Land Valuation and Compensation Primer

*Part of the Responsible Investment in Property and Land (RIPL) Guidebook Series*

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**Introduction**

Provision of fair and adequate compensation based on appropriate valuation is a crucial component of responsible land-related investment. International standards call for valuation to be done in a culturally appropriate, inclusive and gender-sensitive process.¹ Compensation must equate to full replacement cost of land and related assets, as well as other assistance to improve or restore livelihoods of communities and individuals (both women and men) impacted by the investment.²

The RIPL Guidebooks mandate community capacity and impact assessments as part of equalizing the power imbalance between a business and community, ensuring the community’s capacity to participate in negotiation processes, and establishing social license. Valuation and compensation is intertwined with community capacity and impact assessments in the following ways: 1) the assessment should reveal a community’s capacity to adequately estimate their resources in comparison to any benefits being offered in the investment arrangement; 2) provide the basis for a plan to bolster that capacity with third-party assistance as needed; and 3) quantify and incorporate impacts of the proposed investment into a written plan for livelihood replacement. The assessment should be completed before the investment design is finalized and before negotiations commence.

This primer includes an overview of valuation and compensation best practices that illustrates the relationship between valuation and compensation and other steps and elements of responsible investment. Because valuation and compensation are highly technical areas, additional sources should be consulted to adequately identify appropriate options for an investment context. The Resources section includes detailed technical materials.
Overview

Governments should have laws, policies, and administrative mechanisms in place to ensure that land valuation and compensation processes promote social, economic, environmental, and development objectives. It’s important that valuation and compensation be consistent with international standards and be sufficient to restore or improve livelihoods. To comply with human rights requirements, valuation and compensation should include allowances for improving substandard living conditions. Valuation must consider informal and nonmarket values of land for those with legitimate tenure rights and interests, including social, cultural, religious, spiritual, and environmental values. If these laws do not exist or are not implemented or enforced, business should still comply with international standards, and their commitment to do so should be explicitly included in a company policy.

Before a valuation is initiated, the state should carry out land rights registration and formalization processes so that communities and informal land users (both women and men) can strengthen their land claims and thus be prepared to have their land fairly valued and compensated in the investment. When formalization is not possible, valuation and compensation processes must include informal and customary interests and rights.

Wherever possible, valuation should be conducted by a professional valuer licensed in the host country. National law may require the valuer to be certified locally. Since many developing countries lack robust, capable valuation professions, business or other stakeholders may need to provide additional technical assistance so a valuer can meet international standards; valuers are often trained to meet only minimum requirements, not international standards. Such standards require the valuation expert to consider noneconomic values when calculating values and to engage adequately with the community as a whole, including women and vulnerable groups. Local civil society organizations (CSOs) may be well positioned to assist with valuation since they possess an in-depth understanding of a community’s way of life and social attachment to the land.

The process of valuation should be harmonized with the broader community engagement plan that includes an assessment of all actual or potential impacts on the community and its land uses and tenure rights. This process should be inclusive, targeting women and other vulnerable groups, and again, it should precede negotiations and contract development. This ensures that subsequent negotiation processes account for the full diversity of legitimate interests in land and resources, and affords the community a full picture of their rights under international standards and national law. Business should consider contracting with local CSOs to assist with community engagement.
Key Principles

Free Prior Informed Consent

Valuation and compensation should be conducted under the free, prior and informed consent (FPIC) framework. In the context of FPIC:

- Valuation should take place after community consultations and agreement;
- Compensation should follow agreed upon valuation methods and processes, and should occur or begin (if payments or benefits are successive) before investment operations begin.

FPIC includes a standard of consent (the right of a community to say "no" to an investment or acquisition) for indigenous communities, and a standard of consultation and participation for non-indigenous communities. Because the definition of "indigenous" lacks international agreement, and because contracting best practices universally require consent, business is increasingly adopting the consent standard for FPIC in all land-related deals. 6

The "prior" and "informed" components of the FPIC standards require that business provide information to a community to allow them time to analyze the proposed terms of the investment and engage in culturally appropriate decision making processes. 7 Communities should be provided with adequate time to conduct inclusive discussions to identify their priorities and standards for development and investment. 8 These decisions should be made by the entire community, including women, youth, elders, and indigenous peoples. Dialogue must be open, inclusive, and continuous. Traditional leaders and community members (both women and men) should be prepared to discuss and explain the various ways in which they use and value land, to ensure that informal and nonmarket values are incorporated into valuation calculations later on; this can be done in consultation with local NGOs and CSOs.

Questions for a community in determining the value of resources can include:

- Is the community willing to lease its land?
- For what duration of time would the community be willing to lease the land?
- What land is the community willing to allow business to use, and what land is off-limits for investment?
- How will the community make decisions about whether and how to allow business to use community land?
- Who will represent the community in meetings with business representatives? Will the representatives include women and other vulnerable groups (ethnic and religious minorities, youth and others)?
• How much negotiating power will the community representative have?

Livelihood Replacement

The international baseline standard for adequate compensation is full replacement cost of land and related assets. This method includes and goes beyond market value, and beyond the replacement cost standard of market value and transaction costs. Full livelihood replacement can include replacement land, assistance with preparation of land, provision of agricultural inputs or credit, and access to markets. ⁹

Business representatives and government officials must recognize and account for the limits of market-based valuation methods for fairly compensating those with rights and interests in land, and should consider various methods to calculate replacement value, in consultation with communities.

Alternative Models

Business must provide for valuation and compensation to the extent their operations will cause disruption to land, resources, and livelihoods. To minimize or avoid this disruption, business should consider adopting alternative investment models from the beginning of project design and community engagement.

Whenever possible, it is best to avoid large-scale acquisition and resulting community resettlement or disruption, and to adopt models of investment that involve sharing the benefits of the investment directly with the community. Whether and which alternatives are feasible and desirable should be a matter of consultation with communities. ¹⁰ Special care should be taken to ensure women and other vulnerable groups are able to participate equitably in any benefit-sharing scheme adopted, and that they are included in its selection and development.

Community Engagement

Fair valuation of land must begin with inclusive and comprehensive community engagement and mapping of land users, to ensure that everyone entitled to compensation is identified and their land uses and values considered. Engagement must be gender sensitive, to ensure that women have a legitimate opportunity to have the unique ways in which they use and value land accounted for in valuation calculations. Engagement must also target other vulnerable groups, such as pastoralists, youth, the elderly, and indigenous peoples who may otherwise be neglected during this process.
**Cultural Considerations**

For many communities, and especially for women within communities, land is not a commodity; they view it as non-substitutable and its value unquantifiable. This means that if an FPIC process proceeds, fair valuation and compensation must include a monetization of this extra-market value and noneconomic uses of land, including social, cultural, and environmental value. This amount should be in addition to uses of land and land value that can be assigned market value, to ensure a community’s full estimation of value and all livelihood activities are accounted for and restored.

**Gender Considerations**

All valuation and compensation processes must be gender sensitive and must consider existing community power structures. All consultations—from consultations on which valuation methods should be used to distribution of compensation benefits—must include women in diverse situations within the community (married, divorced, young, old, migrants or ethnic minorities, etc.). In addition, valuation should include communal resources such as firewood, water, or medicinal plants that women value uniquely and more highly than men. Compensation should be paid to individuals, rather than just to community leaders or male heads of household. Where employment is offered, it should include opportunities suitable for both women and men.

**Map Rights and Interests, Land Users, and Resources**

Communities are not homogenous entities. Community mapping must cover the whole spectrum of the diverse array of stakeholders in the community, particularly vulnerable groups such as women, pastoralists, elders, youth, and indigenous peoples. All land users (both women and men) should be identified and consulted about how they use and value the land.

Although traditional authorities are ostensibly obligated to act in the best interests of everyone in their community, they may not represent the interests of vulnerable groups. Comprehensive mapping is especially important where the government owns the land, as the government may not have any formal legal obligation to identify or include land users who lack formal, documented rights to the land. In this case a business should consider assisting informal land right holders and users to obtain legal rights so the business can negotiate with the community rather than the government.
Valuation Methods

Valuation and compensation methods will need to be chosen carefully to suit an individual investment, in order to accord with international standards, national law, and company policies. Because valuation and compensation comprise part of the information that the community must receive, business should develop and agree on valuation methods with the community through a transparent and inclusive consultation process.

Stakeholders operating outside the realm of an individual investment should also take the time to learn about valuation and compensation methods that suit the context they may be addressing, with the aim of respecting legitimate tenure rights and assisting women and men in communities to understand and advocate for their rights and interests regarding land and land-based resources. Other stakeholders may include business representatives drafting a company-wide policy on investments in land, civil society organizations working with a community to document land rights, or government officials engaged in policy-making and legislative drafting or reform.

There are numerous sources available for identifying standardized and widely accepted valuation methods. The Resources section of this primer lists technical guides that include detailed descriptions of valuation methods.

Principles for Choosing Valuation Methods in Developing Contexts

A key challenge will be to identify which types and combinations of methods are appropriate for a given context. When operating in developing countries, the following generally applicable principles should be kept in mind:

- Many developing countries lack robust rural land markets; where transfers are occurring, they are likely to be informal and therefore not fully recorded. This creates challenges for applying formal valuation methods. 16
- A combination of formal valuation methods will likely be necessary to arrive at a fair valuation that allows the community members to replace their livelihoods. The appropriate combination of methods will depend on the context.
- Favored approaches in developing countries include some combination of the comparable sales method, 17 income capitalization, 18 replacement cost, 19 contingent valuation20, and benefits transfer.21
- Fair market value is a disfavored approach, due to power imbalances between communities and business and implementation difficulties.
Valuing land-based resources and rights

In developing countries, communities often depend on a combination of agriculture and other natural resources, and each resource must be valued. In the valuation process, all assets and resources related to land-based livelihoods should be accounted for in accordance with the principle of restoring livelihoods. Assets include annual crops and perennial crops such as fruit trees and planted timber. It is necessary to value crops that may be grown at other seasons or crops that have not yet matured at the time the valuation is being conducted. Examples of fixed assets may include improvements to the land such as structures, terracing, or irrigation infrastructure. Natural resources may include natural forests, firewood and other forest resources (e.g., herbs, nuts, fungi).²²

What should be included in the valuation process?

In keeping with the principles of free, prior, and informed consent, the valuer should engage with the community and obtain the community's agreement on the valuation methods to be used; the process and the methods should be consistent with international standards and national law. The business should explain the implications of each valuation method and solicit input from community leaders and individual land users (both women and men) on which methods they would prefer. As needed, the business should provide community representatives with independent (third party) legal counsel or technical experts to build their capacity to negotiate, as well as sufficient time to come to an understanding of the different valuation methods and associated processes. These consultations should also establish agreement between the business and the community on the procedures available for challenging or rejecting the valuation results.

- The valuation process should begin in tandem with inclusive community engagement and mapping;
- The community should be given a chance to discuss with the business representatives how they want to benefit individually and collectively from the investment;
- Once all rights and interests are documented, and desired benefits identified, the business must negotiate with the community to agree on valuation methods, capturing nonmarket and noneconomic values of land that contribute to local livelihoods for women, men, and vulnerable groups;
- Community is given appropriate time to agree to valuation methods;
- Valuation calculation is undertaken by a private professional or government valuer;
• Valuer reports results to the business and the community;
• The community is given adequate time to discuss and respond to valuation results;
• Additions or revisions to the valuation are completed and reported;
• Once the valuation results have been reported and agreed to, the business enterprise negotiates the compensation package with the community, and;
• Valuation methods and procedures, and compensation forms, amounts, and procedures, along with specifications for equitable grievance mechanisms, are referenced in the contracting process and included in the final agreement.²³

Providing Compensation

Once the valuation results have been accepted by the community, the business and community should use the results to negotiate compensation. Compensation should aim to restore and improve livelihoods. The VGGT requires business to enhance social and economic development, create employment, and diversify livelihoods in the communities in which they operate.²⁴ The business should offer the community and individual land users (both women and men) multiple options forms of compensation; ultimately the type and manner of compensation should reflect a meaningful choice by the land user.²⁵

Those entitled to compensation include not only formal landowners but also individuals with legitimate informal or customary land rights and interests, including rights and interests in using collectively owned land. It is critical that at all stages of the valuation and compensation process all sides incorporate a gender sensitive lens to ensure that the land rights and interests of women are valued fairly and women can benefit equitably from the investment.

The actual payment of compensation must be done in a way that is culturally appropriate and sustainable, and must benefit women and other vulnerable groups in ways they have identified as desirable. This requires accounting for traditional power dynamics within the community that may disadvantage these groups, carefully soliciting and documenting their interests, and dedicating extra efforts to consult them.
Livelihood Replacement: Forms of compensation

The community should hold inclusive and detailed discussions on what benefits individual land users (both women and men) and the community at large want to receive from the investment. 26 For example, land users may prefer to receive replacement land rather than cash compensation because replacement land may be better suited to restoring livelihoods. If the community prefers cash payments, the business should pay in installments, and should supplement the payments with non-monetary benefits such as employment opportunities, infrastructure improvements, education or skills training, or other livelihood enhancement options that are gender-sensitive and include vulnerable groups. Special care should be taken to ensure women have equal voice in determining compensation types. All parties should work to ensure that obligations and expectations surrounding compensation and benefit sharing are clear, to avoid misunderstandings later on in the project.

Alternative Land

Because the primary goal of compensation is to restore or improve livelihoods, providing land-based compensation (also referred to as “in-kind” compensation) is generally preferable to cash payments. 27 Replacement land is both more likely to preserve existing lifestyles and communities and better suited for restoring livelihoods, because rural communities tend to rely heavily on land and natural resources for their livelihoods. This is especially true where the land is collectively owned or is the primary source of community livelihoods, such as agricultural or pastoral land.

Resettlement Options

Business should explore resettlement options in consultation with the community, to ensure that communities’ livelihoods are improved, and should provide relocation assistance to community members displaced by their operations. 28 The relocation assistance should include better housing and shared infrastructure at newly constructed resettlement sites.

For those with cognizable rights to the land, either formal or customary, the business must offer replacement property of equal or higher value, security of tenure, equivalent or better characteristics, and advantages of location. This should include, but not be limited to: soil quality, access to water resources, adequate housing, and proximity to roads, schools, and clinics for farmers; access to suitable routes, increased infrastructure, or alternative livelihoods (if desired) for pastoralists, and land that produces adequate and accessible resources, including food and firewood, for forest dwellers. 29
Economic Displacement

For economically displaced people, the business should compensate them for loss of assets (or access to assets) at full replacement cost. This includes the cost of moving commercial enterprises elsewhere (including lost income) and the replacement cost of non-land assets such as crops, irrigation infrastructure, and other improvements to the land. 30

For those with adversely affected livelihoods, the business should provide opportunities to improve or restore their earning capacity, production levels, and standard of living. This may take the form of replacement land, alternative access to natural resources, or alternative earning opportunities if replacing the livelihood source is not possible, such as credit facilities, training, or employment. The bottom line for compensation for loss of assets is that cash alone is not enough to restore livelihoods.

Cash Compensation

If land right holders and users prefer cash compensation, the business should supplement payments with non-monetary forms of compensation, such as employment, training, or infrastructure improvements. 31 These benefits should be accompanied by clear, enforceable business commitments in the contract, as well as measures for monitoring and enforcing compliance. The payment structure and amount should be forward-looking and should account for current and future impacts on land, resources, and cultural assets.

The business should avoid making a one-time lump sum payment, and should attempt to build recipients’ financial management capacity so that they are not overwhelmed by large payments. The business should compensate individuals by making direct payments separately to women and men, even when they are part of the same household. Land right holders and users of jointly owned land must receive equal shares of compensation, and women with use rights who lack formal ownership should be compensated in accordance according to the fair valuation of those rights and the associated assets.
Employment

The contract should provide clear benchmarks to measure the business's efforts to train and employ local workers. The contract should require the business to prioritize contracting with local farmers and service providers, to ensure the secondary benefits of the project accrue to local people and increase broader access to markets for both women and men. Employment efforts should specifically target women and other vulnerable groups who may find it difficult to participate in and benefit from the contract arrangement. Not only should the business advertise job opportunities to women and men equally, but it should also seek to actively promote women’s participation by addressing the limitations on their involvement; for example, by providing facilities to meet female workers' health, childcare, and safety needs.

Alternatives to Acquisition

Wherever possible, business should avoid acquisitions that require the resettlement or displacement of local people. Common alternative business models include:

Outgrower Schemes

Outgrower schemes (also called contract farming) are supply agreements between farmers and farm product buyers. Buyers often commit to supplying upfront inputs for the farmers, who commit to selling a certain amount of a specific crop to the buyer for a predetermined price. This type of arrangement can benefit both business buying farm products (by efficiently providing consistent supply and quality) and smallholder farmers, who can retain their land, improve their incomes, and gain access to markets.

Outgrower schemes present challenges for both business and communities. The power imbalance balance between the two stakeholder groups creates a significant disadvantage for smallholders; businesses have more information, resources, and connections to markets, and may have monopoly buying power for farmers’ crops. Business can incur a risk when attempting to offer a competitive price to outgrowers while simultaneously maintaining consistent quality and quantity of crop production; this can be due to fluctuations in price, unexpected weather patterns, or the time required for smallholders to learn new farming methods or unfamiliar crops.
The community can incur food security risks in the shift from subsistence food production to a cash crop or large-scale commodity. This shift has gender implications as well, as outgrower schemes often displace food crop production done by women in favor of cash crops that are typically controlled by men. Business should take special care to ensure that female farmers are consulted and receive opportunities and benefits within the outgrower scheme at the individual level, not the household level.

**Joint Ventures or Land-for-Equity.**

Co-ownership of a business venture so that land right holders and users have an equity stake in an investment based on the value of their land. A model could involve an agribusiness and a farmers' organization that share financial risks and benefits as well as decision making authority, and farmers receive fixed payments as opposed to payments based on revenue.

**Management Contracts**

A business can lease out land to smallholder farmers, often for a share of the profits as opposed to a fixed fee. Businesses employing this model should help facilitate access to markets. The arrangement will require flexibility, allowing farmers to make adjustments on a periodic or contingent basis to ensure adequate income. Business should also conduct periodic reviews to ensure that the arrangement is equitably benefitting female farmers or female household members, and other vulnerable or non-dominant groups.  

**Tenant Farming or Sharecropping.**

A large-scale agribusiness could use this type of management contract to employ individual farmers, splitting the crop (or its proceeds) according to a predetermined percentage. This arrangement can disadvantage smallholders, giving them limited use and decision-making rights to the land. Businesses will face the task of monitoring and incentivizing production, incurring oversight costs.

**Farmer-owned Business.**

Formally incorporated business structures in which farmers pool together their assets to start a business or gain access to finance, often in the form of farmer cooperatives.
Civil society can often be effective in enabling farmers to establish a cooperative, and this arrangement can especially benefit women, pooling resources and influence to counter exclusive social norms. Cocoa cooperatives are one example of this model.

**Linking Valuation and Compensation to Grievance Mechanisms**

Contract terms regarding valuation and compensation should be explicitly linked to a business’s operational-level grievance mechanism, and to local dispute resolution forums, both informal and customary.

It may be appropriate to make relocation assistance and compensation available through an escrow account before the business takes possession of the land and related assets, or held in a community trust that is overseen by a neutral third party.

Payment should be made in accordance with written terms of the investment contract. Payments should be made to individuals, as community leaders cannot always be trusted to distribute the compensation payment equitably to women and other vulnerable groups, and male household members may not always distribute compensation within their households.

Timing of payments is also important, and making payments partial and successive may avoid conflict; a one-time payment may result in frustrations if a community later experiences challenges related to the business’s operations.
Resources


4 USAID, supra note 1, at 43.
5 FAO, supra note 2 ¶18.2. at 31
6 USAID, supra note 1, at 4;
9 IFC, supra note 2
10 USAID, supra note 1, at 39.
11 FAO, supra note 5
12 USAID, supra note 1, at 43-44
13 FAO, Governing Land for Women and Men 36
15 USAID, supra note 1, at 37-39.
18 ADB, supra note 17
19 IFC, supra note 2, at 1-3;
20 RICS, supra note 16, at 16
21 RICS, supra note 16, at 16
24 FAO, supra note 3, ¶12.4 at 21
27 FAO, supra note 23, at 39
28 IFC, supra note 2, at ¶20.
29 IFC, supra note 2, at ¶22.
30 IFC, supra note 2, at ¶27.
35 Vermeulen and Cotula, *supra* note 33, at 53-54.