Draft Reserve Bank of India (Small Finance Banks - Climate Finance and Management of Climate Change Risks) Directions, 2025

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Reserve Bank of India (Small Finance Banks - Climate Finance and Management of Climate Change Risks) Directions, 2025

Table of Contents

Chap	ter I – Preliminary	2
A.	Short Title and Commencement	2
B.	Applicability	2
C.	Definitions	2
Chap	ter II – Role of the Board	3
Chap	ter III – Framework for Acceptance of Green Deposits	4
A.	Policy	4
B.	Denomination, interest rates and tenor of deposits	4
C.	Financing Framework	5
D.	Use of Proceeds	6
E.	Third-Party Verification / Assurance	8
F.	Impact Assessment	8
G.	Reporting and Disclosures	9
Chapte	r IV - Repeal and other provisions	10
A.	Repeal and saving	10
B.	Application of other laws not barred	10
C.	Interpretations	10

In exercise of the powers conferred by Sections 21 and 35A of the Banking Regulation Act, 1949, and all other provisions / laws enabling the Reserve Bank of India ('RBI') in this regard, the RBI being satisfied that it is necessary and expedient in the public interest to do so, hereby issues the Directions hereinafter specified.

Preamble: The Master Direction (MD) provides applicable guidelines as well as guidance related to climate finance and management of climate change risks. The objective is to enable Small Finance Banks to carry out comprehensive assessment of climate change risks, integrate climate change risk considerations into their extant risk management frameworks and structures and optimise flow of credit to green activities / projects overcoming greenwashing challenges, protecting interest of the depositors and thereby aiding customers to achieve their sustainability agenda.

Chapter I – Preliminary

A. Short Title and Commencement

- 1. These Directions shall be called the Reserve Bank of India (Small Finance Banks Climate Finance and Management of Climate Change Risks) Directions, 2025.
- 2. These Directions shall come into force with immediate effect.

B. Applicability

3. These Directions shall be applicable to Small Finance Banks (hereinafter collectively referred to as 'banks' and individually as a 'bank').

C. Definitions

- 4. In these directions, unless the context states otherwise, the terms herein shall bear the meanings assigned to them below:
 - (i) 'green activities / projects' means activities/ projects meeting the requirements prescribed in paragraph 14 of these Directions;
- (ii) 'green deposit' means an interest-bearing deposit, received by a bank for a fixed period and the proceeds of which are earmarked for allocation towards green finance;

- (iii) 'green finance' means lending to and / or investing in green activities / projects meeting the requirements prescribed in paragraph 14 of these Directions. Such lending contributes to climate risk mitigation, climate adaptation and resilience, and other climate-related or environmental objectives including biodiversity management and nature-based solution;
- (iv) 'greenwashing' means the practice of marketing products / services as green, when in fact they do not meet requirements to be defined as green activities / projects.
- 5. All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Reserve Bank of India Act, 1934 or the Banking Regulation Act, 1949 or any statutory modification or re-enactment thereto, or <u>Glossary</u> of terms published by the RBI or as used in commercial parlance, as the case may be.

Chapter II – Role of the Board

- 6. A bank desirous of raising green deposits shall put in place comprehensive Board-approved policies on Green Deposits and Financing Framework, the coverage of which are indicated in paragraph 8 and paragraph 11 respectively of these Directions.
- 7. The Board shall be responsible for reviewing the bank's green deposit initiatives through a review report to be placed in accordance with the provisions specified in paragraph 19 of these Directions.

Chapter III - Framework for Acceptance of Green Deposits

A. Policy

8. The Board-approved policy on green deposits of a bank shall lay down all aspects, in detail, for the issuance and allocation of green deposits. A copy of the policy on 'Green Deposits' shall be made available on the website of the bank. A bank may finance any green activities / projects irrespective of raising green deposits for the same. However, a bank shall not finance green activities / projects first and raise green deposits thereafter for the same.

B. Denomination, interest rates and tenor of deposits

9. A bank shall issue green deposits as cumulative / non-cumulative deposits. On maturity, the green deposits shall be renewed or withdrawn at the option of the depositor. The green deposits shall only be denominated in Indian Rupees and not in any foreign currency. The tenor, size, interest rate, and other terms and conditions as defined in the Reserve Bank of India (Small Finance Banks - Interest Rate on Deposits) Directions, 2025, as amended from time to time, shall also be applicable to green deposits *mutatis mutandis*.

Explanation:

- (i) The extant guidelines enumerated above do not permit a bank to offer differential rate of interest on green deposits.
- (ii) A bank shall pay interest on green deposits to its customers as per agreed terms and conditions and aforesaid directions irrespective of allocation / utilisation of proceeds.
- (iii) With respect to premature withdrawal of green deposits, while there is no restriction, a bank shall adhere to the aforesaid directions. Further, premature withdrawal shall not have any bearing on the activities / projects undertaken using the proceeds of green deposits.
- (iv) The deposits raised under the framework are covered by Deposit Insurance and Credit Guarantee Corporation (DICGC) in accordance with the Deposit Insurance and Credit Guarantee Corporation Act, 1961 and the regulations framed thereunder, as amended from time to time.

10. A bank shall be permitted to offer overdraft facility to customers against Green Deposits subject to the instructions contained in the Reserve Bank of India (Small Finance Banks – Credit Risk Management) Directions, 2025.

C. Financing Framework

- 11. The Board-approved Financing Framework (FF) put in place by a bank shall cover, *inter-alia*, the following for effective allocation of green deposits:
- the eligible green activities / projects that could be financed out of proceeds raised through the green deposits (as permitted in paragraph 14 of these Directions);

Explanation:

- (a) The green activities / projects financed under the framework can be classified under priority sector if they meet the requirements laid down in Priority Sector Lending (PSL) guidelines of RBI [Master Directions -Reserve Bank of India (Priority Sector Lending - Targets and Classification) Directions, 2025 dated March 24, 2025], as amended from time to time.
- (b) Investment by a bank in Sovereign Green Bonds (SGrBs) are covered under the framework.
- (ii) the process for project evaluation and selection by the bank including identifying the projects fit for lending / investing within the eligible categories, monitoring and validating all the related / required information provided by the borrower;
- (iii) the allocation of proceeds of green deposits and its reporting and disclosures,
 Third-Party Verification / Assurance, and Impact Assessment; and
- (iv) the particulars of the temporary allocation (which would only be in Level 1 High Quality Liquid Assets as defined in Reserve Bank of India (Small Finance Banks - Asset Liability Management) Directions, 2025, up to a maximum original tenure of one year) of green deposit proceeds, pending their allocation to the eligible activities / projects.

Explanation:

- (a) The bank can temporarily park proceeds of green deposits, pending allocation towards eligible green activities / projects, in liquid instruments with maximum maturity of one year.
- (b) While the framework does not envisage any penalty for non-allocation of proceeds towards eligible green activities / projects, it shall be subject to supervisory review.
- 12. **External Review** A bank shall arrange to carry out an external review of their FF.
- 13. Before the implementation of FF, a copy of the FF shall be made available on the website of the bank along with the opinion of external reviewer.

D. Use of Proceeds

14. The allocation of proceeds raised from green deposits shall be based on the official Indian green taxonomy. Pending finalization of the taxonomy, as an interim measure, a bank shall allocate the proceeds raised through green deposits towards the green activities / projects which encourage energy efficiency in resource utilisation, reduce carbon emissions, emission of greenhouse gases, promote climate resilience, climate adaptation, as well as value and improve natural ecosystems and biodiversity. The eligible green activities / projects are described below:

Categories	Description
Renewable Energy	 Solar / wind / biomass / hydropower energy projects that integrate energy generation and storage. Incentivizing adoption of renewable energy.
Energy Efficiency	 Design and construction of energy-efficient and energy-saving systems and installations in buildings and properties. Supporting lighting improvements (e.g., replacement with LEDs). Supporting construction of new low-carbon buildings as well as energy-efficiency retrofits to existing buildings. Projects to reduce electricity grid losses.
Clean Transportation	Projects promoting electrification of transportation.Adoption of clean fuels like electric vehicles including building

Categories	Description
	charging infrastructure.
Climate Change Adaptation	Projects aimed at making infrastructure more resilient to impacts of climate change.
Sustainable Water and	Promoting water efficient irrigation systems.
Waste Management	• Installation / upgradation of wastewater infrastructure including transport, treatment, and disposal systems.
	Water resources conservation.
	Flood defence systems.
Pollution Prevention and Control	Projects targeting reduction of air emissions, greenhouse gas control, soil remediation, waste management, waste prevention, waste recycling, waste reduction and energy / emission-efficient waste-to-energy.
Green Buildings	• Projects related to buildings that meet regional, national, or internationally recognized standards or certifications for environmental performance.
Sustainable Management of Living	Environmentally sustainable management of agriculture, animal husbandry, fishery, and aquaculture.
Natural Resources and Land Use	 Sustainable forestry management including afforestation / reforestation. Support to certified organic farming.
	Research on living resources and biodiversity protection.
Terrestrial and Aquatic Biodiversity Conservation	 Projects relating to coastal and marine environments. Projects related to biodiversity preservation, including conservation of endangered species, habitats, and ecosystems.

Exclusions

- Projects involving new or existing extraction, production, and distribution of fossil fuels, including improvements and upgrades; or where the core energy source is fossil-fuel based.
- Nuclear power generation.
- Direct waste incineration.
- Alcohol, weapons, tobacco, gaming, or palm oil industries.
- Renewable energy projects generating energy from biomass using feedstock originating from protected areas. For the purpose of these Directions, feedstock primarily includes sewage, manure, wastewater, bagasse, biomass, wood pellets, etc.
- · Landfill projects.
- Hydropower plants larger than 25 MW.

E. Third-Party Verification / Assurance

15. The allocation of funds raised through green deposits by a bank during a financial year shall be subject to an annual independent third-party verification / assurance. The third-party verification / assurance would not absolve the bank of its responsibility regarding the end-use of funds, for which it shall follow the laid down procedures of internal checks and balances as in the case of other loans. The terms and conditions to be additionally fulfilled by the borrowers to meet the requirements of the framework, as laid out in paragraph 11 to paragraph 14 of these Directions, are the additional check points which have to be adhered to by the bank for ensuring the end-use of funds.

Explanation: A bank can engage with any appropriate and reputed domestic / international agency for external review of the FF, third-party verification / assurance, and impact assessment of the green activities / projects.

- 16. The third-party verification / assurance report shall, at the minimum, cover the following aspects:
 - (i) Use of the proceeds by the bank should be in accordance with the eligible green activities / projects. It shall monitor the end-use of funds allocated against the deposits raised.
- (ii) Policies and internal controls including, *inter-alia*, project evaluation and selection, management of proceeds, validation of all the related / required information provided by the borrower to the bank, and reporting and disclosures.

F. Impact Assessment

17. A bank shall, with the assistance of external firms, assess annually the impact associated of the funds lent for or invested in green finance activities/ projects during a financial year through an Impact Assessment Report.

An illustrative list of impact indicators is tabulated below. In case a bank is unable to quantify the impact of their lending / investment, it shall disclose, at the minimum, the reasons, the difficulties encountered, and the time-bound plans to address the same.

Eligible Project Category	Impact Indicators - Examples
Renewable Energy	Total renewable capacity (in MWh)
	Energy generated per year (MWh)
	GHG emissions avoided per year (measured in tonnes CO_2 equivalent, tCO_2 e)
Waste Management	Waste diverted from landfill per year (tonnes)
Clean Transportation	GHG emissions avoided per year (tCO ₂ e)
	New clean transportation infrastructure built (km)
	Number of electric or low emission vehicles produced
Energy Efficiency	Energy savings per year (MWh)
	GHG emissions avoided per year (tCO ₂ e)
Afforestation / Reforestation	GHG emissions reduced/Carbon Sequestration achieved (measured in tCO₂e)

G. Reporting and Disclosures

- 18. A bank shall place the report of the Third-Party Verification / Assurance and the Impact Assessment Report on its website.
- 19. A review report shall be placed by a bank before its Board of Directors within three months of the end of the financial year which shall, *inter-alia*, cover the following details:
 - (i) amount raised under green deposits during the previous financial year;
- (ii) list of green activities / projects to which proceeds have been allocated, along with a brief description of the projects;
- (iii) the amount allocated to the eligible green activities / projects;
- (iv) the Third-Party Verification / Assurance Report and Impact Assessment Report.
- 20. For requirements related to disclosures in annual financial statements, a bank shall refer to the Reserve Bank of India (Small Finance Banks Financial Statements: Presentation and Disclosures) Directions, 2025.

Chapter IV - Repeal and other provisions

A. Repeal and saving

- 21. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to framework for acceptance of green deposits as applicable to Small Finance Banks stand repealed, as communicated vide notification dated XX, 2025. The Directions, instructions, and guidelines repealed prior to the issuance of these Directions shall continue to remain repealed.
- 22. Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed Directions, instructions, or guidelines shall continue to be governed by the provisions thereof. All approvals or acknowledgments granted under these repealed lists shall be deemed as governed by these Directions.

B. Application of other laws not barred

23. The provisions of these Directions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations, or directions, for the time being in force.

C. Interpretations

24. For the purpose of giving effect to the provisions of these Directions or in order to remove any difficulties in the application or interpretation of the provisions of these Directions, the RBI may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by the RBI shall be final and binding.