



## **IUCN-USP Public Lecture Series**

### ***The Pacific of the Future: Getting Development Right***

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**Inaugural Public Lecture**

### ***Getting Development Right: Investing in Natural Capital***

By

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# Getting Development Right: Investing in Natural Capital

**Julia Marton-Lefèvre**

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Thank you for allowing me the honour to give this inaugural lecture at the IUCN-USP Public Seminar Series, *The Pacific of the Future: Getting Development Right*.

I am particularly pleased to be delivering this talk on *Getting Development Right: Investing in Natural Capital*. As some of you know, IUCN has long recognized that our mission of conserving nature for future generations means nothing if it is not contributing to a sustainable and dignified life for all human beings living in harmony with nature.

The phrase 'sustainable development' was first coined by IUCN in our 1980 *World Conservation Strategy*, written in partnership with UNEP and WWF. This term, 'sustainable development' was later adopted by the Bruntland Commission in its report, *Our Common Future*, which was to become the foundation for much debate and actions that followed in the 1990s and onwards.

I thus stand before you as a founding member of the sustainable development family.

While I am a novice when it comes to all things Pacific – this is indeed my first visit to this part of the world –many of the global challenges I am about to talk about are equally, if not more relevant to the countries and people living in this region.

The Pacific Island countries face ongoing economic, environment, trade and social policy challenges arising from their limited resource endowments, growing population, and changing needs. At the same time, being a part of the global community, international events also have far-reaching and long-lasting implications on your development challenges.

Climate change and the recent global financial crisis, for example, are already having their impacts on the Pacific. The Pacific Islands countries have reported increased occurrences of cyclones, storm surges and high tides. People from places like the Carteret Islands in

Bougainville, in Papua New Guinea, have had to leave their traditional lands and relocate – making them the first group of people globally who have actually migrated due to environmental reasons. Sadly it seems likely that there will be many more of these environmental migrants.

Similar extreme climatic conditions, causing many countries and economies to suffer, are also being experienced in other parts of the world.

I know that the Pacific island nations have also begun experiencing the effects of the global financial crisis, although the full effects are yet to be seen. The effects of the financial crisis in the region's principal trading partners – Australia, New Zealand and Europe – has led to a reduction in tourist numbers in the region. Many Pacific families are also feeling the effects of reduction in the remittances from their loved ones living abroad. In this globalized world of ours, the Pacific islands are islands in name only.

### **Getting Development Right**

Let me first make a few comments about "Getting Development Right" before I examine why we must rethink the development path we are on and embrace the concept of investing in Natural Capital in a much more substantive way.

One can think of getting development right in terms, of for example, realizing the Pacific Leaders Vision articulated at the Pacific Islands Forum Leaders meeting in Auckland in 2004. The Leaders had called for, amongst other things:

*"... a region of peace, harmony, security and economic prosperity, so that all of its people can lead free and worthwhile lives. .... [be known for] sustainable management of its resources ....and to ensure a sustainable economic existence for all."*

In other words, the Pacific Leaders are calling for development that meets the needs of the current generation without compromising the ability of the future generations to meet their needs and aspirations.

To realize this vision we must achieve a balanced development that meets at least three core goals – economic, environment and social (including cultural).

This challenge is more relevant today, in the face of the global financial crisis and of climate change.

## ***Global economy***

In the face of the world's worst financial crisis since the Great Depression in the 1930s, many people have lost, or are losing, their jobs, their homes, their pensions, or worse.

In response, governments world-wide are cobbling together large stimulus packages to minimize the impacts of unprecedented economic collapse; the US government alone is investing over US\$3 trillion<sup>1</sup>. How effective these stimulus packages are going to be in rebuilding the financial system and averting much bigger social costs are yet to be seen.

Even if these temporary band-aid solutions turn the economy around, they will not be sustainable in the long run if we continue on the 'business as usual' development path.

This development path emphasized private sector-based paradigms, with little, and in some case almost no, regulatory oversight by governments.

For too long, private sector-led development with minimal government control has been promoted throughout the world.

Don't take me wrong. I am not against the private sector or against economic growth. It is good to be able to harness energies of individuals and corporations to create wealth and employment opportunities to meet the immediate material needs and comforts of a society.

Private sector-led economic growth is particularly relevant, as we know Government cannot run businesses efficiently or even cost effectively.

We also understand that the main objective of the private sector (and that of most individuals) is maximization of returns, most often generated when private goods are produced. On the other hand, society also relies on what economists call 'public goods'. Public goods, such as clean air, clean water, and biodiversity, are benefits for which there are no direct markets and thus no prices. Thus the value of public goods is often not detected by the current economic compass. Many private individuals and corporations are also unlikely to provide public goods because they cannot account for their full benefits.

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<sup>1</sup> to be cross checked

If anything, the private sector generally does not think about causing negative effects on the environment, such as air pollution, water pollution, or degradation of ecosystems simply because it does not have to pay for such costs, which economists call 'externality costs'.

Let me emphasize that that acting or doing things for private benefits, or interests, itself is not a problem. After all we are human!!

It is when people's behaviour, driven by self interest and the desire for private benefits – some call personal greed - gets out of hand that we should be concerned.

We should be concerned about the development path that has led to the global financial crisis. Climate change is another one of these phenomena that has been gradually developing over decades as part of the pursuit of economic growth and wealth maximization. If we continue business as usual, climate change will cause irreversible and catastrophic changes in nature; in our entire economic and security systems.

### ***Alternative development paradigm***

As the financial stories dominate the media there is a temptation to treat the environment as a less important issue. Even with climate change challenges, countries are only thinking in terms of small and separate economic solutions. I sincerely believe this would be a serious mistake.

*Why do I say this?*

**Firstly**, the economic world is closely intertwined with the natural system. One may even say that the economic and social subsystems are based on the natural system.

It is important to note that everyone in the world ultimately depends on nature. We in the conservation world like to refer to this as 'ecosystem services', explaining how nature provides us conditions that allow us to lead a decent, healthy, and secure life. More importantly, ecosystem services provide the necessary and sufficient conditions for life on this planet, as we know it. Let me remind you that the term ecosystem (coined in the last century) refers to a system formed by the interaction of a community of organisms (including human beings) with their environment.

With the prevalent economic development paradigm of the last few centuries, humans have made unprecedented changes to ecosystems.

We all know that as we live on this planet we produce our own ecological footprints. These can be small or large depending on the lifestyle we follow. No doubt the ecological footprints of persons living in the developed world, or for that matter the elites in the developing world, are far too large.

On the other hand, for a Pacific Islander, living a subsistence lifestyle, the ecological footprint is small; although growing as the society increasingly becomes part of the market economy and pursues creature comforts enjoyed elsewhere.

The same unchecked private interests and private sector-led development to meet growing and changing consumer needs are leaving behind very large footprints, causing major environmental concerns, locally as well as globally.

**Secondly**, for too long, in our pursuit of economic wealth and comfort we have invested heavily in our economic and financial system, but have chosen to ignore the increasing size of our footprint.

One cannot just survive by investing in economic and financial capital without paying equal, if not more, attention to the natural environment.

A country could cut its forests and deplete its fisheries to generate short term economic wealth. This will show up as positive gains in the national economic accounts, without registering the corresponding decline in natural assets. But a number of countries that appeared to have positive growth in net economic wealth actually experienced a loss in wealth when degradation of natural resources was factored into the national accounts.

### ***Why should we be concerned?***

Many ecosystem services have been degraded as a consequence of actions made by individuals, private sector and governments to increase wealth while also meeting basic needs and aspirations. The loss of services derived from ecosystems is a significant barrier to the achievement of the Millennium Development Goals to reduce poverty, hunger, and disease. The global report card, including for the Pacific, is very disturbing.

Approximately 15 out of 24, or 60% of the ecosystem services examined during a study completed in 2005, known as the Millennium Ecosystem Assessment, are said to be degraded or used unsustainably.

Key ecosystem services often mentioned in this context include fresh water, fisheries, air and water purification, and the regulation of regional and local climate, natural hazards, and pest control. I visited your Pure Fiji factory a few days ago and saw and smelled the wonderful beauty products which make our lives more agreeable and bring in income, which are all based on nature's gifts.

Globally, approximately 20% of the world's coral reefs have been lost and an additional 20% degraded in the latter part of the last century<sup>2</sup>. By 2030, 60% of coral reefs could be lost<sup>3</sup> through fishing, pollution, diseases, invasive alien species, and coral bleaching due to climate change.

In the Pacific, which is home to more coral reefs than any other region, 41% of reefs are at risk<sup>4</sup>. Climate change will also be putting these reefs under more stress and larger areas of coral reefs will become under high risks.

Similarly by the end of last century, over 50% of the mangroves of the world have been lost<sup>5</sup>. Even in the Pacific, almost 13% of the total mangrove areas are gone<sup>6</sup>, and more continue to be destroyed to make place for housing, tourist development and waste dumps.

Some people may wonder why this is important. The Pacific people, living on small islands surrounded by large oceans, know full well that coral reefs, mangroves and other coastal ecosystems protect our coast, serve as breeding and nursery grounds for fish which are both a source of much needed protein, and income from fisheries and a source of eco-tourism dollars. The recent tsunami in Asia showed us that mangroves also protect people against natural disasters.

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<sup>2</sup> Millennium Ecosystem Assessment. 2005. *Ecosystems and Human Well-being: Synthesis*. Island Press, Washington, DC.

<sup>3</sup> IUCN. 2008. *The economics of ecosystems & biodiversity – an interim report*. Gland, Switzerland.

<sup>4</sup> Bryant et al. 1998. *Reefs at Risk*. World Resource Institute, Washington, D.C.

<sup>5,6</sup> Gilman et al. 2006. *Pacific Island Mangroves in a Changing Climate and Rising Sea*. UNEP Regional Seas Reports and Studies No. 179. United Nations Environment Programme, Regional Seas Programme, Nairobi, KENYA.

Another concern we all have is the loss of biodiversity due to degradation of habitats and rapid conversion of natural areas. Globally almost 17,000 species of plants and animals are threatened with extinction, as reported in the IUCN *Red List*. Of these at least 3,300 are from the Oceania region. These are only those species that we know about. There are many more species (both marine and terrestrial) that we know are threatened but do not have the empirical information to prove it. Such threats of extinctions are all due to human activities, including deforestation, urban developments, and coastal pollution.

Why should we be concerned about the loss in biodiversity? They provide valuable services. For example, the local plant product, *kava*, which has traditionally been used as a social and cultural drink, has also become a source of food supplement and pharmaceutical products. It is contributing over \$200 million a year<sup>7</sup> to the local economy, particularly because of its remarkable calming effects.

We all know that plant breeders rely on nature's genetic diversity when developing new hybrids to meet the growing and changing needs of humans. Biodiversity can contribute towards adaptation to climate change, in many ways, including through the presence of crops that are resistant to drought, pests or salt water intrusion.

The full costs of the loss and degradation of ecosystem services are, however, difficult to measure.

We do know what nature means to us, although we may not know for certain what its economic value is. Some say nature is priceless, which cannot, and should not, be measured in monetary terms.

A 1997 article in the prestigious journal *Nature*, reported the economic value of nature to be over US\$33 trillion, and growing.

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<sup>7</sup> PANG. 2007-2008. *Lift the Kava Ban Now – Provide an Economic Lifeline for the Pacific*. Source: [www.pang.org.fj/doc/070927officialpaper\\_liftthekavabans.pdf](http://www.pang.org.fj/doc/070927officialpaper_liftthekavabans.pdf).

We will have much more precise information about this when the important study, *The Economics of Ecosystems and Biodiversity (TEEB)*, begun in 2007, is completed in 2010.

Even preliminary findings of this ‘Stern-like’ report on the economics of the degradation of nature are very frightening. In the first years of the period 2000 to 2050, it is estimated that lost forest ecosystem services alone could have an equivalent value of around \$US28 billion a year.

We also know that when the tradeoff between economic ‘development’ and conservation of ecosystems occurs, the costs of degradation usually shift towards the poor and the disadvantaged. While some of environmental degradation-linked development may have helped to improve the lives of people, at least in the short term, at the same time nature’s ability to deliver other key services has been weakened.

The ‘business as usual’ approach to solving the world’s problems has resulted in using natural resources at a scale and pace that is not sustainable.

**Thirdly**, the continuing increase in population, combined with social and economic inequalities, are amplifying the stress we put on ecosystems and the services they provide, with consequent adverse longer term impacts on human well being. The world population is growing by 77 million<sup>8</sup> people per year – that is more than the population of the United Kingdom, or ten times the population of the Pacific. With this increasing population the current development pattern cannot be sustained.

**Fourthly**, our past experiences in addressing global challenges may no longer serve our purposes.

For decades the international community has talked about the ineffective responses to key development and environmental challenges. Some argue we have had more talk and less action.

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<sup>8</sup> United Nations Population Division. 2009. Source: [www.un.org/esa/population/](http://www.un.org/esa/population/).

No doubt we have seen some progress but the financial crisis and climate change have shown that 'business as usual' will not be sustainable, particularly when the connectivity between economic, social and environmental systems is ignored.

We need to rethink the development paradigm we have been using.

If we continue on our current development path and choose not to act responsibly, the world as we have known it will disappear. For example, as we all know, if humans continue to use fossil fuels at their current pace,

we will:

- deplete the polar ice caps;
- ocean sea level will rise by seven meters;
- The islands of Tuvalu and Kiribati will be under water; so will large parts of coastal areas, where the majority of Pacific islanders live.

***In short***, we are running out of time to reverse a series of dangerous trends. For too long, we have been taking much more than the Earth can produce.

Whether we like it or not, we must now recognize that we have overdrawn our account of natural assets, and the natural environment upon which we depend is compromised as a result.

### **What can we do? - Invest in natural capital**

Nature can recuperate, but the treatment has to be real, on a massive scale, and immediate. Risk considerations have to become an integral part of every activity, every strategy and every initiative.

We need to increase our investments in nature **NOW**.

Natural capital is nature's endowment to the global community, our asset, to be used wisely and sustained for future generations. It is thus like any fixed capital whose flow of benefits we want to enjoy but without depleting the capital base.

IUCN strongly believes that sustaining our natural capital and the underlying ecological services are critical for meeting the needs and aspirations of our growing global population. Sustaining natural capital can also help us to better adapt to risks associated with the changing environment and changing needs.

### ***What do we mean by 'investing in natural capital'?***

***Investing in natural capital*** means supporting the environment's ability to continue to provide the trillions of dollars worth of goods and services that it has provided us for millennia – clean air and water; food, material for clothing and medicines; and not to forget inspiration for our cultures and spirituality.

***Investing in natural capital*** is about ensuring that private benefits from the use of natural capital do not leave too large a footprint that results in a decrease in the flow of public goods and services.

***Investing in natural capital*** means taking advantage of the interdependence of our environment, our economy and our society to help meet human needs, while ensuring the ecological integrity is not compromised.

***Investing in natural capital*** also means maintaining nature as insurance against future disasters and for effectively reducing people's vulnerability to diseases, food insecurity and climate change.

### ***So where do we start?***

We need to start by acknowledging that environment is **not** a separate 'sector' to be thought about when we become rich or once everything else is 'fixed'.

We must explicitly recognize the connectivity between natural, economic and social systems.

We must recognize that the state of natural capital and environmental considerations must become an integral element of design of every development, every project, and every initiative taken towards addressing our many challenges.

We need to strengthen development and environmental governance that recognizes that private initiatives and activities also need to have boundaries. There must also be a regulatory oversight on the private sector to ensure that public goods and services are not compromised in the pursuit of private benefits.

We must design environmental governance, including a choice of market instruments together with the usual command and control strategies, underpinned by good scientific information. We must also recognize the wisdom of traditional and cultural knowledge, which has often been ignored, in the design of management regimes and instruments.

We must build appropriate capacity at all levels of government and society in order to ensure that informed choices are made, where nature is valued appropriately.

We need a new breed of Leaders who have the political will to negotiate the development path that provides economic growth while also sustaining natural systems.

And last, but not least, and perhaps the most difficult...

We each must **change our way of life**, and make sustainable development our **guiding philosophy** in our every action and decision.

We must embrace and inculcate the value that we all have a duty to care for nature and that investing in nature is our, everyone's, responsibility.

In conclusion, Ladies and Gentlemen, we need to adopt an alternative development paradigm in which *Investment in Natural Capital* is central.

***Investing in Natural Capital*** provides the only hope we have for meeting the basic needs of current and future generations and realizing the Vision such as the one that the Pacific Leaders have articulated.

It is the only path that can bring us back from the brink of the doom and gloom future that 'business as usual path' promises.

*Thank you.*