

# VI. Research on Valuation Methods for Land Acquisition Compensation

**Introduction.** This chapter is about the investigation and analysis of case studies in typical cities and stakeholders of land acquisition compensation. Moreover, it includes research on problems and possible solutions for compensation, considering the factors in valuation, such as land market, demand, locations, etc., so as to design rational, feasible, and operational valuation methods in line with the existing land price system.

Empirical research was carried out in four Chinese cities: Nanjing, Ningbo, Wuhan, and Shijiazhuang. Nanjing and Ningbo, situated in the eastern part of the PRC, are economically developed, rapidly urbanized and industrialized, and with a strong need for land; Wuhan is in Central PRC, with moderate economic growth rate, but a strong demand for land; and Shijiazhuang lies in North PRC, with slower economic growth rate and a relatively moderate need for land.

## A. Case Study on Land Acquisition

Representative regions were selected in Nanjing, Ningbo, Wuhan, and Shijiazhuang for analysis. They included Yuhuatai district in Nanjing; Haishu, Jiangdong, Jiangbei, Yinzhou, Beilun, and Zhenhai in Ningbo; Jiangxia district and Liufang district in Wuhan; and Yuanshi county and Zhengding county in Shijiazhuang. One hundred three case studies were conducted from 1999–2004, which included land-use projects involving business, housing, industry, infrastructure, school, and government. Each city is different in the basic composition and elements of land acquisition compensation. See Table 3 for details.

### 1. Features of Compensation

The results of statistical analysis of the research data showed that compensation for land acquisition in

**Table 3: Comparison of Basic Composition of Land Acquisition Compensation (CNY10,000/hectare)**

Research City Research Item	Nanjing	Ningbo	Wuhan	Shijiazhuang
Land compensation	3.00–42.00	18.00–42.00	2.00–6.00	7.70–50.00
Resettlement subsidy	1.40–4.00	9.50–63.00	0.30	1.00–6.00
Regional area price (including land compensation and resettlement subsidy)	None	27.00–105.00	None	None
Subsidy for young crops	0.80–1.50	0.75–11.60	0.40–0.75	0.50–1.50
Subsidy for attachments	Determined by actual conditions	Determined by actual conditions	Determined by actual conditions	Determined by actual conditions
Average land compensation of the cases studies	106.47	137.19	23.44	53.08

CNY = yuan.

Source: CLSPI. 2005. Findings of the Case Studies on Land Acquisition Compensation in Four Research Cities.

the research locations had in common the following features:

**a. Wide gap between compensation for different purposes**

There was a wide gap between land acquisition compensation for different land acquisition purposes, and relatively lower land acquisition compensation for infrastructure. The compensation for land intended for infrastructure projects was relatively lower while the compensation paid for land to be used for business and commercial housing was relatively higher. For example, of the 51 land acquisition cases in Shijiazhuang, 16 projects were infrastructure construction projects, accounting for 31.4% of the total number of projects, with an average compensation of CNY124,300/ha. However, compensation for residence projects was up to CNY645,100/ha, more than 5 times as much as that for infrastructure construction projects.

The compensation for land for infrastructure construction is lower than that for commercial housing or business use because the Government invests in infrastructure and often lowers the compensation in order to save more money for large construction projects. Also, the compensation standards are often lower than the standards in the multiplication of output method. For example, the compensation and resettlement subsidies for land acquisition for highway construction range from CNY75,000 to CNY120,000 per ha, 3–5 times the average annual output value, which is much lower than the national compensation standard.

**b. Related taxes were largely similar**

Land acquisition-related taxes in each city were largely similar but with minor differences. These included the land acquisition administration fees, unforeseen fees, arable land reclamation fees, new construction charges, water conservancy funds, and arable land occupancy tax, etc. However, these taxes and fees accounted for 35%—some as high as 50%—of the total land acquisition cost.

**c. Wide gap between compensation and land transfer price**

Research found a wide gap between land acquisition compensation and land transfer price. In

the research cases for land acquisition, compensation for land was generally less than 20% of the ultimate land transfer price,<sup>16</sup> with several cases even less than 10% of the land transfer price. Obviously, farmers—the original landowners—had shared no added land benefit brought about by the change in the purpose of land use. The landowners' sharing right over land development was not reflected either. This is quite unfair, resulting in the farmers' mistrust of the land acquisition process and adversely affecting the farmers' future living standards.

**d. Different allocations among beneficiaries**

The research shows that the land compensation was allocated differently between the village collective and farmers. The compensation payment method varies widely from being paid fully to the farmers, or little compensation paid to the farmers. Cases where most of the compensation was paid to the land-loss farmers accounted for 50%–80% of the total land acquisition compensation. Although this indicates that most allocation was reasonable, the land-loss farmer's interest was undermined and the administration was not regularized.

**2. Questionnaire Analysis**

China Land Surveying and Planning Institute (CLSPI) conducted polls among farmers, government officials, and land users to assess the recognition of the compensation policies and the requirement for compensation reforms. The survey was conducted in Nanjing, Ningbo, Wuhan, and Shijiazhuang. There were 284 effective questionnaires, including 138 from farmers, 78 from government administrators, and 68 from land users. Among the farmer respondents, land-loss farmers accounted for 61.6% of the total; the government administrators came from the planning department, land management department, and other administrative departments, among which 91% are from the land management department. Conclusions according to the responses are the following:

<sup>16</sup> The land compensation cost is the amount the State pays to the rural collective to acquire the farmland for conversion to construction uses. The land transfer price is the amount the Government receives from land developers to acquire the land-use rights.

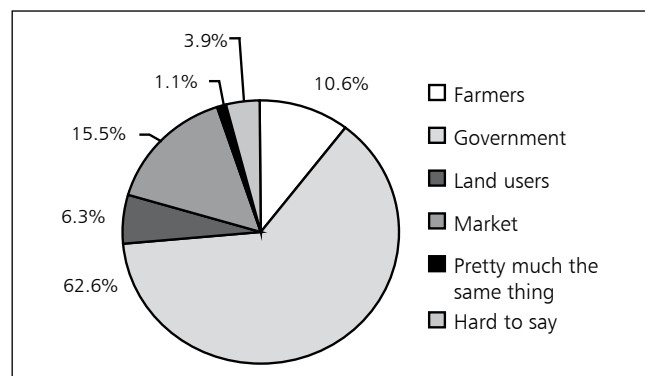
**a. Views on current land acquisition compensation**

- (i) The land acquisition standard and valuation methods were not sufficiently open or transparent. The interested parties in land acquisition do not have equal access to information about land acquisition compensation. The questionnaire asked whether the farmers, government administrators, or land users knew about the land acquisition compensation. About 75% of the respondents answered that they knew a little about land acquisition compensation. This indicates that, in terms of information about the market for land acquisition compensation, farmers, government administrators, and land users were unequal in terms of the knowledge that they had about land acquisition and compensation. Farmers accounted for 87.5% of the total number of respondents knowing nothing, showing that the Government made insufficient efforts to disclose the land acquisition standard, land acquisition compensation market, and other essential information that would have enabled stakeholders to make informed decisions.
- (ii) The Government was overly influential in setting rates and providing information about land acquisition compensation. Land-loss farmers had no decision-making right over the compensation value. Research on the influence on land acquisition compensation (Figure 2) showed that 62.6% of respondents consider the Government as having the most influence on land acquisition compensation. Of those respondents, farmers, government administrators, and land users accounted for 60.9%, 74.4%, and 52.9%, respectively. Most farmers indicated that they had no decision-making and participating rights in the course of land acquisition. The Government decided everything.
- (iii) Compensation is too low to make up for the losses incurred by farmers who have lost land and other assets in the process of land acquisition. Most of the respondents—whether farmers, government administrators, or land users—consider the current land acquisition compensation level as low. Farmers who consider the current land acquisition

compensation level as very low or relatively low accounted for 73.9% of the total number of farmer respondents. They are not satisfied with the low compensation levels.

- (iv) Land acquisition compensation was intended to meet subsistence needs only instead of compensation for the property. Nearly 50% of the farmers consider the current land acquisition compensation as compensation only for their livelihood. When considering land acquisition compensation, most farmers only think of their livelihood after land acquisition, but do not believe that land is a kind of property. This corroborates the fact that the land is reported as owned by the collective (State). Accordingly, government administrators and land users who consider land acquisition compensation as a compensation for the land accounted for 19.2% and 22.0%, respectively, of the total number of respondents in their category.
- (v) The current compensation level causes a decline in the farmer's living standard. In terms of the influence of land acquisition compensation upon the existence of affected people, 56.3% of the respondents believe that land acquisition causes a slight decline in the farmers' living standard. Research results showed that among the respondents who consider that land acquisition will improve the livelihood status, land users accounted for 57.9%. Among the respondents who consider

**Figure 2: Basic Information on the Influence on Land Acquisition Compensation**



% = percent.

Source: CLSPI. 2005. Findings of the Survey on Land Acquisition Compensation conducted from May to June 2005 in Four Research Cities.

land acquisition has largely degraded their livelihoods, farmers accounted for 69%. Thus, farmers and land users hold opposite views about the effect of land acquisition on the affected people's existence.

**b. Opinions on the future form of land acquisition compensation**

- (i) One view is that compensation should focus on land compensation and resettlement. In terms of the demand for what is to be compensated for the land acquisition, 34.9% of the respondents consider the compensation for lost land property as the most single important entity; 41.2% of the respondents consider the resettlement of affected people as the most important; and 21.8% of the respondents consider the compensation for productive and economic losses as most important. The remaining 2.1% of the respondents consider the compensation for young crops and attachments as the most important. Most of the respondents consider land acquisition compensation as personal resettlement compensation and compensation for the loss of land rights.
- (ii) It is also argued that compensation should be based on the land area and population. As for the basis upon which to calculate compensation in land acquisition, most farmers, land users, and government administrators hold the same viewpoint; 65.1% of the respondents can accept such calculation method, believing that the land area and population should be considered comprehensively to calculate compensation.
- (iii) A further view is that the Government should resettle the land-loss farmers properly. Respondents, including government administrators, think that if land acquisition compensation is not enough to ensure the subsistence and development of APs, the Government should provide money for resettlement compensation. About 60% of the respondents believed that if the improved land acquisition compensation is still inadequate to ensure the subsistence and development of APs, resettlement compensation is also needed.

**c. Opinions on valuation method for land acquisition compensation**

- (i) Land demand and actual land location should be primary considerations when setting land acquisition compensation rates. Most of the respondents still consider the value of land acquisition compensation as dependent upon the market demand for land, and that the value will be higher when the demand is greater. This view was held by 60.6% of the respondents, while 15.1% of the respondents believed that the closer the location of land is to a city, the higher the compensation value would be; 10.2% of the respondents consider the type of land as the most important factor influencing the value of land acquisition compensation; 8.8% of the respondents thought that places with higher per-capita income will pay higher compensation. The remaining 5.3% believed that adding social insurance to the compensation would greatly enhance the compensation.
- (ii) The amount of land acquisition compensation should be determined mainly through market negotiation. As to how to estimate the land acquisition compensation, 75.6% of government administrators believed it would be advisable for the Government to determine the minimum protection price which could be higher through negotiation; 69.1% of the land users/developers believed the Government should announce a fixed compensation price in advance without further negotiation or fix a guiding price that will float; 58.7% of the farmers are convinced that the land acquisition compensation should be completely negotiated between the land acquisition compensation parties. The different respondents obviously consider their own interest and prefer to obtain the land acquisition compensation that is in their own interest.
- (iii) The market comparison method should primarily be used for the valuation of land acquisition compensation. As for the valuation method for land acquisition compensation, 18.7% of the respondents prefer the output value multiple method; 42.3% prefer the market comparison method; 29.9% choose the method of anticipated price deduction

for converted use; while 7.0% prefer other methods, such as land compensation plus social security. The remaining 2.1% (farmers) did not know which method to use; any method was thought acceptable as long as they received satisfactory compensation. As the market negotiation case comparison method is favored/understood by the farmers, and easily enables the affected people to have a rough scope of compensation value before the occurrence of land acquisition compensation, 52.2% of the farmers believed this method should be used.

- (iv) Land acquisition compensation should be paid in a lump sum. As for the manner of payment of land acquisition compensation, 79% of the farmers prefer a lump-sum payment because many of them have little information about the available social security systems and have doubts about the retirement, medical, and other insurances. The farmers would rather receive money than insurance. They worry about any arrears if the compensation is paid by installments; thus, they feel it is better to receive lump-sum compensation. About 50% of the land users prefer compensation to be paid by installments mainly because this can ease the financial pressure caused by lump-sum compensation payment. While, 67.9% of the government administrators prefer compensation that is paid in a single lump sum, mainly because this is easy to operate and can release the burden of follow-up land acquisition work.

## B. Analysis of Valuation Methods for Land Acquisition Compensation

Problems to be solved in land acquisition compensation

- (i) Low compensation levels are the main cause of social conflicts over land acquisition in the PRC and are a significant problem that needs to be solved in any land acquisition reform. Analyses of the research results show that the living standards of affected farmers have been lowered after land acquisition. If this problem cannot be solved through reform of the land acquisition system, the reform will be regarded as ineffective. Therefore,

maintaining the farmers' living standards and ensuring their long-term livelihood must be regarded as the most basic principle in evaluating the appropriateness of the land acquisition compensation level.

- (ii) Interest sharing is unequal. There will always be the conversion of purpose of land and improvement of land setting in the process of land acquisition, but now the farmers share no appropriate added land value in the compensation. There is a wide gap between the land acquisition compensation and future land price. Farmers generally think this situation is unfair, and would not be inclined to accept this. Thus, the gap between land acquisition compensation and future land price should be narrowed to improve compensation to farmers.
- (iii) There is no monitoring of compensation to ensure awards are fair. Many places have compensation negotiated for each single case. In fact, the only uniform standard is the taxes and fees incurred in land acquisition. There is no uniform baseline for land acquisition compensation, which may always be abnormally high or abnormally low. No minimum protection is provided for the farmers' compensation. To solve this problem, it is necessary to make the land acquisition compensation level more systematic, normalize and legalize the land acquisition compensation level, reveal it to the public, and establish a land acquisition compensation monitoring system.
- (iv) No market guidance and training are available to the farmers. The Government has been the main authority in land acquisition, and the dominant player in land acquisition policy and in the provision of information. By contrast, farmers are in an inferior position. As a result, the Government and farmers have no equal negotiating position in the process of land acquisition. In the course of compensation decision making, introducing a negotiation mechanism to make the compensation standard more market-based is necessary.
- (v) Undiversified compensation valuation method. Other than the policy restriction, low land acquisition compensation has also resulted from undiversified valuation methods. For a long time, the output value multiple method

has been the only one in use, which makes verification of any degree of accuracy and correctness difficult. Therefore, other methods, especially those using market information, must be included.

- (vi) Unclear compensation issues. Currently, farmers have not fully accepted the basis for compensation for land. Farmers think highly of compensation through resettlement and compensation for crops and other attachments on land, but are prone to reject the basis on which compensation for land is calculated because it is very low. From a long-run point of view, land acquisition compensation should be shifted to compensation for property rights. Another approach could be adopted for relevant personal resettlement and social security. The compensation reform program should help to reach this aim.

### C. Principles to be Followed in Setting Compensation for Land Acquisition

Five principles were identified and are discussed below:

- (i) Giving priority to compensation for land and at the same time considering personal resettlement to ensure that the farmers' living standards do not degrade and their long-term livelihood is secured. The formulation of the valuation method for compensation for acquisitioned land must give enough consideration, not only to compensation based on land as a means of production but also living guarantee for farmers, ensuring the farmers' legal rights and interests, and ensuring long-term livelihood security for the farmers without any decrease in the current living standard.
- (ii) Giving priority to proceeds from farmland, properly considering the added value of land for its converted purpose, and so enabling farmers in suburban areas to share the fruits of urban development. Though the added value of land is mostly generated from infrastructure funded by the State and an improved investment environment, nonetheless, as collective owners of land, farmers should have the right to share the added value of land after its purpose is converted. The State should participate in the

distribution of added value of land through taxation.

- (iii) Giving priority to market demand for land, properly considering the location of land, and enabling the farmers to share the benefits brought by urban development. In the PRC, where a social market economy system has been established, land is an important basic production element. Therefore, market principles should be progressively reflected in farmland acquisition so as to enable the farmers to share the benefits brought by social development and to ensure their land rights and interests.
- (iv) Implementing a compensation standard linked to the plot area within a narrow range and establishing an open system of information on compensation. In determining land acquisition compensation, the compensation standard should be set more precisely and explicitly through relevant methods. On the one hand, the compensation standard must be transparent. On the other hand, the compensation standard can be assessed more efficiently, and unnecessary disputes and losses can be avoided.
- (v) Ensure continuity with previous compensation levels, while developing and implementing new valuation methods. Pay attention to unify the effort on reform, the speed of development, and the acceptance capacity of society; while increasing the land acquisition compensation standard, care should be taken to link up with the former compensation system to ensure a smooth transition.

### D. Basic Valuation Methods on Compensation for Land Acquisition

#### 1. Output Value Multiple Method

Land acquisition compensation is calculated on the basis of a comprehensive assessment of the annual output value of land. The value of land acquisition compensation equals compensation for acquisitioned land and subsidies for resettlement which are several times the comprehensive<sup>17</sup> annual output value of land ("output value multiple method").

<sup>17</sup> This means uniform rates covering large areas (e.g., prefecture or county) for each class of land.

- (i) The output value multiple method assumes that compensation for acquisitioned land is based on the original purpose of land, as stated by the current law. The strong point of such a method is that it links up with the current laws and regulations, as well as historical compensation levels. The key aspects of the method are the annual output value of land and the compensation multiple. Of these, the comprehensive annual output value of land equals the summation of additional incomes and the original output value of crops, which improves the annual output value standard and, thus, improves the compensation standard. Some people think the compensation multiple involves many subjective factors. However, since it has been used for a long time, actually, it has become an empirical parameter. It can be highly practical if all the factors considered are reasonable and the whole decision-making process is in an open and standardized manner.
- (ii) The output value multiple method is applicable to areas that are suitable for large-scale production of agricultural crops within municipalities and counties. Several points should be noted in using this method. First, the annual output value should be the comprehensive annual output value of land, which can be fixed through a general annual output value standard or by detailed field survey. Second, the land compensation multiple and resettlement subsidy multiple should be fixed in accordance with relevant provisions in the LAL, and localeconomic development level and a basic life guarantee level should also be taken into account.

## 2. Case Correction Method

Land acquisition compensation is calculated on the basis of the average market cost of land acquisition. Here, the land compensation valuation is compared with land acquisition cases and corrected before it is confirmed (“case correction method”).

- (i) The case correction method aims to introduce the market comparison system into the valuation of compensation. The strong point of this method is that market information can be

fully applied. And the compensation level can be raised gradually through correction. This method is applicable now and in the future. Such a method helps to give farmers guidance and familiarity with market principles, and helps to establish a land acquisition compensation market mechanism.

- (ii) The case correction method is only suited to areas where the land acquisition compensation is highly market oriented. Several points should be noted in using this method. First, land acquisition cases should be selected from the land acquisition projects from previous years. Second, the land acquisition cases should be comparable. Third, regional, individual, and time factors should be taken into account in the comparison of land acquisition cases.

## 3. Deduction from Anticipated Price of Land for Conversion of Use Method

Land acquisition compensation is calculated on the basis of the anticipated price of land for conversion of use. This equals the anticipated price of land for conversion of use after deducting infrastructure investment costs (and profit) and proceeds from the State's ownership (“deduction from anticipated price of land for conversion of use method”).

- (i) The deduction from anticipated price of land for conversion of use method aims to introduce the idea of distributing proceeds from land development rights into land acquisition compensation. Though there is no time to set forth the concept of land development right, the gradual introduction of the idea in compensation valuations will help narrow the gap between the compensation valuation and the future land price after conversion.
- (ii) Such a method is only applicable to areas close to cities. Several points should be noted in using this method. First, the anticipated price of land for conversion of use is derived from the weighted mean of baseline prices of land for the use of commercial, residential, and industrial purposes in areas close to cities. Second, infrastructure investment is calculated in accordance with local conditions for baseline land prices, and other relevant

rates. Third, proceeds from the State's ownership may be calculated according to local levels of land transfer funds and land price, which is currently decided by the local government.

#### 4. Correction of Farm Land Price Method

Land acquisition compensation is calculated on the basis of farmland price by considering the per-capita quantity of arable land and minimum living guarantee level for urban residents upon correction (the "correction of farm land price method").

- (i) The correction of farmland price method is based on the principle that land acquisition compensation should highlight compensation for land. The feature of such a method is that it treats the per-capita quantity of arable land and minimum living guarantee levels for urban residents as secondary considerations, treating land compensation and social security-based compensation as separate issues. When land compensation has been raised to higher levels, social security-based compensation becomes less and less.
- (ii) The correction of farmland price method is applicable for areas where farmland operation is highly market-oriented. Several points should be noted in using this method. First, the farmland price is a price under the current market conditions and evaluated

by using the capitalization of earnings method based on the annual output value of farmland. Second, correction factors mainly include the per-capita quantity of arable land, location of land, the land supply and demand relationship, local economic development level, and minimum living guarantee level for urban residents.

#### E. Comparison of Impacts of the Valuation Methods

In accordance with relevant research data, the valuation methods were experimented in the research areas. The results are shown in Table 4.

##### 1. Analysis on Comparison of Value Levels under Different Valuation Methods

*Discussion:* Data show that the land compensation value resulting from the deduction from price for conversion of use method is higher than that from the output value multiple method and market comparison method. Comparison of values resulting from the different valuation methods shows that some areas (such as Wuhan) have lower valuations using the market comparison method than the result calculated with the output value multiple method. And other areas (such as Nanjing and Ningbo) have lower valuation results calculated with output value multiple method than the valuation result calculated with the market comparison method.

**Table 4: Comparison of Different Methods Used in Cities to Calculate the Average Value of Land Compensation (CNY10,000/hectare)**

Valuation Method	Research City			
	Nanjing	Ningbo	Wuhan	Shijiazhuang
Output value Multiple method	50.0	65.6	28.0	–
Case correction method	74.5	61.0	15.9	23.2
Deduction from price for conversion of use method	219.9	155.9	373.8	60.0–105.0
Correction of farmland price method	–	–	–	60.0

– = 0.0, CNY = yuan.

Source: CLSPI. 2005. Findings of the Case Studies on Land Acquisition Compensation in Four Research Cities.

## 2. Comparison of Compensation under Different Valuation Methods

### (i) Definitions

*Output value multiple method*—land acquisition compensation is calculated on the basis of a comprehensive assessment of the annual output value of land. The value of land acquisition compensation equals compensation for acquisitioned land and subsidies for resettlement which are several times the comprehensive annual output value of land.

*Case correction method*—land acquisition compensation is calculated on the basis of the average market cost of land acquisition. Here, the land compensation valuation is compared with land acquisition cases and corrected before it is confirmed.

*Deduction from anticipated price of land for conversion of use method*—land acquisition compensation is calculated on the basis of the anticipated price of land for conversion of use. This equals the anticipated price of land for conversion of use after deducting infrastructure investment costs (and profit) and proceeds from the State's ownership. Therefore, the land compensation value from this method is much higher than that from the foregoing two methods.

### (ii) Discussion

Compensation based on the output value multiple method is a multiple of the comprehensive average annual output value whereas that from the case comparison method is the average value of land acquisition cases within the valuation scope, the substantial composition of which is basically identical, i.e. composed of the multiples of land compensation and resettlement subsidies. What is different is that the maximum multiple is adopted in the output value multiple method, that is 10 times and 6 times, and the land acquisition compensation standard in relevant provisions enacted in April 2005 is adopted. But in the case comparison method, besides the compensation calculated on the basis of output value multiples, the compensation also includes the part bargained by the collectives and farmers which constitutes the actual average compensation. Therefore, the compensation calculated with the case comparison method may be greater. But as the land compensation standard newly prescribed is much higher than the previous compensation standard, the final result from the case comparison method slightly differs from that derived using the output value multiple method. The result

form the deduction from anticipated price of land for conversion of use method is, in fact, the price of right to use of land for agriculture after its purpose is converted for construction without any development and investment. It includes the added value of location and added value of purpose. The result will surely be greater than the results from the output value multiple method and the case comparison method (Table 5).

## 3. Analysis of Rationality

- (i) *Discussion:* The output value multiple method is slightly improved compared to the former method of evaluating compensation standards according to the output value for original purpose. This is because the former method uses the comprehensive annual output value as the base of compensation by considering factors, such as location of land and local economic development level. Thus, compensation is increased accordingly. However, there should be a uniform method to calculate the comprehensive annual output value and balance it within a certain area, but at the same time taking into account regional differences and adequately compensating for poorer areas.
- (ii) The compensation value from the case comparison method is a result of comparison of land acquisition cases within an area, with the market factor considered to some extent. However, this method needs a lot of land acquisition cases. But the compensation standard in most existing land acquisition cases is calculated using the method of output value multiple of original purpose. Though the actual compensation is a little higher than the standard through bargaining in the course of land acquisition, such increase is limited. Some nonmarket factors must be considered to have a correction.
- (iii) As for the deduction from anticipated price of land for conversion of use method, the land acquisition compensation is calculated on the basis of market price of land to be used for construction. Using this method, land acquisition compensation will be increased sharply. And the price difference between land for agriculture and land for nonagricultural use is removed. Farmers' rights over land are realized and, therefore, it will be acceptable to

**Table 5: Comparison of Different Valuation Methods**

Content of Comparison	Output Value Multiple Method	Case Correction Method	Deduction from Price for Conversion of Use Method
Value	Low	Low	High
Composition of Value	Land compensation plus resettlement subsidies	Total compensation deducting the compensation for attachments and young crops	The anticipated price of comprehensive land for construction deducting the infrastructure investment, proceeds from the State's ownership, and other relevant expenses (such as interest on investment, investment profits, relevant taxes)
Connotation of Value	A multiple of the comprehensive average annual output value	The average value of land acquisition cases within the valuation scope	The price of right to the use of land for agriculture after its purpose is converted for construction without any development and investment

– = 0.0, CNY = yuan.

Source: CLSPI. 2005. Findings of the Case Studies on Land Acquisition Compensation in Four Research Cities.

farmers. This method takes into consideration the potential utilization value of land and possible land transactions, as well as the price of land to be used for urban construction. It complies with the principle of integrated urban and rural land prices. However, in the course of application, this method cannot adequately reflect the difference of location. It is difficult to determine the anticipated price for conversion of use. For example, the compensation value may be a little higher when using this method in the suburbs.

- (iv) The above analysis shows that each of these valuation methods has its own advantages and disadvantages, along with different applicable ranges and conditions. These methods should be selected according to actual conditions. In the valuation of land acquisition compensation, different methods may be used separately and compared against each other.

## F. Suggestions for the Reform of Compensation Standards for Acquired Land

**Clarify what is intended by “compensation”.** Presently, social factors are also considered in land acquisition compensation in addition to land value. What needs to be made clear is that land property should provide the basis for compensation, with other subsidies and allowances introduced as separate considerations in land acquisition. This will assist the

transition to paying land acquisition compensation solely for land property rights in the future. Subsidies and allowances for persons should be paid separately through an established social security system or cash equivalence.

**Define location of land.** According to the existing “Regulation on Grading of Farmland” and the principles on “Guidance for Improving Land Acquisition and Settlement” (2004, 238 of MLR), the definition of land in municipalities (counties) that have made progress in grading of farmland will be reviewed and readjusted. The correction factors—mainly including the per-capita area of arable land, location of land, land supply and demand relationship, local economic development level, and minimum living guarantee level for urban residents—will be taken into account in this process. Compensation standards in the defined locations will also be the standards of implementation; the price of land in the same defined location will be no different. Under common circumstances the price will be the same.

**Multiple valuation methods can be compared against each other.** At present, there is only one valuation method for land acquisition compensation. In order to ensure the valuation results are objective, more than two kinds of valuation methods should be used, and market conditions should be considered in calculating the land acquisition compensation. An appropriate institutional mechanism should be considered for this.

**Set specific compensation standards for different areas.** In the future, uniform land acquisition

compensation standards should be established for different areas. Such compensation standards for different areas should be set as the executive standards in the course of implementation. One plot should be provided with the same price, which will not be revised without justification.

**Open hearings to make the compensation standard more legally/formally transparent.** Hearings should be held in accordance with the law for the land acquisition compensation standard in line with the requirements in the Regulations on Hearing for Land Resource. Opinions and the advice of relevant departments, rural collective economic organizations, farmers, and various social parties should be solicited extensively and this should be mandatory.

**Adjustment of standards and setting of benchmark dates.** A time frame should be set for the land acquisition compensation standard, which will be duly adjusted and updated according to market changes.

## **G. The Long-Term Objective for Land Acquisition Compensation**

**Current status of compensation for land acquisition.** The compensation for land acquisition currently does not take into account fair market value for land. To a large extent, it is still “policy compensation”, that

is, compensation only takes into account the need to ensure the livelihood of farmers. The low price of farmland in general and the constraints on farmland transfer bring about a relatively low compensation price. For the sake of maintaining the previous living standards, most of the compensation practice in place now is policy compensation; it is based on certain specific guidelines.

**Long-term objective of compensation for land acquisition.** With the improvement of valuation methods for land acquisition compensation, the establishment of a sound land compensation system and the increasing awareness of farmers' interests, policy compensation is bound to be transformed into land property compensation, a situation in which compensation can be decided by the market.<sup>18</sup>

<sup>18</sup> Future compensation standards for land acquisition referring to the compensation price which should be decided by land market needs some premises, and the most important premise is the gradual opening up of rural land market especially the usufruct market of rural collective land for construction purposes. At present, there are no rural land market transactions, thus principles in the valuation of compensation standards for land acquisition are made to ensure that the farmers' living standards do not degrade and that their long-term livelihoods are secured.