
RBI: Framework for Acceptance of Green Deposits

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Introduction

Globally, there is a significant transformation towards sustainable living. With growing awareness about climate change and its disturbing impact on our planet, individuals and businesses alike are looking for ways to reduce their carbon footprint and promote environmentally responsible practices. This shift towards sustainability has created new opportunities for investment and growth. Subsequently, governments and financial institutions worldwide are increasingly exploring ways to support and incentivize sustainable finance practices.

In this context, the Reserve Bank of India (RBI) has announced a new framework for the acceptance of Green Deposits by regulated entities (REs). The new framework aims to build upon these existing efforts and create a more robust green finance ecosystem in India. The framework seeks to aid customers in achieving their sustainability goals while also addressing concerns around greenwashing. The new regulations will come into effect on June 1, 2023, giving REs time to prepare for compliance. Overall, this development is a positive step towards promoting sustainable finance practices in India and could potentially have a significant impact on the country's efforts to combat climate change.

Key features of the RBI Green Deposit Framework

- The framework aims to formalize green deposits as an instrument for scheduled commercial banks and non-banking financial companies, including housing finance companies registered under Section 29A of The National Housing Bank Act, 1987, even though some banks already accept them. Both corporate and individual customers can invest in green deposits.
- Objectives of the framework include, encouraging REs to protect depositor interest, supporting customer sustainability goals, addressing greenwashing concerns, and increasing credit flow to green activities/projects.
- Green deposits under the framework can be cumulative/non-cumulative and denominated in Indian Rupees. Depositors have the option to renew or withdraw deposits on maturity. Interest rates, size, tenor, and other terms and conditions shall follow existing RBI guidelines for deposits.
- REs must establish a board-approved policy and financing framework for green deposits, covering all aspects of issuance and allocation, including eligibility criteria, evaluation and selection, and reporting of proceeds. These must be made available on the RE's website, and an external review conducted before implementation.
- Proceeds from green deposits can fund projects in sectors such as - renewable energy, energy efficiency, clean transportation, climate-change adaptation, sustainable water and waste management, pollution prevention and control, green buildings, management of living natural resources, and biodiversity conservation.
- The exclusions - fossil fuel projects, nuclear power generation, waste incineration, certain industries such as alcohol, weapons, tobacco, gaming, and palm oil, and certain renewable energy projects such as those using feedstock from protected areas or hydropower plants larger than 25 MW.

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- An annual independent Third-Party Verification (TPV) is required to authenticate compliance with provisions on eligible green activities/projects for the allocation of funds raised through green deposits. The TPV covers policies related to project evaluation, management of proceeds, sustainability information validation, reporting, and disclosures.
 - Additionally, lenders must provide a review report to their Board of Directors within three months of the end of the financial year, covering amount raised from green deposits, eligible green activities and projects, the allocated amounts, and copies of Third-Party Verification/Assurance and Impact Assessment Reports.

Conclusion

It is important to note that the success of the RBI's new framework will depend on its effective implementation and monitoring. Regulated entities will need to ensure that their green deposit products meet the required standards and that the proceeds are used for genuinely green activities. The RBI will also need to provide sufficient guidance and oversight to ensure that the framework achieves its intended objectives without compromising the safety and stability of the financial system.

Furthermore, the success of the framework will also depend on the willingness of customers to invest in green deposit products. While there is growing awareness and interest in sustainable finance among investors, the uptake of green deposits may be limited by factors such as low awareness, lack of trust in financial institutions, and perceived trade-offs between financial returns and environmental impact.

Overall, the RBI's new framework for green deposits is a step in the right direction towards promoting sustainable finance practices in India. However, it is important to remain vigilant and monitor its implementation to ensure that it achieves its intended objectives and contributes to India's efforts to combat climate change and promote sustainable development.

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