

**STANDING COMMITTEE ON AGRICULTURE AND RESOURCE  
MANAGEMENT**

**A DISCUSSION PAPER ON PRINCIPLES FOR SHARED INVESTMENT TO  
ACHIEVE SUSTAINABLE NATURAL RESOURCE MANAGEMENT  
PRACTICES**

This paper provides a discussion on general principles for shared investment decisions for natural resource management activities. Such activities may aim to accelerate achievement of sustainable natural resource objectives, may have diffuse or unspecified beneficiaries or may be needed because of diffuse or unspecified impactors<sup>1</sup>. It is not intended that this paper cover specific cases of attributable cost-sharing related to consumptive use of natural resources, such as water pricing, where specific costing arrangements have been developed by COAG.

The long-term health of the nation's natural resource base and its conservation of environmental values can only be achieved through wide implementation of sustainable natural resource management practices. This outcome will require considerable investment by stakeholders, based on a clear understanding of the roles and responsibilities of all parties. Partners may include individuals, groups, the community, industry and all levels of government, who will need to jointly share both the benefits and the costs. A focus on partnerships is essential to achieve the protection and sustainable use of the nation's natural resources.

While the term "cost-sharing" has often been used to denote joint investment, a more appropriate term may be "shared investment" which gives equal emphasis to costs and benefits. Furthermore it can encompass any sort of resources commitment - not limited to a financial cost - that will result in a benefit for more than just one individual or group. The term "cost-sharing" only describes the division of funding contributions to the action between the partners whereas "shared investment" in this paper is a wider term that recognises there are many factors considered in making investments, and it includes in-kind work, education, R&D, planning etc. Shared investment applies to a number of policy instruments to encourage improved natural resource management, not just to on-ground works, although there has traditionally been an emphasis on on-ground works.

SCARM, in considering cost-sharing, now more precisely termed shared investment, in terms of government investment into on-ground works, in particular for NHT projects, agreed on five major categories of principles: (i) duty of care; (ii) beneficiary and impactor pays; (iii) government contributes for public benefit; (iv) economic viability/social impacts and environmental impacts; and (v) policy, planning and monitoring, research and investigations. This paper will provide a discussion on these principles, but will also offer some direction for shared

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<sup>1</sup> Impactors is a term that encompasses both positive and negative effects on the environment. The term "polluters" has been used in the literature, particularly relating to "polluter pays" principles. "Impactors" is being used in this paper due to its broader definition, and covers the term "polluter" as well.

investment in broader terms, when government may not be part of the partnership agreement.

There have been different perceptions about the role of government in natural resource management and mitigation of environmental degradation. Some consider that government has an obligation to fund natural resource management actions, even if there is a large private benefit. However, in many cases there is insufficient reason for government to become involved in providing financial assistance at all, and in cases where government should be involved, the ratio of government assistance to private investment, and the length of time that government assists, may differ according to severity, extent and significance of problems.

It is important to determine what needs to be undertaken in terms of achieving the sustainable management of natural resources and biodiversity conservation. This will mostly be achieved through changes in management practices, of which on-ground works<sup>2</sup> is only a part. Simply focusing emphasis on on-ground works can create a remedial works program culture dealing with symptoms rather than causes. Therefore, on-ground works, and the shared investment principles relating to them, need to be considered along with the range of other instruments available to both government and the community, such as education, training, information transfer, regulation, planning, incentives, research and adjustment; many of which are largely funded by government.

It must also be recognised that it is not possible to prescribe allocations of investment shares for any particular type of activity as circumstances differ across regions, and should be determined on a case-by-case basis. However it is expected that for particular regions, simple fixed rates may be used for a range of activity from time to time to avoid unwarranted complication of small projects.

The first section of this paper provides a mechanism to determine whether government should be a partner for any particular action. It is important at the outset of any action to identify the investment partners, and often government will not be involved. The second section of the paper outlines the shared investment principles, that can be used to help determine the allocations of investment shares, if required, to any identified parties, whether government is a partner or not.

## **I. SHOULD GOVERNMENT INVEST IN THE PROPOSED ACTIVITY?**

### **1. When government investment is relevant**

There are situations where government investment in community activities is relevant. These situations usually involve:

- When applying regulatory or legal solutions alone may not be cost-effective and joint investment in the short-term may be preferred.

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<sup>2</sup> On-ground works comprise activities such as those that reclaim salt-affected land; diminish soil erosion; efficient on-farm water use/management; reduce pollution of waterways; improve soil condition; and conserve and improve ecosystems and biodiversity.

- Where government contributions can facilitate a faster change in management practices towards a more sustainable system.
- When additional investment is required to further improve an on-site or off-site environmental value, when the on-site benefits may be insufficient to make the investment attractive to the resource user.

However, the general approach in considering in the first instance whether government should invest in a project should be:

1. To determine who has the responsibility within the scope of the project for improved resource management
2. To determine what is the minimum time-bounded government intervention that would be required to bring about behavioural change to meet public expectations
3. To determine what the most appropriate instrument would be to ensure behavioural change
4. To determine whether a financial subsidy would be the most appropriate instrument, and the best means for its delivery.

## 2. Shared investment by government is not relevant where:

### (i) *A duty of care applies*

Landholders and other resource users have a *duty of care* to take all fair and reasonable measures to ensure that they do not damage the natural resource base.<sup>3</sup> In many circumstances, this legal or moral requirement will cause landholders to pay all costs associated with on-ground works because such works are part of their duty of care. Such expenditure is a requirement of their stewardship role and no funding support or compensation need apply to these investments. In these situations the role of government is often in education, research and advice to support and raise landholders' awareness of their *duty of care*.

Where a landholder or their manager employs exploitative or damaging practices that are inconsistent with a *duty of care* then such users should be responsible for making good any damages incurred as a result of their actions, be those damages on-site or off-site. If it is cost-effective and feasible technically to trace quantifiable off-site damage to a specific source, then the full cost of ameliorative works should be borne by the polluting firm or landholder (impactor pays principle). In these

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<sup>3</sup> "Duty of Care" has been defined as the common law duty of care, which applies to everyone who may harm another as a consequence of their actions. Duty of care applies to harm that might be caused to both a) those who are living at present; and b) those who are yet to be born. Essentially resource managers should have a duty to take all "reasonable and practical" steps to prevent their actions causing foreseeable harm to the environment. Land holders are "stewards of the land" and land is only held in trust for subsequent generations. The duty is about preventing harm being caused or about to be caused to the environment. While Duty of Care in the context of natural resource management has limited statutory backing in Australia at present, this may change in the future along with the common understanding of its meaning.

situations the role of government is to regulate, advise and police exploitative management, rather than co-fund the activity.

Additionally, it needs to be recognised that poor enterprise viability or management is not a justification for governments to substitute public funds for landholder funding of remedial works.

(ii) *Private benefits are sufficient incentive*

Where the landuser invests in on-ground works that provide site-specific financial benefits sufficient to make the investment attractive, then investment by government is not applicable.

(iii) *There are more appropriate approaches*

In some cases governments have preferable investments. It may be more desirable for government to use legal, regulatory or market-based solutions to generate environmental amenities than to invest in remedial activities. These legal, regulatory or market-based solutions will be aimed at indirectly achieving on-ground outcomes.

(iv) *There are too few benefits*

Sometimes the environmental benefits are insufficient to justify significant expense by government and others in supporting the activity. Occasionally the proposed activity may be technically flawed or other off-site changes may significantly reduce the generated environmental benefits. Furthermore, government may not choose to invest when the proposed actions do not reflect government priorities.

## II. SHARED INVESTMENT PRINCIPLES

**1. The first group of principles are of direct concern to government, and are the overarching principles that determine whether an activity should be considered eligible for government funding.**

- Government only contribute to activities or parts of projects where there are significant public benefits. Users, both existing and future, are expected to pay for activities that increase their wealth or the income stream they can expect to receive.

*Note: Public benefit alone may not be sufficient reason for government investment, particularly in cases where there is a clear responsibility - duty of care - for particular activities Public benefit is a condition of government funding, not a purpose.*

*However, there are situations where improvement in environmental amenity bestows significant public benefits such as protection of rare or endangered flora or fauna and public funding may be applicable. There are also cases where market incentives results in under-investment in knowledge about environmental conditions or less than socially optimal generation of environmental amenity. In these cases there may be a clear role for public funding, rather than sole reliance on private funding.*

*There may also be special circumstances whereby governments can undertake strategic investment, even where the resulting benefits may be localised or mainly private. These circumstances may be where public funding forms part of community education that informs people as to the private and public benefits of the proposed activities. Such public funding needs to be known not as a policy precedent that then applies to every new activity but rather as a catalytic once-off or demonstration-type activity.*

*While certain activities, such as the development of farm-forestry enterprises, shows a clear private benefit, Government may contribute towards the cost of undertaking research and investigations in such potential enterprises, in order to reduce the risk to the private individual and encourage diversification, if and to the extent it is anticipated that net public benefits will accrue.*

*Note: Public benefits include such things as improved water quality, reduced expenditure by governments on repairs to public assets damaged by land and water degradation and enhanced conservation of biodiversity. Public benefit also includes recreational use of natural resources. Social perceptions that recreational uses of resources are free tend to be reinforced when the general public has not transparently shared the cost of managing the resources. The broader contributions of government need to be recognised.*

*One test for the extent to which a public payment should be made is the extent to which the proposed payment would increase land values. If the result is payment for work to provide public benefits that can not be provided profitably by private entrepreneurs then there may be no increase in land value as a result of the proposed cost-sharing arrangement.*

- Government should, in general, contribute to works only up to a level sufficient to trigger the necessary investment towards self-correcting, self-perpetuating natural resource management systems that operate effectively.

*Public funds should not be applied in such a way that they substitute for the responsibility of others nor weaken others' perception about their own resource management responsibilities.*

- Before government will contribute to any land, vegetation or water management activity, the activity must be technically sound, produce outcomes consistent with identified priorities, and the benefits must justify the costs. In considering costs and benefits, economic, social and environmental factors all need to be adequately considered.
- 2. The second group of principles should be used by both those preparing projects and those assessing them.**
- All natural resource users and managers have a duty of care not to damage the natural resource base. Users should be responsible for making good any damages incurred as a result of their actions.

- Where polluters or impacters can be identified, the full cost of the impact prevention and control attributable to them, including the cost of required activities, should be borne by them (impactors pays principle).

*Note: Governments should have workable regulations in order to enforce remedial actions on polluters when off-site impacts are quantifiable.*

*User-pays systems should be established to regulate the use of resources such as water, in order to recover the full cost of managing these resources.*

*The full cost of providing services to specific identifiable impactors or beneficiaries should be recovered by way of charges to them.*

- In cases where the work being undertaken will not benefit the landholder(s) or resource users and there is no duty of care, particularly a financial benefit (in the form of production or potential future capital gain), it is appropriate for beneficiaries to reimburse private individuals for the cost of actions over and above those generally expected of a private resource user in the region. This beneficiary-reimburses principle ensures that the public pays for public benefit in a manner that does not entitle a person to withhold opportunities to realise these benefits from the public. This may come in the form of a subsidy or tax rebate from public funds.

*Note: Beneficiaries fall into two categories, and should pay according to the potential level of benefit that the on-ground works will provide.*

- *Direct beneficiaries are landholders (public or private) whose potential income and/or capital value will be increased as a result of the activity.*
- *Indirect beneficiaries are those who will enjoy qualified benefits, such as improved biodiversity, recreational benefits, etc.*

- There should be no public money invested in a project that will be dependent on continued subsidy or public payment, unless there is a clear and inalienable responsibility for government in addressing the issue.

*Note: There may, however, be some cases where government has taken an ongoing role in natural resource management, for example in the management of parks.*

### **3. The third group of principles should be used at the local level when developing the mechanisms for shared investment appropriate for the proposed activities.**

- In situations where the cause of a natural resource problem and all the beneficiaries of its control are located in the same district, attempts should be made to first resolve investment sharing within the local community. Local government rates are an example of a mechanism that may be considered before any external resources are sought. At best, shared investment should be based on empirical evidence regarding the technical merits, financial viability and social and environmental impacts of the proposed activity. In some cases governments will be already contributing through field, survey or monitoring data upon which judgements about likely benefits and costs can be based. Such

activity, supported by government, may be desirable where great uncertainty exists over the extent of environmental damage that may emerge if ameliorative action is not supported by the community. In these cases provision of government funds to generate information may trigger wider support and funding from local and regional landholders who become more fully aware of the benefits (or losses avoided) of undertaking the proposed activity.

- Regional or catchment planning often identifies the major environmental and social issues affecting that region or catchment. These plans should describe a preferred investment sharing regime applicable for a time to that area worked out on the basis of the flow of benefits, responsibilities, and costs. Intended activities should be consistent with these plans. The development and acceptance of a regional or catchment plan should be a condition of government funding, and plans should not be developed for the purpose of receiving such funding. Having a plan does not guarantee government funding.
- The process of negotiating shared investment and monitoring outcomes should involve all stakeholders. In sharing costs, the process of arriving at the shares of cost, is important in its own right. If the process is based on inadequate or unfair representation of specific views then dissatisfaction with the process may jeopardise the establishment of the activity or further collaboration in environmental improvement.
- To maintain commitment of contributors, feedback is essential. Both government agencies and companies are stewards of public or shareholders contributions and need to appropriately account for their use of these funds. How effectively and efficiently the funds are used needs to be subject to scrutiny. Hence, investment sharing arrangements need to include a requirement to report on and monitor the outcomes from the investment. For example, ex-post analyses will form a check on the assumptions or claims of those initially involved in cost negotiations and will discourage inflated claims as to the size of environmental or financial benefits associated with the activity.
- Due recognition should be given to labour or other in-kind contributions from landholders when the input into the project is above the expected land management activities of the property. This input should be considered part of the landholders' contributions.