Green Deposits

Why in news?

RBI has unveiled a framework for banks and NBFCs to accept green deposits that are meant for investing in eco-friendly climate projects.

What are green deposits?

- A green deposit is a fixed-term deposit for investors looking to invest their surplus cash reserves in *environmentally friendly projects.*
- It indicates the increased awareness of the importance of *ESG (Environmental, social and governance)* and sustainable investing.
- Many lenders like HSBC and HDFC have launched green deposits in India *for corporates as well as individuals.*
- Common themes for green deposits are renewable energy, clean transportation, pollution prevention and control, green building, sustainable water, wastewater management, and others.

What is the RBI framework about?

- **Aim -** To prevent greenwashing, which refers to making misleading claims about the positive environmental impact of an activity.
- **Deposits** - As per the RBI framework, banks will offer the deposits as cumulative/ non-cumulative deposits.
- On maturity, the green deposits would be renewed or withdrawn at the choice of the depositor.
- The green deposits shall be denominated in ***rupees only***.
- **Application** - The framework applies to all *scheduled commercial banks and small finance banks* (except for regional rural banks and local area banks) and *non-banking finance companies* (including housing finance companies).
- **Investors -** *Both corporate and individual customers* can invest in green deposits.
- Banks and NBFCs shall put in place a comprehensive board-approved policy on green deposits, and a copy of the policy shall also be made available on their websites.
- **Sectors eligible to receive green deposits** – The sustainable and eligible sectors include *renewable energy, waste management, clean transportation, energy efficiency, and afforestation*.
- Banks will be barred from investing green deposits in business projects involving *fossil fuels, nuclear power, tobacco*, etc.
- **Review** - The allocation of funds raised through green deposits during a financial year shall be subject to an *independent Third-Party Verification (TPV)* on an annual basis.
- **Impact assessment by lenders** - Lenders must annually assess the impact associated with the funds lent for or invested in green finance activities and submit a review

report before their Board.
- **Penalty -** There are no penal provisions when the bank doesn't utilise the deposits.

How are green deposits different from normal deposits?

- **Projects** - Normal deposits cannot be allocated for specific projects, whereas green deposits are carved out specifically towards green financing.
- **Interest rate on green deposits** – It is at the prerogative of the lender and currently the rates on these deposits aren't significantly different from regular deposits.

What are the challenges of green deposit?

- **Flaws in design** - Flaws in design leads to limitation of the range in the green projects that the banks can invest.
- **Reality being different** - Green investment products are often just a way to make investors feel good about themselves and that these investments don't really do much good to the environment.
- **Project sustainability** - It is not sure whether the banks invested in the green projects will be sustainable.
- **Lack of awareness** - Lack of awareness among the bank staffs leads to delay in the process of obtaining green deposits.
- **Lower interest rate** - The investor seeks only for high return deposits and doesn't care about being green.

References

1. The Hindu|Benefits Of The Green Deposits
2. The Hindu Business Line|Challenges To Green Deposits
3. Financial Express | Green deposits

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