# Policy Dialogue

# Mitigating Nature-related and Deforestation Risk:
## An Emerging Frontier for Green Finance in India?

**January 28, 2026, Mumbai**

## Background & Objectives

CUTS International organised its first policy dialogue under the project, *"Sustainable Financing of Deforestation-risk Commodities in India,"* to deliberate on the growing relevance of nature-related and deforestation-linked risks within India's financial system. The dialogue was situated against the backdrop of increasing global recognition that ecosystem degradation, biodiversity loss, and deforestation pose material financial risks that can affect long-term economic stability.

India is a major importer, consumer, and processor of deforestation-risk commodities such as palm oil and natural rubber, which are often associated with land-use change and ecosystem loss in source countries. At the same time, global regulatory and market developments—including evolving disclosure frameworks and trade-related measures such as the EU Deforestation Regulation—are reshaping expectations from financial institutions and corporates.

The policy dialogue brought together financial sector representatives, civil society organisations, and experts on sustainable finance and climate change to deliberate on emerging nature-related risks and their implications for India's financial system.

The primary objectives of the policy dialogue were to:

- Present preliminary insights from CUTS International's ongoing research;
- Understand how Indian financial institutions currently perceive and address nature-related and deforestation risks;

- Gather practitioner and expert views on regulatory, market, and operational challenges; and
- Explore opportunities for aligning green finance with nature-positive outcomes in the Indian context.

## Key Discussions

The dialogue was structured as an interactive roundtable, anchored around a set of guiding questions on nature-related risks and green finance. Key discussion themes included:

- Whether nature-related and deforestation risks are emerging as a distinct category of financial risk in India, beyond conventional climate-related risks;
- The extent to which Environmental, Social and Governance (ESG) frameworks of Indian financial institutions explicitly capture land-use change, biodiversity loss, and deforestation;
- The role of regulators such as the Reserve Bank of India (RBI), the Ministry of Finance, and market regulators in shaping expectations around disclosure, risk assessment, and green finance;
- The influence of international frameworks and principles, including responsible banking and investment standards, on Indian financial institutions; and
- The importance of evidence-based approaches and avoiding assumptions, particularly around concepts such as "imported deforestation".

Participants emphasised the value of adopting a holistic, system-wide perspective that links finance, trade, corporate practices, and environmental outcomes.

## Nature & Deforestation Risk Issues Raised

Several nature-related and deforestation-linked issues were highlighted during the discussions:

- **Materiality of Nature-related Risks:** Participants noted that while climate risks are increasingly acknowledged, nature-related risks such as biodiversity loss, soil degradation, and deforestation remain under-identified and under-assessed in financial decision-making.
- **Exposure through Supply Chains:** India's financial system is indirectly exposed to deforestation risks through lending and financing of sectors linked to forest-risk commodities, particularly palm oil and natural rubber. These exposures are often aggregated under broader commodity or agriculture categories, limiting visibility.
- **Data and Disclosure Gaps:** Limited availability of reliable, granular data on deforestation and biodiversity impacts constrain effective risk assessment. Existing disclosures tend to focus on emissions rather than land-use and ecosystem impacts.
- **Regulatory Evolution:** Participants discussed recent and ongoing initiatives by the RBI, including climate risk assessments and draft disclosure frameworks, while noting that explicit treatment of nature-related risks is still at an early stage.

- **Trade implications:** The upcoming EU Deforestation Regulation (EUDR) was highlighted as a significant transition risk for Indian exporters and, by extension, financial institutions financing these sectors, with potential impacts on market access, trade competitiveness, and GDP. Addressing this will require banks to integrate nature-related risks through standardised metrics, better data, and both top-down sectoral and bottom-up borrower assessments, while also leveraging green finance opportunities and coordinated engagement through industry bodies and intermediaries such as CUTS and IICA.

## Green Finance Opportunities

Participants emphasised that nature-related risks also present **new opportunities for green and sustainable finance**, including:

- Development of **nature-positive financial instruments**, such as sustainability-linked loans and bonds tied to deforestation-free supply chains;
- Use of **blended finance models** to address long gestation periods and risk-return challenges associated with nature-based projects;
- Leveraging financial institutions' **influencing capacity** to encourage better practices across client supply chains;
- Aligning Indian green finance with emerging **global disclosure frameworks** and international investor expectations;
- The need to diversify green finance beyond renewable energy and transport, to include **agriculture, forestry, and land-use systems**, was strongly underscored.

## Policy Recommendations

Based on the discussions, the following policy-oriented recommendations emerged:

1. **Integrate Nature-related Risks into Regulatory Frameworks:** Regulators may consider gradually incorporating nature-related and deforestation risks within existing climate risk and sustainable finance frameworks.
2. **Develop Context-specific Guidance:** India-specific guidance and metrics are needed to help financial institutions assess and manage deforestation risks in a practical and proportionate manner.
3. **Strengthen Disclosure and Data Ecosystems:** Improved data availability, harmonised reporting standards, and phased disclosure requirements can support more informed decision-making.
4. **Promote Multi-stakeholder Coordination:** Effective action requires coordination among regulators, financial institutions, corporates, industry associations, and civil society.
5. **Align Trade and Finance Policies:** Greater coherence between trade policy developments and financial sector practices can help manage transition risks and enhance competitiveness.

## Way Forward

Participants agreed that addressing nature-related and deforestation risks is a long-term endeavour requiring sustained engagement. As a next step, CUTS International will continue its research and stakeholder consultations under the project, with a focus on:

- Deepening evidence (secondary data) on financial sector exposure to deforestation-risk commodities;
- Engaging regulators and industry associations through dialogue and policy inputs;
- Facilitating knowledge exchange; and
- Expanding discussions to include corporates and supply chain actors.

Mumbai was identified as a strategic location for continued engagement, given its central role in India's financial ecosystem.

## Conclusion

The policy dialogue marked an important first step in initiating informed, evidence-based discussions on nature-related and deforestation risks within India's green finance landscape. Participants broadly agreed that while the issue is still nascent in India, it holds significant implications for financial stability, trade competitiveness, and sustainable development.

By fostering dialogue among diverse stakeholders and situating nature-related risks within broader economic and financial considerations, the dialogue laid the groundwork for future research, policy engagement, and collaborative action. The discussions reinforced the view that integrating nature into finance is not only an environmental imperative but also a strategic necessity for India's long-term growth and resilience.

## Participants Details:

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