

GREEN DEPOSITS: India's Strategy within a Global Framework

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Abstract

This study examines India's green deposit initiatives in the contemporary era of sustainable finance. India's approach to green finance efforts is critical as one of the fastest-growing economies and a key player in reaching the Sustainable Development Goals (SDG). The most recent are green deposits, which were adopted in 2023. This article discusses regulatory frameworks, specifically the RBI's (Reserve Bank of India) green deposits framework. A PESTEL analysis of green deposits in the Indian market and a comparative analysis of fixed and green deposits are also made for a few Indian banks and the performance of green deposits in other nations.

Keywords: Green deposits, Sustainable finance, Green banking, Environmental sustainability, PESTEL Analysis

Introduction

The world is now in the third year of the era of the Sustainable Development Goals (SDGs) adopted by 193 countries at the UN Sustainable Development Summit in September 2015.(THE 17 GOALS | Sustainable Development, 2023.) The SDGs, which took effect on 1 January 2016, have 2030 as their deadline for achieving the targets. They address key aspects of universal well-being across different socio-economic, cultural, and geographical divisions and also highlight the interconnectedness among these multiple social dimensions of improving human welfare..(Transforming Our World: The 2030 Agenda for Sustainable Development | Department of Economic and Social Affairs, 2015.).

It is widely acknowledged that the world cannot achieve the SDGs without India achieving them. As the fastest-growing major economy in the world today, home to more than 1.3 billion people and 8% of the world's biodiversity, India's success in achieving the SDA Agenda 2030 will be of great significance. (India | Climate Promise, 2022.)(3)

Of these 17 goals Goal 13 highlights on climate change. India has taken **urgent action to combat climate change and its impacts** SDG INDEX(4)The government of India estimates a financial requirement of around US\$ 2.5 trillion by 2030 to meet its climate goals, as per its Nationally Determined Contributions (NDCs) (Press Release: Press Information Bureau, 2022.)(5)

Capitalizing funds to meet the climatic goals won't be an easy task for the government. Still, as India is a fast-growing economy, implementation of the same is ideal for its adaptation and mitigation efforts. To achieve this goal, tapping into domestic savings, through innovative approaches to mobilize resources for climate action becomes imperative(Green Deposit Push Hits a Banking Wall in India, BFSI News, ET BFSI, ,2023.). (6)As a result of this the government has come up with several green financing and green banking initiatives like green deposits, green bonds, green equity etc (Biswas, 2016).

Among these vibrant green financing strategies implemented by the government of India, the most recent one is green deposits. The Green Deposit Framework Scheme which was introduced by the Reserve Bank of India (RBI) in June 2023 aims to encourage regulated entities (REs)(a category that describes scheduled commercial banks and deposit-taking Non-Banking Financial Companies(NBFCs) to offer customers a secure investment vehicle that protects their savings while also assisting India's sustainability agenda and increasing the flow of credit to green activities (Framework for Acceptance of Green Deposits, 2023)(8). The RBI states the rationale behind green deposit as "To encourage regulated entities (REs) to offer green deposits to customers, protect interest of the depositors, aid customers to achieve their sustainability agenda, address greenwashing concerns and help augment the flow of credit to green activities/projects."

TIME DEPOSITS VS GREEN DEPOSITS

These deposits practically function in the same basic principle of deposits, depositing money in banks for a fixed period and availing the interest for the deposit. Banks use the money from the deposits to give loans to large, small, and medium-sized enterprises or other retail customers. These may be in different forms like business loans, home loans, car loans, credit cards,

and various other personal loans. Green deposit is a financial instrument similar to that of term deposit, the major difference is that these are exclusively used for businesses/ enterprises that are environmentally friendly.

These modes of deposits function in the same basic principle of deposits, i.e., depositing money in banks for a fixed period and availing the interest for the deposits. The only differentiating factor is that the proceeds from green deposits are earmarked for green financing, such as funding of renewable energy projects.

Global Green Deposit Market

The Net Zero commitments & UN Sustainable Development Goals (SDGs) have given a renewed focus to Green finance globally. The banking sector plays a catalyst in redefining 'business as usual' and steering the transition towards a sustainable future. (Framework for Acceptance of Green Deposits, 2023)(8) Green deposits have become a trend in both the global financial market as well as in green financing. We are living in an era where the entire world is facing global warming and related environmental issues and thereby transforming the world economy into a more economic footing. Since it became a need of the hour very recently many developing and developed countries has come up with a new concept called green deposits. Few Major players in green deposit market are mentioned below:

Hong Kong

The Bank of China (Hong Kong) Limited, or BOCHK, provides green deposits to both corporate and retail customers, with a focus on corporate customers. Green deposits were utilized to finance activities in two main categories: pollution prevention and control and green building (Bank of China Hong Kong 1, 2023.). (9) Another major bank named Industrial and Commercial Bank of China (ICBC(Asia) also provides green deposits since 2022. (*Green Deposit Framework for Industrial and Commercial Bank of China (Asia) Limited*, 2022)(10) Major portion of the proceeds from the deposits of these banks are allocated towards green building, pollution prevention and control, renewable energy, environmentally sustainable agriculture etc. (Bank of China Hong Kong 1, n.d.; *Green Deposit Framework for Industrial and Commercial Bank of China (Asia) Limited*, 2022)(9&10)

JAPAN

Sumitomo Mitsui Banking Corporation (SMBC), one of Japan's leading banks has offered green deposit services since 2021 under the Green Deposit Framework in cooperation with Sustainalytics Japan Co. Ltd., part of the Sustainalytics group. As per their framework, their clients will be central banks, financial institutions, and corporate customers on a global basis, and the deposits will be accepted in US dollars within a minimum of 30 days and a maximum of one year. (News Release, SMBC, 2021.)(11)

Another major bank in Japan named Mitsubishi UFJ Financial Group, Inc (MUFG) is also providing green deposits services from April 2022 onwards. MUFG formulated the MUFG Green Deposit Framework in cooperation with third-party evaluation organizations. The funds to be deposited as Green Deposits will be used to finance environmental areas that meet the requirements of the MUFG Green Deposit Framework. Based on their framework they will be accepting deposits from both Corporate Customers and Retail Customers in US dollars as foreign currency time deposits (Green Deposit Framework Version 3.0, MUFG, 2024). (12). MUFG also prohibits funds raised from green deposits from being channeled to investments in carbon-intensive projects, the production of systems or equipment that create a fossil fuel lock-in, projects that have a negative impact on Indigenous People Communities, High Conservation Value areas, wetlands designated under the Ramsar Convention, or UNESCO designated World Heritage Sites and land expropriation leading to involuntary resettlement. (Green Deposit Framework Version 3.0, MUFG 2024)(13)

GERMANY

Germany's leading bank the Deutsche bank introduced green deposits in 2021 with a maximum term of 12 months. As per the green financing instrument report, the bank is allocating funds to five main categories like renewable energy, energy efficiency, information & communication technology, green transportation, and green buildings (Deutsche Bank, 2022). (Deutsche Bank, 2022)(14) The funds deposited in Deutsche Banks' green financial products are not used for investments in projects that will result in the exploration of fossil fuels, activities connected to forest degradation or deforestation, etc. (Deutsche Bank, 2022)(15)

INDIA

As stated earlier green deposits are considered a new financial product in India's "green finance" market while compared with green bonds, green equity, and green loans. RBI issued the regulations for green deposits in April 2023 of the Reserve Banks of India's Acceptance of green deposits, followed by the same RBI introduced green deposits in June 2024. (RBI, 2023).

In India, only ‘regulated entities’ can issue green deposits to retail and local customers. As per RBI’s guidelines, the ‘regulated entities are scheduled commercial banks (Excluding regional development banks and deposit-taking non-banking financial companies) and all deposit-taking Non-banking Financial Companies (NBFCs) registered with the Reserve Bank of India under the clause (5) of Section 45IA of the Reserve Bank of India. (RBI, 2023). (16) The funds raised from green deposits should go through the specific financial framework mentioned by RBI in this regard, which also aims to ensure that investors receive returns and there is no scope for greenwashing. (RBI, 2023) (16) The regulated entities can allocate the funds from green deposits based on official Indian green taxonomy in its guidelines clearly states that for which all categories the proceedings from the green deposits will be used and also provides a list of activities that may not be funded through green deposits like projects that are connected with the extraction, production and distribution of fossil fuels, nuclear power generation, waste incineration, alcohol, weapons, gaming etc. (RBI, 2023)

GUIDELINES MADE BY DIFFERENT BANKS/REGULATORIES FOR ALLOCATING THE PROCEEDINGS FROM THE GREEN DEPOSITS

Category	Hong Kong		Japan		Germany	India
	BOCHK	ICBC (Asia)	SMBC	MUFG	Deutsche Bank	RBI
Renewable energy	✓	✓	✓	✓	✓	✓
Energy efficiency	✓	✓	✓	✓	✓	✓
Pollution prevention & control	✓	✓	✓	✓		✓
Environmentally sustainable management of living	✓	✓		✓		✓
Terrestrial & aquatic biodiversity conservation	✓	✓		✓		✓
Clean transportation	✓	✓	✓	✓	✓	✓
Sustainable water/waste management	✓	✓		✓		✓
Climate change adaption	✓	✓		✓		✓
Eco efficient/circular economy-adapted products, production technologies, and process	✓	✓		✓		✓
Green building	✓	✓	✓	✓	✓	✓
Information & Communication Technology	✓	✓	✓	✓	✓	✓

Table 1 Source : (<https://www.krungsri.com/>, Narichaya Satafang, 2024)

MORE ABOUT GREEN DEPOSITS IN INDIA

In India majority of the population is from rural part and their confidence in fixed deposits are much higher than the other deposits and savings schemes prevailing in India. Studies conducted by SEBI in 2017 and the data from the RBI shows the same trend. In fact, the total bank deposits has reached its all-time high of USD 2,242.775 billion in March 2022 (RESERVE BANK OF INDIA ANNUAL REPORT 2021-22,). (18) These studies show that India has a great potential for green deposits because the confidence of the majority of our population, especially the rural Indian’s have a high confidence in fixed deposits. If the rural people are more aware of the importance of green financing, Green deposits in India will bring more economic and environmental advantages in the coming decades.

The green deposit scheme was introduced by RBI in June 2023, as of 2024 April, at least ten different Res, including State Bank of India, Bank of Baroda, Canara Bank, and Central Bank of India (public), IndusInd Bank, HDFC Bank, and South Indian Bank (private), AU Small Finance Bank (small finance), and HSBC (foreign), and a Non-Banking Financial

Company, Can Fin Homes Ltd, offer green deposits schemes with interest rates comparable or even exceeding those of fixed deposits (*Green Deposits: Paving the Path to Sustainable Finance in India - Opinion News / The Financial Express*, 2024).

Target group deposit size and term length for green deposits given by major players in the Indian green deposit market.

Bank	Customers	Deposit Size	Term Length
IndusInd Bank(private)	Corporate & Retail	Not more than 2 crores	7 days to 61 months
AU Small Finance Bank (small finance)	Corporate & Retail	Not more than 2 crores	12 to 120 months
HDFC Bank(private)	Retail	Not more than 2 crores	24-120 months
Federal Bank(private)	Corporate & Retail	Not more than 2 crores	72 months & longer
SBI (pub)	Retail	1000 - unlimited	37 -74 months

Source: Indus Ind Bank, AU Small Finance Bank, HDFC Bank, Federal Bank & SBI Website

Table :2

Apart from that some banks are setting shorter deposit periods for green deposits when compared with the regular time deposits (table 3) to channelize the depositors who are seeking high returns and also to encourage environmentally conscious depositors to invest more in green deposits, which can be allocated for environmentally friendly business activities.

Examples of Green deposits available to retail customers in India

Bank	Green deposit interest rate	Regular time deposit interest rates	Premium for green deposits
IndusInd Bank	7.75% (24-39)	7.25% (24-61 months)	+0.50
AU Small Finance Bank	7.50% (24 months)	7.50% (24 months)	/
HDFC	7.25% (24-35 months)	7.00% (21-120 months)	+0.25%
Federal Bank	6.60% (72 months or longer)	6.60% (60 months or longer)	/

Source: Respective web sites of banks

ECONOMIC VIABILITY OF GREEN DEPOSITS IN INDIA VS. FIXED DEPOSITS.

The given below table shows the comparison of green deposits from State bank of India(SBI) and the Bank of Baroda(BOB) with regular fixed deposits (FDs) from various banks.

Interest Rates Comparison

Bank/Deposit Type	General Citizens (%)	Snr. Citizens(%)	Tenure
SBI Green Rupee Term Deposit	6.65% (1111&1777 days)	7.5% (1111 & 1777 days)	1111,1777 and 2222 days
BoB Earth green Term Deposit	6.75% (1 year)	N/A	1 year
DCB Bank Fixed Deposit	3.75% - 7.25%	4.25%-7.75%	Varies
Bandhan Bank Fixed Deposit	3.00%-5.85%	3.75%-6.60%	Varies
South Indian Bank Fixed Deposit	2.90%-6.00%	3.40%-6.50%	Varies

Source:Soundary source (website of respective banks)

Table 3

GREEN DEPOSITS A PATHWAY TO SMART ECONOMIC CHOICES

Green deposit schemes of banks offer interest rate between 6.65%- 7.5% which is comparable to or even higher than the traditional fixed deposit rate. For example, some findings from the above table are as follows; SBI's Green Rupee Term Deposits offers 6.65% for 1111 and 1777 days compared to DCB Banks' highest rate of 7.25% and Bandhan Banks's 5.85% of similar tenures. Bank of Baroda's Earth Green Term Deposit offers 6.75% for one year, which is higher than the rates offered by Bandhan Bank or South Indian Bank for Similar Durations.

PESTEL ANALYSIS OF FACTORS AFFECTING THE INDIAN MARKET FOR GREEN DEPOSITS

	Supporting Factors	Obstacle and challenges
Political Factors	<ul style="list-style-type: none"> The government has set a goal of reducing carbon emissions by 50% by 2030 and for the entire economy to be net zero by 2070(Bhattacharyya et al., 2022).This will encourage players in the business and finance sectors to look for ways to meet this challenges , and green deposits will be one way of doing so. Promoting sustainable development and greening of the economy forms a part of India's Sustainable Development goals. (<i>Sustainable Development Goals / United Nations in India</i>, n.d.)(28) 	<ul style="list-style-type: none"> Green deposits are a new venture for the Indian Banking Sector, and the development of a framework for overseeing the market is still at an early stage.
Economical Factors	The competitive interest rates for green deposits make them attractive alternatives to traditional fixed deposits. This shift towards sustainable investment options highlights the growing economic importance of eco-friendly financing in influencing investor behavior and supporting a green economy.	.
Social Factors	<ul style="list-style-type: none"> For companies making green deposit will boost their corporate image and will increase the share holders' interest also since they give high value for sustainable investments(Walczak et al., 2021) The saving habits and concerns for environment issues among the public will help the green deposits to spark in Indian banking sector(Walczak et al., 2021) (29) 	<ul style="list-style-type: none"> When it comes to saving the Gen Z will be interested more into stock and share trading(Uzelac, 2020). A large portion of India's rural population lacks financial access in the form of bank accounts, financial advice, and financial services.Educating them will require adequate time and effort for the same (priya basu, 1966).
Technological Factors	<ul style="list-style-type: none"> The rising knowledge and dependence on digital finance and wallet payments will make it easier to manage and make deposits in the future.(Puri, V., Kaur, G., Kalra, J. K., & Gill, K. (2023). 	<ul style="list-style-type: none"> Digital financial literacy became a serious challenge in rural parts of India, which is considered as a prerequisites and preliminary steps for people's inclusion in Indian financial system(Azeez & Akhtar, 2021).
Environmental factors	<ul style="list-style-type: none"> Environment financing/ green financing was found to be the most effective method of reducing environmental degradation globally in a study by Chishti and Sinha(Zubair et al., 2021) . As per RBI guidelines, The money deposited via green deposits are allocated to eligible green deposits/ projects . Green deposits are the best option for green financing technology in India because of its low cost as well as the peoples especially rural peoples preference over fixed deposits 	<ul style="list-style-type: none"> N/ A

	growing environmental concern of Indian will take green deposits to a higher levels (Saritha Bhatnagar & V S kaveri, 2023).	
Legal Factors	<ul style="list-style-type: none"> Regarding denomination: Green deposits can only be denominated in Indian rupees if they are raised in India after June 1, 2023(<i>Reserve Bank of India</i>, 2023). In terms of safety: Deposits are protected by Deposit Insurance and Credit Guarantee Corporation (DICGC) as per the Deposit Insurance and Credit Guarantee Act 1961(<i>Reserve Bank of India</i>, 2023). Financing Framework: Regulated entities must set up a Board-approved Financing Framework (BFF) to ensure the best use of green deposits(<i>Reserve Bank of India</i>, 2023) Debt financing:Green deposits can be used to extend debt financing to PPP projects. This can be done through loans or other financial instruments that offer longer tenure and lower interest rates than traditional commercial loans. 	<ul style="list-style-type: none"> The RBI guidelines is the legal framework for green deposits in India and all the banks offering these kinds of deposits should abide by the legal frameworks. Recent articles suggest that implementing a green taxonomy in India may cause issues due to a lack of openness.(<i>Green Deposits: Paving the Path to Sustainable Finance in India - Opinion News The Financial Express</i>, 2024)

Table 4

CHALLENGES AND FUTURE POTENTIAL OF GREEN DEPOSITIS IN INDIAN MARKET.

Even among Indians, environmental concerns are becoming more pressing. According to the paper, natural disasters in India resulted in 2.5 million internal displacements as a result of climate change(*Natural Disasters Caused 2.5 Million Internal Displacements in India in 2022, Report Says - The Hindu*, 2023). (20) With the increasing concern of environmental issues, banks may find it easier to connect customers in terms of green deposits over normal fixed deposits. The growing environmental concerns will motivate savers to take a closer look at these products, particularly in the corporate market. For corporates funding in green deposits would enhance corporate Public Relations and strengthen public confidence in the company's environmental commitment in addition to aiding in the solution of environmental issues (Joshi & Rahman, 2015). (21).

CHALLENGES

The Indian green deposit market, while offering numerous benefits, also encounters a variety of challenges. The major one is there is a lack of transparent “Indian Green Taxonomy” which leads to a board and vague eligibility criteria, which may result in greenwashing and may affect the acceleration of sustainable investments based on environmental criteria(*Green Deposits: Paving the Path to Sustainable Finance in India - Opinion News | The Financial Express*, 2024).(22)The RBI guidelines state that the funds raised through green deposits by REs during a financial year shall be subject to an Independent third-party verification/Assurance which shall be done on an annual basis.(RBI, 2023)(23) The disclosures made by the banks with the independent third-party verification will help the investors to assess the actual environmental impact of their’ green deposits’.

Another challenge associated with this will be related to the disclosure of information. Only five of the nine banks that offer green deposit schemes revealed a board-approved policy and financing framework; two of them disclosed information about the external review ; which acts as their assessment of their Financial Framework with remarks to address any vulnerabilities or risks. (*Green Deposits: Paving the Path to Sustainable Finance in India - Opinion News | The Financial Express*, 2024)(26)RBI had made this impact assessment mandatory in FY 2024-2025.

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