



RBI's Green Deposits Framework

For Prelims: Green Finance Ecosystem, Green Bond, RBI, Non-Banking Financial Companies, UNEP (United Nations Environment Program), Perform Achieve and Trade.

For Mains: Green Finance Ecosystem.

Why in News?

The [Reserve Bank of India \(RBI\)](#) has announced a new framework to offer **green deposits to the customers**, aiming at developing a **Green Finance Ecosystem (GFS)** in India.

- The framework will come into effect from June 1, 2023.
- A green deposit refers to an interest-bearing deposit received by an RE (Regulated Entity) for a fixed period, with the proceeds earmarked for allocation towards green finance.

What are the Key Features of the Framework?

- **Applicability:**
 - The framework is applicable to **Scheduled Commercial Banks**, including Small Finance Banks, excluding Regional Rural Banks, Local Area Banks and Payments Banks and all deposit-taking [Non-Banking Financial Companies \(NBFCs\)](#), including Housing Finance Companies.
- **Allocation:**
 - REs will be required to allocate the proceeds raised through green deposits towards a **list of green activities and projects that encourage energy efficiency** in resource utilization, reduce carbon emissions and greenhouse gases, promote climate resilience and/or adaptation, and improve natural ecosystems and biodiversity.
- **Exclusion:**
 - Projects involving new or existing extraction, **production and distribution of fossil fuels, including improvements and upgrades**, nuclear power, direct waste incineration, alcohol, weapons, tobacco, gaming, or palm oil industries, **renewable energy projects generating energy from biomass** using feedstock originating from protected areas, landfill projects and hydropower plants larger than 25 MW have been excluded from green financing.
- **Financing Framework:**
 - To ensure effective allocation of green deposits, REs must put in place a **Board-approved Financing Framework (FF)**. The green deposits shall be denominated in Indian Rupees only.
 - The allocation of funds raised through green deposits by REs during a financial year shall be **subject to independent third-party verification/assurance**, which shall be done on an annual basis.

What is Green Finance Ecosystem?

▪ **About:**

- GFS refers to the financial system that supports and **enables investments in environmentally sustainable projects** and activities.
 - It includes a range of financial products, such as [green bonds](#), **green loans**, **green insurance**, and **green funds**, that are designed to promote environmentally friendly practices and projects.
- The green finance ecosystem aims to create a financial system that supports the transition to a **low-carbon, resource-efficient, and sustainable economy**, while also addressing the risks and opportunities associated with environmental issues such as [climate change](#), pollution, and biodiversity loss.

▪ **Need:**

- The financial sector can play a pivotal role in mobilising resources and their allocation thereof in green activities/projects. Green finance is **also progressively gaining traction in India**.
- The GFS can augment the **flow of credit to green activities and projects while also protecting the interest of depositors** and addressing greenwashing concerns.
- It can promote [sustainable development](#) and **create a positive impact** on the environment in India.

▪ **Indian Scenario:**

- India has commenced its journey for carbon neutrality and put forward a '**Green Deal**' to be achieved by 2070.
 - The Green Deal has classified green finance as an enabler to accelerate decarbonisation. It emphasises on the need for an increased flow of capital from the **national government and private entities to establish green infrastructure**.
- In 2016, the RBI had released a report in collaboration with [UNEP \(United Nations Environment Programme\)](#) and India on the lines of sustainable financial systems.
 - The report explores various facets of financial systems in India and its role in accelerating green finance.
- Carbon trading has been introduced in the policy framework of the country through the '[Perform Achieve and Trade](#)' scheme.
- According to the World Economic Forum the market for green bonds could be worth more than **two trillion dollars by 2023**.

What are the Related Initiatives?

- **Encouraging Foreign Capital:** The Government has permitted [Foreign Direct Investment \(FDI\)](#) up to 100% under the automatic route in the renewable energy sector.
- **Encouraging Renewable energy:**
 - The Government has waived inter-state Transmission System (ISTS) charges for inter-State sale of solar and wind power for projects.
 - Making provisions for [Renewable Purchase Obligation \(RPO\)](#) and setting up Renewable Energy parks
 - Announcement of the [National Hydrogen Mission](#).
- **India's Nationally Determined Contribution:** Under the Paris Agreement which was adopted by signatory countries in 2015, India had submitted [Nationally Determined Contribution \(NDC\)](#) with quantified targets.
 - To reduce the emissions intensity of its Gross Domestic Product (GDP) by 33-35% till 2030 from the levels in 2005,
 - To achieve about 40% cumulative electric power installed capacity from non-fossil fuel-based energy resources by 2030.

Way Forward

- India's green economy is showing promising signs of growth, and banks are playing an important role in promoting sustainable finance and supporting the country's transition towards a low-carbon,

resource-efficient, and sustainable economy.

- Financing green projects is a critical step towards achieving a sustainable future.

Source: IE

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