



REDD Insight: India's new green deposit framework needs more work

20 April 2023 08:29 AM | Environmental | [REDD ASIA](#)

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"The challenge of pollution and global warming is no longer the science, or the rate of innovation, but the rate of implementation: We have the clean solutions; now let's bundle them and install them." — Jens Martin Skibsted

Last week, the Reserve Bank of India (RBI) issued a [framework](#) for the acceptance of "Green Deposits" to govern fundraising by banks and non-bank finance companies (NBFCs) for financing green activities and projects.

Defined as "an interest-bearing deposit" received by a bank or NBFC for a fixed period, proceeds from these green deposits would be used for "green finance" for projects such as those focused on renewable energy and energy efficiency, among others.

The framework specifies eligible activities pending the emergence of an official "green taxonomy." It also specifies projects excluded from the framework, such as those involving fossil fuel production or extraction, nuclear power generation, direct waste incineration, alcohol, weapons, gaming, palm oil, and hydropower plants larger than 25MW.

An independent party will need to verify any funds raised through green deposits are allocated only to "eligible green activities," and banks and non-bank lenders will also need to make regular disclosures on the green deposits raised, use of proceeds, and third-party assessment reports, according to the framework.

The framework marks India's latest step in furthering ESG goals and comes on the heels of the RBI's November 2022 [Framework for Sovereign Green Bonds](#), and the July 2022 [Report of the Survey on Climate Risk and Sustainable Finance](#). The framework also provides an avenue for banks to scale up their sustainable finance portfolios, which they currently lack, and will also encourage them to implement policies to understand and hedge climate risk.

However, key details are missing. An overarching question is what types of incentives will be provided to get money into "green deposits"? Will there be any consequences for greenwashing and the misuse of green deposits to finance ineligible projects (the former a common complaint hanging over the ESG space)? The framework also provides an idea about how green deposits will be used and governed but does not specify whether there will be minimum targets to incentivize banks and NBFCs to lend to green projects.

"The recently released Framework for Acceptance of Green Deposits ("Framework") by the RBI is a positive move by the central bank and a regulatory milestone in seeking to mobilize private investments towards climate outcomes," said Manasvini Raj, Partner in the Energy, Infrastructure and Finance Practice at Indian law firm Cyril Amarchand Mangaldas.

Raj pointed to the need for the framework to be fleshed out, flagging questions such as consequences for noncompliance, the forthcoming official taxonomy, the framework's application across sectors when it comes to climate adaptation, and whether an existing green loan could be refinanced with funds from green deposits.

The release of the Framework and activity by state-owned firms in the space aligns with India's commitments towards climate change mitigation. At the November 2022 COP-27 in Egypt, India [committed](#) to reducing the emissions intensity of its GDP by 45% and achieving 50% cumulative electric power installed capacity from non-fossil-fuel-based sources by 2030. These commitments were followed by an [8 December press release](#) specifying that there would be specific steps for expanding renewable energy and strengthening the grid and demand-side management.

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Since then, state-owned NBFC **Rural Electrification Corporation (REC)** formulated a “[Green Finance Framework](#)” on 9 February, [as reported](#), followed by local reports that the Indian government would mandate **Life Insurance Corporation of India (LIC)** and the **Employees’ Provident Fund Organization** to invest at least 1% of their assets under management in green bonds issued by REC, **Power Finance Corporation**, and **Indian Renewable Energy Development Agency**.

The framework is a good start, but India's ambitious climate commitments require policy framing and the introduction of other measures and incentives that industries would respond to.

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