Climate Risk Efforts of the Banks

Why in news?

On the heels of its monetary policy statement, the Reserve Bank of India has said that it would would issue a set of guidelines regarding climate finance.

What is the RBI announcement about?

- The Reserve Bank recognises that climate change can translate into climate-related financial risks for Regulated Entities which can have broader financial stability implications.
- The Reserve Bank of India's guidelines would be on three areas of climate finance
  - A broad framework for the acceptance of green deposits
  - A disclosure framework on climate related financial risks
  - A similar framework for climate scenario analysis
- It was based on the feedback received on a Discussion Paper (DP) on Climate Risk and Sustainable Finance.

> *A green deposit is a fixed-term deposit for investors looking to invest their surplus cash reserves in environmentally friendly projects.*
>
> *In 2021, HDFC had launched green deposits directed towards financing of green and sustainable housing credit solutions and services.*

Why green or ESG funding has been in the limelight in recent years?

- ESG funds are those funds whose asset allocation mostly includes shares and bonds of companies that are evaluated based on the environmental, social, and governance factors.
- **Climate concerns** - The multilateral funds are not showing up the terrible climate scenario, thereby placing the onus on market solutions such as raising money through equities, bonds and deposits.
- India ranked 104th out of 192 countries in an **index of climate readiness** which measures a country's ability to leverage investments toward adapting to higher temperatures and extreme weather.
- **Non-tariff barrier** - ESG norms in the West could become a non-tariff barrier for Indian exports, creating knock-on effects for banks.
- Hence, banks need to be prepared to bake ESG/climate risk into their appraisals of

projects.

What lies ahead for banks?

- **Need of the hour –** Green deposits can power desirable projects by delivering credit at low cost, provided investors are convinced that funds are put to good use.
- The banks need to develop expertise in three areas so that climate debt instruments attract funds even at lower tenures.
    - Climate assessment of regular projects
    - Appraising ESG projects
    - Creating confidence among investors
- **Challenges** – In order to create investor confidence, ESG should shrug off its global tag of being hijacked by the 'greenwashing'.
- Green bonds accounted for 1.7% of the $100 trillion bond market in 2020.
- However, a fifth of the over 600 bonds assessed between January 2021 and September 2022 were not truly green.

RBI has announced issuance of sovereign green bonds worth Rs 16,000 crore.

RBI has decided to designate all Sovereign Green Bonds issued by the Government in the fiscal year 2022-23 as 'specified securities' under the fully accessible route (FAR)

Now, they will be opened fully for non-resident investors without any restrictions, apart from being available to domestic investors as well.

References

1. Businessline | Banks' climate risk efforts need to evolve
2. Live mint | No cap for foreign investors in sovereign green bonds
3. RBI | Statement on Developmental and Regulatory Policies