

Title:

The role of nature-based solutions/ecosystem-based approaches in reducing the risks of the banking sector to climate change impacts

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Area of Focus & Rationale:

This research investigates how South African banks can leverage nature-based solutions (NbS) and ecosystem-based adaptation (EbA) to reduce their exposure to climate and nature-related financial risks. The rationale comes from the urgent need for the financial sector to address biodiversity loss and ecosystem degradation, which threaten economic stability and long-term growth. Banks, through their lending and investment portfolios, are uniquely positioned to drive transformative change by integrating nature-related risk assessments and investing in NbS/EbA, therefore aligning financial decision-making with ecological and social priorities.

Research Questions:

1. What are the key financial risks associated with climate and nature?
2. What is the ENCORE tool and How can it be applied to assess banks' exposure to nature-related risks?
3. How can the results of these assessments inform investment in and promotion of NbS and EbA?

Methods:

The study adopts a mixed-methods approach, with a qualitative emphasis.

- **Phase 1:** Desktop literature review to map financial risks and identify assessment frameworks.
- **Phase 2:** Application and evaluation of the ENCORE tool through a case-based simulation using a dummy bank, including data transformation and the creation of sectoral risk heatmaps.
- **Phase 3:** Thematic synthesis of findings to develop recommendations for banks on integrating NbS and EbA into risk management and investment strategies.

Data sources include the ENCORE tool (short for *Exploring Natural Capital Opportunities, Risks and Exposures*, a really powerful resource designed to help financial institutions and businesses understand how their activities depend on and impact nature. It's especially relevant in climate finance and risk governance across African contexts), peer-reviewed literature, policy documents, financial reports, and case studies of banks implementing NbS/EbA.

Expected Outputs:

- A practical guide for banks on using the ENCORE tool to assess nature-related risks.
- Sector-specific heatmaps and impact-dependency analyses for South African banking portfolios.
- Recommendations for integrating NbS and EbA into banking risk frameworks and investment strategies.