usage, gender equality, SME development, environmental quality and innovation into a single framework (Oanh, 2024; *Inclusive green finance*, 2025).

This convergence provides the conceptual foundation for examining Small Finance Banks as potential facilitators of green financial inclusion. Rather than viewing financial inclusion and environmental sustainability as separate objectives, green financial inclusion brings them together by asking how financial resources can simultaneously promote economic participation, social inclusion and environmental sustainability.

4.6 Green Financial Inclusion and the Pathway to Sustainable Development

Green financial inclusion emerges from the convergence of financial inclusion and green finance. While financial inclusion focuses on providing access to appropriate and affordable financial services, green finance directs financial resources towards environmentally sustainable activities. Bringing these two perspectives together creates the concept of green financial inclusion. In this study, green financial inclusion is defined as, the provision of affordable, accessible, and appropriate financial services to underserved individuals and businesses for environmentally sustainable and climate-resilient activities.

The concept has two main dimensions:

Inclusion dimension: Focuses on accessibility, availability, affordability, and usage of financial services, particularly among low-income households, small farmers, women, and micro-enterprises.

Green dimension: Focuses on financing activities such as renewable energy, sustainable agriculture, energy efficiency, waste management, green enterprises, and climate resilience.

The key idea is that green finance should not be limited to large corporations and institutional investors. Financially underserved groups should also have opportunities to access finance for environmentally sustainable activities. This suggests a potential role for Small Finance Banks, given their focus on underserved customers (Alliance for Financial Inclusion [AFI], 2023; Oanh, 2024).

4.7 Advancing the Sustainable Development Goals through Green Financial Inclusion

Green financial inclusion can contribute to sustainable development by making environmentally beneficial financial services accessible to underserved groups. Its contribution can occur through economic, social, and environmental pathways. Rather than linking green finance directly to the SDGs, the intermediate outcomes of financial inclusion can be considered.

Financing renewable-energy systems for low-income households can improve access to clean energy while potentially reducing energy expenses and strengthening household financial resilience. This can contribute to SDG 1 (No Poverty) and SDG 7 (Affordable and Clean Energy).

Similarly, providing green finance to micro-enterprises can help them adopt environmentally friendly technologies and develop green businesses. This can support income generation, entrepreneurship and employment, contributing to SDG 8 (Decent Work and Economic Growth). Green finance targeted at women entrepreneurs can promote women's participation in sustainable economic activities and support SDG 5 (Gender Equality).

Finance for sustainable production and resource-efficient technologies can encourage businesses and producers to reduce waste and use resources more efficiently, supporting SDG 12 (Responsible Consumption and Production). In addition, finance for

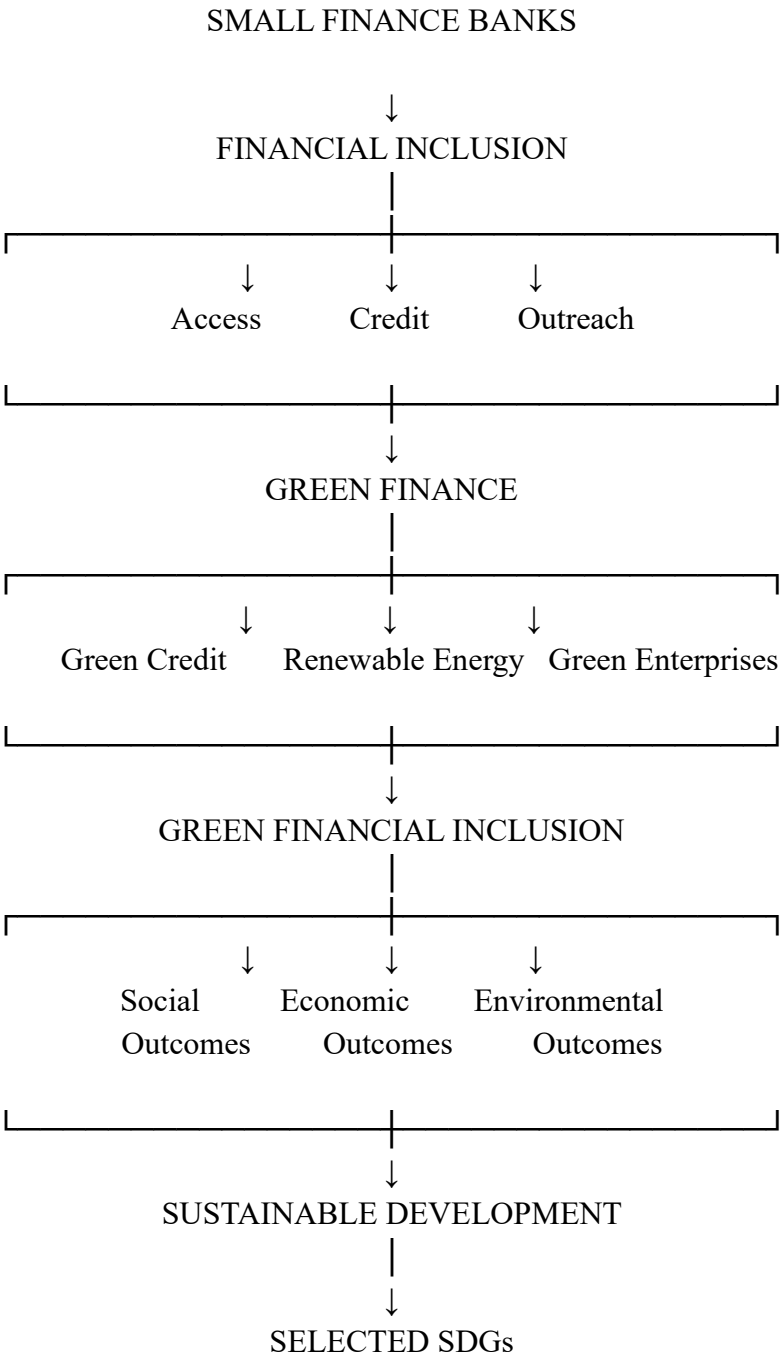
climate-resilient agriculture, infrastructure and livelihoods can improve the ability of vulnerable groups to cope with climate-related risks, contributing to SDG 13 (Climate Action).

Thus, green financial inclusion can be viewed as a mechanism through which financial access contributes simultaneously to economic inclusion and environmental sustainability.

Green financial inclusion pathway	**Expected outcome**	**SDG**
Green microfinance	Sustainable livelihoods	SDG 1
Green finance for women	Women's economic empowerment	SDG 5
Renewable-energy finance	Clean energy access	SDG 7
Green MSME finance	Green entrepreneurship and employment	SDG 8
Green technology finance	Sustainable innovation	SDG 9
Sustainable production finance	Resource efficiency	SDG 12
Climate-resilient finance	Improved climate adaptation	SDG 13

Table 2. Green Financial Inclusion and Selected SDGs

4.7 Conceptual Framework



5. RESEARCH IMPLICATIONS

This study has implications for Small Finance Banks, policymakers, and researchers. For Small Finance Banks, the proposed framework highlights the opportunity to extend their existing inclusion-oriented services towards green financial products. They can consider developing affordable green loans for small farmers, micro-enterprises and low-income households for activities such as renewable energy, sustainable agriculture and energy-efficient technologies.

For policymakers, the study highlights the need to create an enabling environment that encourages financial institutions to combine financial inclusion with environmental objectives. Policies and incentives can encourage SFBs and other financial institutions to develop green financial products that are accessible to underserved groups. From an academic perspective, the study contributes by bringing financial inclusion and green finance together through the concept of green financial inclusion. The proposed framework provides a foundation for future empirical studies to examine whether and how SFBs can contribute to green financial inclusion and the achievement of selected SDGs.

6. CONCLUSION

The discussion in this paper highlights the need to view financial inclusion and environmental sustainability as interconnected objectives. While financial inclusion focuses on providing access to financial services for underserved groups, green finance focuses on directing financial resources towards environmentally sustainable activities. Bringing these two perspectives together provides the basis for the emerging concept of green financial inclusion, which focuses on making environmentally sustainable finance accessible to individuals and businesses that may otherwise have limited access to formal finance.

The paper argues that Small Finance Banks (SFBs) have the potential to play an important role in this process. Their existing focus on small farmers, micro-enterprises, women, low-income households and rural customers provides a possible channel for extending green financial services to underserved groups. Through appropriate financial products, digital channels and small-value lending, SFBs could potentially support activities such as renewable energy, sustainable agriculture, energy efficiency and climate resilience.

The conceptual discussion also suggests that green financial inclusion can contribute to sustainable development through economic, social and environmental pathways. Access to green finance can support sustainable livelihoods, clean energy, green entrepreneurship, resource efficiency and climate resilience, thereby contributing to selected Sustainable Development Goals, particularly SDGs 1, 5, 7, 8, 9, 12 and 13. In this way, green financial inclusion can serve as a link between the social objective of financial inclusion and the environmental objective of green finance.

However, this study is conceptual and does not empirically assess the extent to which SFBs currently provide or promote green financial services. This limitation also points towards several opportunities for future research. Future research may test the proposed framework empirically using data from Small Finance Banks and their borrowers. Empirical studies can examine the availability and adoption of green financial products offered by SFBs and assess their accessibility to underserved customers. Future research can also investigate the awareness and willingness of small farmers, micro-enterprises, women and rural households to use green financial products and identify the barriers they face.

Further studies could develop measurable indicators of green financial inclusion and empirically test the proposed relationship between SFBs, green finance, green financial inclusion and sustainable development outcomes. Comparative studies involving SFBs, commercial banks, cooperative banks and microfinance institutions could also provide useful insights into the effectiveness of different institutional approaches.

Overall, this paper provides a conceptual foundation for understanding how Small Finance Banks can potentially bridge green finance and financial inclusion. Future empirical research can build on this framework and provide evidence on how this potential can be translated into practical financial products, policies, and strategies that support both inclusive finance and sustainable development.

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