

BLOG

Finance Ministries, Central Banks and Supervisors Recognize Nature-Related Risks and Commit to Deepening Their Understanding

By: Masyita Crystallin and Pekka Moren, Sherpa Co-Chairs, Coalition of Finance Ministers for Climate Action

and

Jean Boissinot, Head of Secretariat, Network for Greening the Financial System

The Coalition of Finance Ministers for Climate Action (the “Coalition”) and the Network for Greening the Financial System (the “NGFS”) have both recently taken significant steps to advance their understanding of nature-related risks, recognizing the significant economic, financial, and fiscal implications associated with nature loss. Following the publication of reports acknowledging the roles of their respective members in addressing nature loss and related risks, the two groups have agreed to collaborate and share information on this important topic. Engagement on this issue from the members of these two groups will be important during the expected implementation of the post-2020 Global Biodiversity Framework following the Convention on Biological Diversity (CBD) COP15.

There is [growing evidence](#) that our collective impact on the environment has surpassed several critical thresholds. Human-induced demands on ecosystem services significantly outstrip nature’s ability to supply and threaten their continued provision. And because environmental degradation often follows a nonlinear pattern—compounding, reaching tipping points, and sometimes resulting in rapid ecological collapse—continual nature loss could have severe and sudden impacts on the economy, and hence on the financial system. This is exacerbated by the fact that, in contrast to the case of low-carbon alternatives to fossil fuels, few human-made substitutes for ecosystem services exist. Moreover, science is [providing clear evidence](#) that climate change and nature loss are deeply interconnected and mutually reinforcing. As a result, we will not be able to meet global climate goals without meeting global nature goals, and vice versa.

In response to this growing evidence, the Coalition and NGFS representatives in their COP26 [Chairs’ Joint Statement](#) argued that addressing nature loss is critical for a successful transition to net zero, and agreed to better reflect crosscutting issues related to agriculture, forests, and other land uses in their upcoming work.

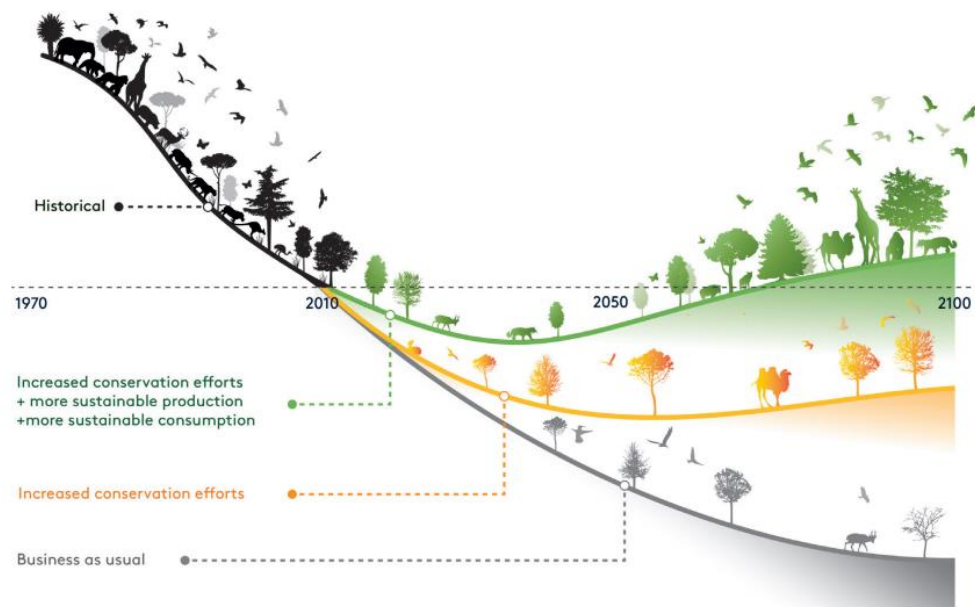
Following a joint research project on ‘biodiversity and financial stability’ initiated in April 2021, the NGFS and the International Network for Sustainable Financial Policy Insights, Research, and Exchange (INSPIRE) published in March 2022 a report, titled [Central banking and supervision in the biosphere: An agenda for action on biodiversity loss, financial risk and system stability](#).

The NGFS followed up with a [statement on nature-related financial risks](#) highlighting that nature-related risks are relevant for central banks and supervisors, given their macroeconomic, macroprudential, and

microprudential materiality, and as such should be adequately considered for the fulfillment of their mandates. While primary responsibility for addressing environmental damages such as biodiversity loss rests with governments, the financial sector has an important complementary role to help identify and address nature-related risks.

the NGFS has therefore launched a [Task Force on Biodiversity Loss and Nature-Related Risks](#) (the “NGFS Taskforce”) as part of its 2022-2024 workplan, with the objective of mainstreaming the consideration of these risks across NGFS workstreams.

Figure 1: Bending the Curve of Nature Loss



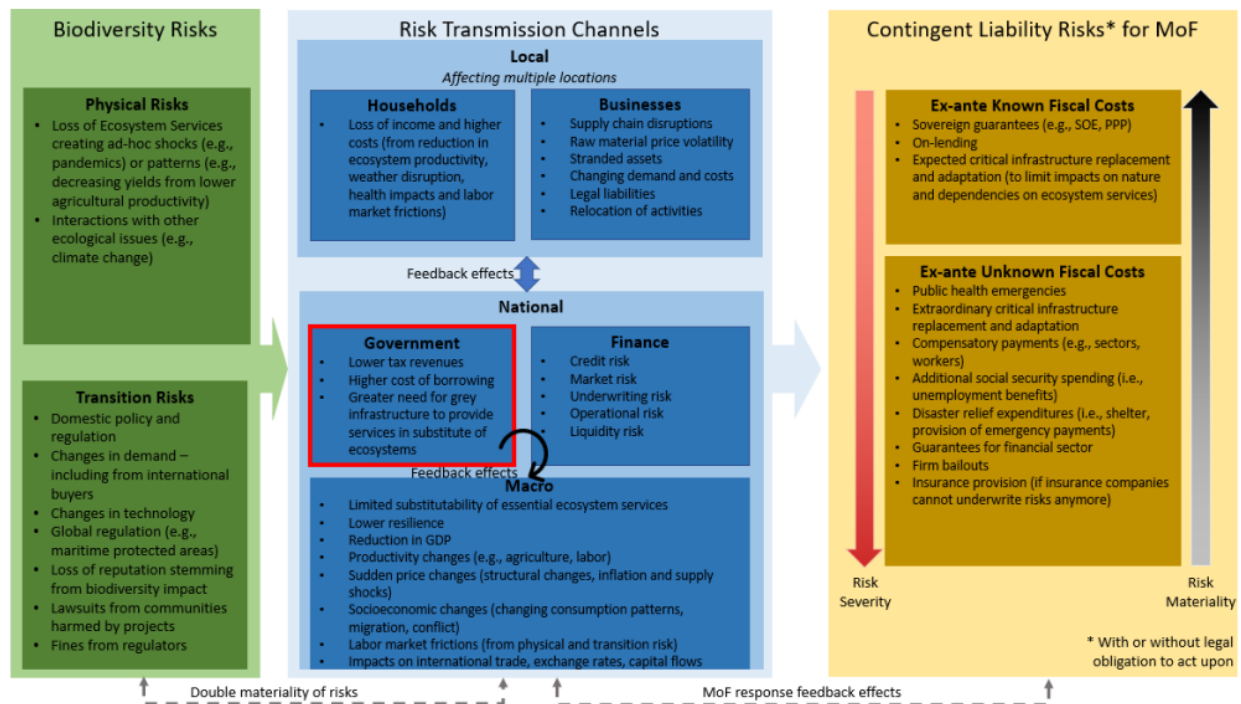
Source: International Institute for Applied Systems Analysis (IIASA), 2020 (Credit: Adam Islaam) via NGFS report: [Central banking and supervision in the biosphere: An agenda for action on biodiversity loss, financial risk and system stability](#)

Following in the NGFS’ footsteps, the Coalition published its first report on nature in June 2022, titled [An Overview of Nature-Related Risks and Potential Policy Actions for Ministries of Finance: Bending the Curve of Nature Loss](#). The report shows how nature loss could pose substantial risks for Ministries of Finance, and lays out potential policy actions they can consider in order to ‘bend the curve’ of nature loss, including by:

- Enhancing their understanding of nature-related risks and promoting awareness across government
- Taking steps to integrate nature-related criteria into their strategies and decision-making
- Coordinating nature-related risk management with relevant ministries, as well as with their regulator, supervisor, and central bank counterparts
- Developing and applying valuation, metrics, and decision support tools in their analysis and decision making

- Supporting economic policy reform to align market incentives with sustainable practices and pursuing a whole-of-economy approach to reversing nature loss
- Integrating nature-related risks and opportunities into the sectors exerting the greatest pressure on nature
- Mobilizing finance from both public and private sources for projects and programs that contribute to nature conservation, restoration, and sustainable use

Figure 2: Coalition Nature-Related Risk Overview



Source: Coalition report: [Overview of Nature-Related Risks and Potential Policy Actions for Ministries of Finance: Bending the Curve of Nature Loss](#)

Both reports acknowledge the many complexities involved in managing and reducing nature-related risks and underscore the critical role of financial and economic policymakers in this area. They also outline a range of potential policy levers, tools, and approaches for finance ministries, central banks, and supervisors to consider and build capacity on. In doing so, they stress the leading role of governments to overcome the market, institutional, and policy failures driving nature loss, and the importance of alignment across policies – including those that finance ministries, central banks, and supervisors are responsible for.

In the near-term, the NGFS Taskforce has stated its intention to provide its members with a comprehensive conceptual framework of nature-related risks, contribute to further developing nature loss and policy scenarios, and formulate recommendations for how the various NGFS Workstreams should integrate nature-related risks into their respective work on supervision, financial stability oversight, monetary policy, etc. Alongside NGFS workshops and stakeholder dialogues, these activities should strengthen NGFS Members' understanding of nature-related financial risks and improve their ability to manage them.

For its part, the Coalition foresees a need to assess how nature could be integrated across the six Helsinki Principles. Additionally, it plans to organize workshops and stakeholder dialogues that boost Members' understanding of this issue, advance the design of decision support tools, and initiate further research on specific recommendations in its report to support members in prioritizing, sequencing, and optimizing policy actions.

The NGFS and the Coalition both recognize the need for increased coordination between them on nature-related risks and have agreed to share progress and challenges on this work. In particular, the NGFS will share with the Coalition, its progress in developing a framework for the identification and assessment of nature-related risks and nature loss scenarios for economic and financial modeling. Such modeling can feed into a variety of planning, budgeting, regulation, supervision, and risk management functions for members of both groups.

As countries work toward new global agreements on nature through international fora such as the CBD COP15, Coalition and NGFS members, in complement to other relevant policymakers, have a critical role to play in contributing to their successful implementation, notably that of the Post-2020 Global Biodiversity Framework. Members can work towards ensuring that economic activity and associated financial flows become increasingly aligned with a sustainable, nature-positive future. It is only by working together and driving a whole-of-economy, and ultimately a global, approach that nature-related risks (together with climate-related risks) can effectively be mitigated and managed.

The Coalition of Finance Ministers for Climate Action is a group of 80 Finance Ministries that have committed to aligning their economies with the goals of the Paris Agreement through implementing the six Helsinki Principles. Read more about the Coalition [here](#). The Coalition was established in April 2019 and is Co-chaired by Finance Ministers of Finland and Indonesia.

The NGFS, launched at the Paris One Planet Summit on 12 December 2017, is a group of central banks and supervisors, which on a voluntary basis are willing to share best practices and contribute to the development of environment and climate risk management in the financial sector, and to mobilize mainstream finance to support the transition toward a sustainable economy. The NGFS brings together 121 central banks and supervisors from 87 jurisdictions and 19 observers. Together, they represent five continents and more than 85% of global greenhouse gas emissions, and are responsible for the supervision of all of the global systemically important banks and 80% of the internationally active insurance groups. The NGFS is chaired by Mr Ravi Menon, Managing Director of the Monetary Authority of Singapore. The Secretariat, headed by Mr Jean Boissinot, is provided by Banque de France. Read more about the NGFS [here](#).