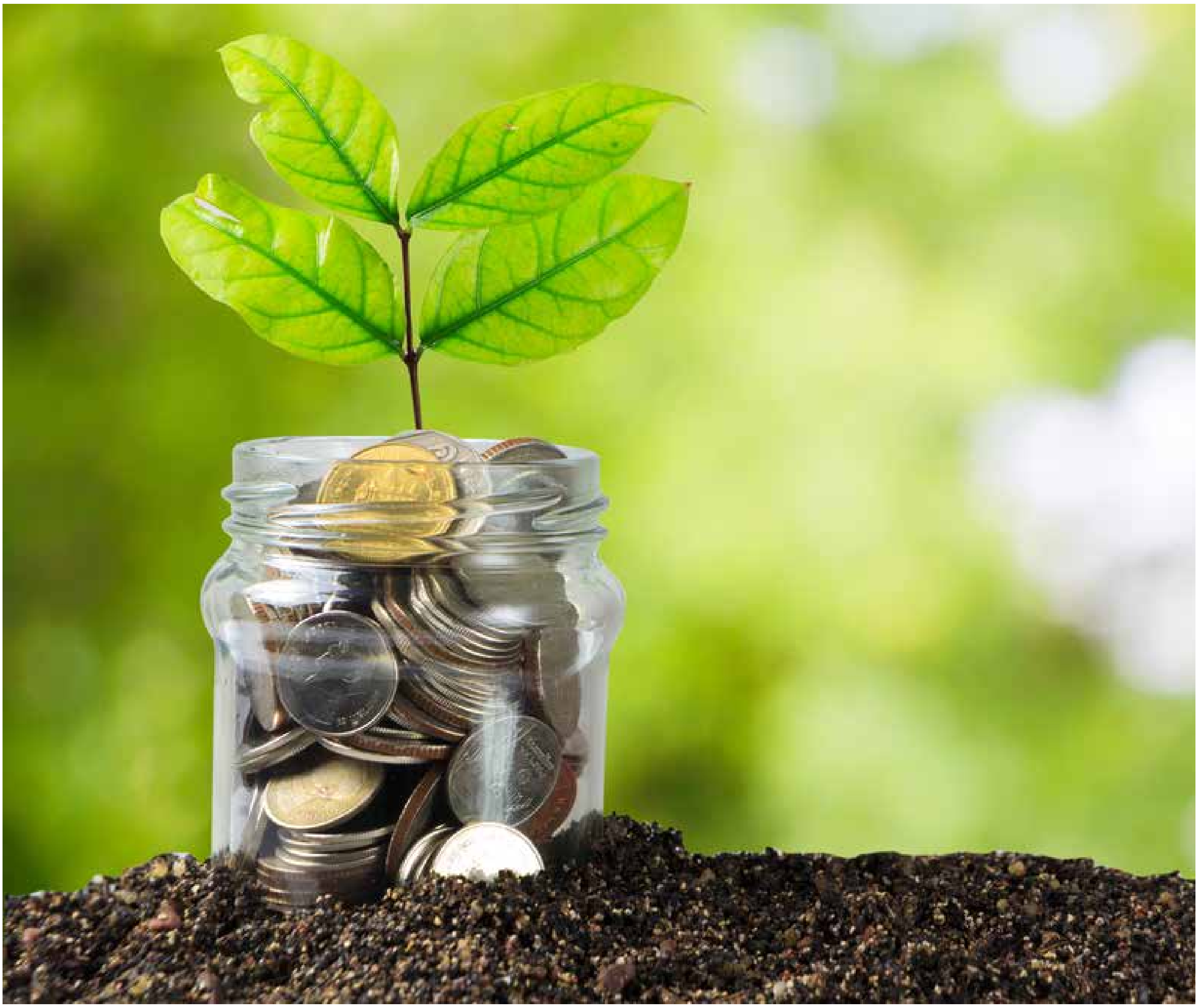
Deloitte.

Green deposits: What, why, and how

Moving towards sustainable finance, one step at a time

June 2023



The finance sector plays a major role in assisting countries to move to low-emission, climate resilient growth paths. India, particularly vulnerable to climate change related physical risks with high share of fossil fuels in energy systems and relatively high dependence of rural livelihoods in agriculture, has announced its ambitious plan of becoming net zero by 2070.

This green deposit framework is the first step towards sustainable and green finance taken by the Reserve Bank of India (RBI). A few other frameworks, connected to climate-related financial risks and climate scenario analysis, are expected to come out soon.

What banks and NBFCs need to know about the green deposit framework

The RBI aims to develop a Green Finance Ecosystem (GFS) in India, and has issued a framework for regulated entities (REs), such as banks and Non-Banking Financial Companies (NBFCs) to accept 'green deposits'. This will help encourage investments in green/sustainable projects in India, and help customers achieve their sustainability agenda. Green investment project activities include energy efficiency in resource utilisation, reducing carbon emissions and greenhouse gases, promoting climate resilience, and improving natural ecosystems and biodiversity.

The guideline is effective 1 June 2023. The framework requires that the proceeds raised through green deposits should be used to finance green projects/activities including the following:

- Renewable energy
- Energy efficiency in resource utilisation
- Clean transportation
- Climate change adaptation
- Sustainable water and waste management
- Pollution prevention and control
- Green buildings
- Sustainable management of living natural resources and land use
- Terrestrial and aquatic biodiversity conservation

However, there are few exemptions like nuclear power generation, waste incineration, and certain landfill projects that are not included as green projects/activities.

Applicability

This is applicable for:

- Scheduled commercial banks, including small finance banks, (excluding regional rural banks, local area banks and payments banks)
- All deposit-taking NBFCs registered with the RBI, under clause (5) of Section 45IA of the RBI Act, 19341, including Housing Finance Companies (HFCs) registered under section 29A of the National Housing Bank Act, 1987.

Opportunities for financial institutes

Develop a green deposit framework
An internal framework needs to be prepared basis the RBI guidelines

Identify green projects
Green projects/activities should be identified by an assessment or rating system

Investing and lending
The amount invested by depositors will be invested in green projects to generate a revenue stream

Returns
Returns on investments will be shared with the depositors according to tenure of investment and interest rates

Eligibility

Who can invest?

- Individuals
- Guardians for minor individuals
- Firms
- Hindu Undivided Family (HUF)
- Sole proprietary concerns
- Clubs/associations
- Joint stock companies
- Any other entity not prohibited by the RBI

Perks of green deposits

- **Encourages foreign capital**
  - The government has permitted Foreign Direct Investment (FDI) up to 100% under the automatic route in the renewable energy sector.
- **Encourages renewable and clean energy**
  - The government has waived Inter-State Transmission System (ISTS) charges for inter-state sale of solar and wind power sale for projects. They have also made provisions for Renewable Purchase Obligation (RPO) and have set up renewable energy parks. In addition, setting into motion the National Green Hydrogen Mission.

The National Green Hydrogen Mission, approved by the government of India, aims to provide a comprehensive action plan to establish a Green Hydrogen ecosystem and catalyse a systemic response to the opportunities and challenges of this sector.

- **India's Nationally Determined Contribution**
  - Under the Paris Agreement, adopted by signatory countries in 2015, India submitted a Nationally Determined Contribution (NDC) with quantified targets. This includes a reduction of the emissions intensity of its Gross Domestic Product (GDP) by 33-35% till 2030. The final aim is to achieve ~40 percent cumulative electric power installed capacity from non-fossil fuel-based energy resources by 2030.

Nationally Determined Contributions (NDCs) are at the core of the Paris Agreement and the achievement of its long-term goals. NDCs embody efforts by each country to reduce national emissions and adapt to the impacts of climate change.

- **Contributes to Sustainable Development Goals (SDGs)**
  - Green deposits will contribute to SGDs such as commercial and residential buildings, public services, agriculture processes, etc. using energy efficiency, technology modification, process change, etc.

Key points for banks and NBFCs to keep in mind regarding 'green deposits'

Some important aspects of green deposits that should be keep in mind:

- REs would need to submit a board-approved financing framework for the effective allocation of green deposits to different projects/activities.
- REs can only issue green deposits as cumulative or non-cumulative deposits, denominated in Indian rupees only.
- On maturity, the green deposits can be renewed or withdrawn at the option of the depositor.
- The tenor, size, interest rate, and other terms and conditions (as applicable to the RE) will be as defined in the master direction, issued by the RBI.
- For a retail depositor, it will make no difference whether they place a green deposit or a normal deposit (if both have callable/premature withdrawal option) as a bank has to offer a uniform rate of interest on all retail deposits.
- Banks may try to offer a higher interest rate to retail depositors with non-callable green deposits. However, retail depositors may not want to lose the flexibility of premature deposit withdrawal.
- For bulk deposits, banks have the flexibility to offer interest rates higher than the card rates. So, banks may pitch the green deposits to bulk depositors (INR 2 crore and above) using options like non-callable deposit (no premature closure) and differential interest rate.

The RBI can consider an additional feature to exempt green deposits from statutory reserve/ liquidity coverage ratios or count the financing of green activities/ projects as priority sector lending. This would encourage banks to mobilise these deposits and lend for green projects.

As individuals and corporates are becoming socially conscious in their choices for purchasing stocks and fixed incomes Environmental, Social and Governance (ESG) objectives are gaining importance in India's financial environment. At present, the market for fixed income in India is seeing an increased interest in 'green deposits'. The RBI's green deposits framework represents a significant advancement in the promotion of sustainable finance in India as well as to develop a green market for both deposits and loans.

Connect with us

Anthony Crasto
President, Risk Advisory
Deloitte India
acrasto@deloitte.com

Abhijit Katkar
Partner, Risk Advisory
Deloitte India
akatkar@deloitte.com

Ajay Pillai
Partner, Risk Advisory
Deloitte India
ajaypillai@deloitte.com

Dr. Amrita Ganguly
Executive Director, Risk Advisory
Deloitte India
aganguly@deloitte.com