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# Introduction

**D**evelopment projects ultimately aim to improve people's well-being. Yet, such projects frequently result in direct negative impacts on some portion of the population. Perhaps, chief among those negatively impacted are those whose assets are taken by the authorities as part of the project. This typically occurs because the project requires land. As such, those people living on, working on, or otherwise benefiting from the land and its related resources become "losers." Frequently, such people become involuntarily displaced and have to resettle elsewhere.<sup>1</sup> For those affected, involuntary displacement means a drastic disruption fraught with risks of impoverishment.<sup>2</sup>

Any development project is essentially an endeavor to bring overall economic benefits to all people in the country, including those who have to be displaced by the project. These affected people (AP)—whether they are titled holders or informal dwellers of the property to be expropriated—are an integral part of beneficiaries, rather than sufferers, of such development projects. On the other hand, the success of a development project depends on voluntary cooperation and heartfelt

welcome by these APs. Any impoverishment to APs by such project will be inevitably translated into not only a failure to achieve the project's goal of increasing overall well-being for all citizens, but also an impediment to the smooth execution of the project.

Unfortunately, the history of development projects that result in displacement is characterized by the impoverishment of those displaced, resulting in "one of the most perverse pathologies of induced development."<sup>3</sup> This need not be so. The risks of impoverishment through displacement can be mitigated. The approaches to appropriately addressing the impoverishment risks of involuntary displacement are multifaceted, but all involve both (i) compensation for expropriated assets and (ii) rehabilitation measures to help improve or, at least, restore incomes and standards of living.

This paper addresses the compensation aspect of mitigating impoverishment risks resulting from involuntary displacement, and even more specifically, the appropriate valuation of lost assets. Proper valuation of and compensation for lost assets are crucially important counteractions to mitigate impoverishment risks for displaced persons and to achieve successful resettlement results.<sup>4</sup> Unfortunately, the history of development-caused forced displacement is littered with examples of undervaluation and under-compensation resulting in cost externalization on the shoulders of displaced persons and their impoverishment.

Several threshold points are crucial to understanding the context of the paper. First, compensation for lost assets, by itself, is not sufficient to address the losses faced by those involuntarily displaced. In addition to losing assets, involuntarily displaced people face substantial economic and social disruption and related

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<sup>1</sup> Experts estimate that roughly 10 million people around the globe are displaced each year due to dam construction, urban development, and transportation and infrastructure programs. (World Bank Environment Department. 1994. Resettlement and Development: The Bankwide Review of the Projects Involving Involuntary Resettlement 1986–1993. *Environment Working Papers* No. 32.). While development-induced displacement occurs throughout the world, two countries in particular—the People's Republic of China (PRC) and India—are responsible for a large portion of the displacements. The National Research Center for Resettlement in the PRC has calculated that over 45 million people were displaced by development projects in the country between 1950 and 2000. (Fuggle, R., et al. 2000. Experience with Dams in Water and Energy Resource Development in the People's Republic of China. Country review paper prepared for the World Commission on Dams, Cape Town, South Africa. Available: [www.dams.org/kbase/studies/cn/](http://www.dams.org/kbase/studies/cn/)). Estimates on displacement in India from dam projects alone range from 21 million–40 million. (Bartolome, L.J., et al. 2000. Displacement, Resettlement, Rehabilitation, Reparation, and Development. Paper prepared for the World Commission on Dams. November.).

<sup>2</sup> Cernea has developed a widely accepted model of impoverishment risks in displacement and of counteractions to match these basic risks. The model deconstructs the process into nine recurrent risks: (1) landlessness, (2) joblessness, (3) homelessness, (4) marginalization, (5) increased morbidity and mortality, (6) educational losses, (7) food insecurity, (8) loss of common property, and (9) social disarticulation. (Cernea, M.M. 2000. Risks, Safeguards, and Reconstruction: a model for population displacement and resettlement. In *Risks and Reconstruction Experience of Resettlers and Refugees*, edited by M.M. Cernea and C. McDowell. World Bank.)

<sup>3</sup> Cernea, Michael M. 2003. For a new economics of resettlement: a sociological critique of the compensation principle. *International Social Science Journal*. 175(37). March.

<sup>4</sup> Of the nine recurrent risks identified by Cernea, proper valuation of and compensation for lost assets most directly addresses the risks of landlessness, homelessness, marginalization, loss of common property, and (often) joblessness.

costs and losses that rehabilitation and generalized safety net measures must address. Those rehabilitation and safety net measures are not within the scope of this paper.

Second, the legal, policy, and administrative frameworks concerning expropriation and compensation for lost assets (especially in developing country settings) are not typically designed to address situations that result in involuntary displacement. Rather, these laws and policies are typically designed for circumstances where the expropriation of assets does not result in involuntary displacement and resettlement. Such laws and policies are inherently insufficient for expropriatory interventions that cause displacement because they do not recognize and address the multiple other losses and impoverishment risks inherent in resettlement.

Third, the compensation portion of the broader entitlement package typically falls short of fully compensating for the lost asset(s) due to a variety of factors. Valuation is one of those reasons, and the one on which this paper will focus, but it will also touch upon non-valuation factors that lead to under-compensation for lost assets.

This paper examines the issue of compensation for and valuation of lost assets in the context of development-caused forced displacement. It is prepared for the Asian Development Bank (ADB) as part of a regional technical assistance on capacity building for resettlement risk management (RETA 6091) aimed at developing and disseminating knowledge products that address the management of poverty risk due to involuntary resettlement.

The paper consists of six major sections. The first section discusses approaches to valuation in the ADB policy and broader international context and how such approaches address (or not) impoverishment risks in resettlement. The second through the fourth sections explore the laws and practices of expropriation in three Asian countries (Cambodia, People’s Republic of China [PRC], and India) covered under the regional technical assistance: RETA 6091, and provide related country-specific recommendations. The fifth section provides a series of general recommendations for “best practices” in expropriation laws and policies. The sixth and final section is a brief conclusion of the paper.