

Module VIII

Compensation, Development Investments, and Advanced Practice in Sharing Project Benefits

Introductory Note

Compensation for lost assets and productive time is currently the main—most often, the only—type of financing employed for counter-ing impoverishment risks and for restoring/improving the economic foundations and capacities of displaced and de-capitalized people. Therefore, the many problems met in practice during the calculation, delivery, and productive reinvestment of compensation money make it necessary to examine in depth several issues: the anatomy of the compensatory measures; whether or not the process of paying compensation is properly managed; and the effects of current approaches to compensation. The repeated failures in restoring resettlers' incomes even after compensation payments make such re-examination urgent, and potentially, able to lead to significant improvements.

Compensation is regarded in many resettlement policies as a sufficient means for resettlers' re-capitalization. The practical questions to address in class discussion may be

- Is compensation as means commensurate with the goals of the resettlement policy?
- Are there distortions in compensation calculation and delivery reported from the practice of resettlement that undercut compensation's effectiveness?
- Or are there structural limits in compensation that prevent achieving the goals of resettlement?

A rather new question can also be raised for open discussion in the class: if (by some miracle of perfect calculation and ideal delivery) the compensation would fully reflect the replacement value of the assets lost, would “perfect” compensation achieve the higher goal of improving livelihoods above pre-displacement levels?

Recent research, of which the trainer must make the audience well aware, has pointed out that there are structural limits not only in the ways compensations are calculated but also in the ability of full (say, at the limit, perfect) compensation to supply the capital required not just for restoring pre-project livelihoods, but also for doing much more—improving them.

Strong arguments are being made in favor of supplementing the compensation paid by development projects with increments of investments, targeted to support development programs for the resettlers. These additional efforts and investments would, if successful, enable them to surpass their pre-project income levels and livelihoods.

International policy guidelines are increasingly recommending that support to resettlers should aim precisely at the higher goal level of improving livelihoods, rather than the lower level of simply restoring them. Indeed, the trainer can easily make clear that, if the prior level was below the poverty line, it would not be a great achievement to restore those people to their pre-project condition of poverty, but rather that development benefits need to be extended to the displaced people as well.

Finally, in the last part of the lecture devoted to benefit-sharing, the international policies of ADB, the World Bank, and other organizations explicitly recommend benefit-sharing as most relevant to overcoming these dilemmas. The governments of a few developing countries—but by far not yet of all—have adopted and continue to enact legal measures to enable resettlers to

receive a part of the benefit-streams resulting directly from the projects that have displaced them. Benefit-sharing is increasingly regarded as the best practice in this respect, capable to provide financial support for “resettlement with development.”

Several effective options and mechanisms for benefit-sharing for resettlers’ development have emerged in recent international practice. The lecture contains detailed PowerPoint slides, describing the following main patterns:

- (i) Direct revenue transfers;
- (ii) Establishment of development funds;
- (iii) Equity sharing in the new project outputs (e.g., hydropower plants) in various forms of co-ownership;
- (iv) Taxes paid to regional and local government earmarked for local area development;
- (v) Regular allocation (enacted by law) of a fraction of power benefits for local area development (or directly to resettlers’ groups, enterprises, etc.); and
- (vi) Preferential electricity rates or reduced water-related fees.

Resettlers would understand better and support more the need for relocation if they get the possibility to participate in the negotiations for benefit-sharing and in managing redistributed benefits.

Innovative best practices in compensation from Japan and from the People's Republic of China (PRC) are described in this module. Japan has replaced expropriations in several dams with land lease, while the PRC has serially, and steeply, increased state-mandated compensation rates per unit of land. The lecture provides examples and references to important legislation newly adopted for Brazil's hydropower sector in the last decade, and also information from the PRC, demonstrating that such approaches are not only desirable but also feasible.

The material contained in lecture VIII is not only most important, but also rich in ideas and examples. Lecturers and "trainers of 'trainers'" may wish to consider devoting two sessions instead of one to this large set of PowerPoint slides.

Recapitulation

This module concludes the study of the impoverishment risks and reconstruction model. At this point, trainers are advised to revisit and briefly discuss the main themes of the entire training course.

If one general, key idea should be retained from the full course, this is the idea that the intrinsic impoverishment risks of resettlement must be overcome by mobilizing the entire arsenal of institutional, economic, financial, and legal means necessary, including the mobilization and empowerment of the energies of the resettlers themselves.

Overall, this can only be achieved if resettlement is firmly oriented, from the outset, toward achieving "resettlement with development."

Lecture VIII

Financing Resettlement with Development

*Compensation Levels, Investments, and
Benefit-Sharing for Population Resettlement*

Lecture VIII: Main Themes

- Compensation as instrument for resettlers' re-capitalization: Does it live up to its function?
- What are the typical distortions in compensation procedures?
- Limits of compensation as resource for improving livelihoods: compensation is only restitution, not investment
- Distinction between “compensation and investment.” Usually, no investment financing is budgeted for resettlement components, only compensation.
- Financial resources are needed for reaching the level of “Resettlement with Development.”
- Benefit-sharing as financial source for sound resettlement

Compensation: Is it able to Counter Impoverishment Risks?

- **The response** to this key question has several elements:
 1. Compensation is necessary and indispensable, must be paid for all losses incurred by those displaced.
 2. Compensation even at the “replacement cost level” is vulnerable to several dysfunctionalities, which diminish its ability to counter the impoverishment risks:
 - ⇒ Errors in valuation, discussed earlier
 - ⇒ Dysfunctions in the delivery of compensation payments [well known: corruption, siphoning off, delays, etc.]
 - ⇒ Dysfunctions resulting from resettlers’ conditions [e.g., diversion of compensation money, to repaying old indebtedness, customary obligations; many are inexperienced with cash; etc.]
 - ⇒ Unanticipated changes in market prices
- **The result:** compensation payments tend to regularly NOT return to resettlers the real and full values of their assets. They end up worse off.
- **Conclusion:** Governments and project managers must reform and improve the compensation system; alone it cannot prevent impoverishment.

The Empirical Evidence on Compensation

- Research has generated overwhelming evidence proving that DFDR’s key tool—compensation—is incapable to re-capitalize resettlers
- Many tangible assets remain uncounted, not valued, and not compensated.
- Land and assets are frequently undervalued and under-compensated.
- Intangible losses can not be valued properly and “grants” (e.g., solatium grants in India) are a weak and partial remedy.
- Displacements extract wealth, while reconstruction demands investments. Compensation does not provide even full restitution. Conclusion: solely compensation can not achieve reconstruction.
- Let us examine how resettlers perceive compensation, how they describe the compensation, and what are the most poignant forms of under-compensation reported by social research (next 2–3 slides).

“I was Told that I Should Take What they Give.”

Voices of the Displaced about Compensation

Chea Sarin, a social researcher, convened in Nov 2004 a focus group in the Chi Pho commune, Cambodia, with women of families affected by displacement under the Highway Project Phnom Penh-Ho Chi Minh City.

The discussion was about compensation. The researcher reports: women “complained that the compensation practice was not fair at all, ...that it was not adequate, and it aggravated their poverty.”

He quotes verbatim several answers:

...We are waiting and waiting for compensation, but every time they came, we never heard our names called. We wonder why some received and some didn't receive compensation...

...Some of our stalls were not compensated and some trees were cut off without any compensation. We lost our businesses and the benefits from the trees...

...If we were compensated for our lost assets, we could have afforded to buy land, but now land is much more expensive, and we would not be able to buy anything with the compensation...

(Continued on next slide)

“I was Told that I Should Take What they Give.”

Voices of the Displaced about Compensation

...We are upset, and don't know what to do. We gave them our finger prints, they removed our houses and stalls, but we haven't received any compensation so far...

...Some people argued with them for more compensation and they succeeded. But we didn't and dared not complain, so we are waiting for what they agreed to give us. But why is it now that we haven't received even that little compensation?...

...We have no idea of what to do if we're not satisfied with the project or the compensation. We weren't told anything if we can complain...

...We heard that if we disagree with them we might risk not getting any compensation...

...Me, too. I was told that I should take what they give.

...We just could not disagree with them. They asked us to remove our assets and we just did what they said and dared not disagree.

Chea Sarin's conclusion was:

“Nobody in the group appeared to know how to seek help when they were not satisfied with the compensation...and expressed fear of the project officials, fear that they may not get any compensation if they complained.”

Findings on Compensation from International Academic Research

The most frequent forms of under-compensation (and cost externalization) reported in international social research are

- Market-defying subjectivity in the valuation of assets, only partial—replacement of lost assets (Nayak, 2000; Ota and Agnihotri, 1996);
- Physical undercounting of condemned assets for which compensation is due, but not paid (Parasuraman 1999, Mahapatra 1999)
- Non-physical losses, difficult to measure, are largely ignored; failure to recognize non-market income (Koenig and Diarra, 2000; Pandey, 1998)
- Under-compensation results also from late disbursement of compensation to those left asset-less and cashless for a long time (Mahapatra, 1999; Guha, 2001)
- Subtraction by corrupt officials of part of the compensation money before it reaches those rightfully entitled (Maybury-Lewis, 2003; Parasuraman, 1999)

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Findings on Compensation from International Academic Research

- Under-compensation because of lost consumer surplus from existing assets (Pearce, 1999)
- Preemptive exclusion of some common assets from consideration (Schmidt-Soltau, 2002; Kibreab, 2000; Koenig and Diarra, 2000)
- Asset-price upward changes occur after calculation of compensation, diminish the purchasing power of recipients (Downing and Garcia, 2002)
- Recipients unaccustomed to handling cash tend to misdirect compensation and are left both asset-less and cash-less (Mahapatra, 1999; Nayak, 2000; Hakim, 2000)
- Conclusion: If a tool—compensation—that seems good as a principle in theory turns out in practice to be ineffective, prone to chronic flaws, policies cannot remain aloof, indifferent to feedback.
- Policies must not continue to stick to theory that is falsified by practice.
- The inescapable conclusion: policy and ethics call for reforming flawed compensation legislation and practice.

Structural Insufficiencies of Compensation

Assume that, by sudden miracle, valuation of losses would become perfect and ideal compensation would be delivered with no flaws.

Two questions must be asked:

(A) Will compensation be enough for *restoration* of livelihood?

[Answer: Hardly. Compensation, even at replacement cost, still remains (by design) time-insensitive: it does not catch up and recover the “without the project” development.]

(B) Will compensation be able to ensure significant *improvement* over pre-displacement level?

[Answer: No. This requires investments for development, while compensation is only (partial) restitution.]

Structural Insufficiencies of Compensation (continued)

- **Conclusion:** Therefore, even in ideal, miraculous conditions, relying solely on compensation will not achieve the goal prescribed in resettlement policies.
- The gradual shift upward in policy objectives from “restoration” to “improvement” was not matched by an equal shift for increasing the “means” available to projects.
- One key (compensation) cannot open two locks: both income restoration and improvement. The second “lock” (improved livelihoods) is more complex than the first (restoration) and requires more investments.
- By “improvement” we must have in mind not a 1% “improvement” over pre-displacement levels (hard to even measure in project contexts), but a significant increase, surpassing the “without the project” rate of local growth.

Investments are Indispensable for Improving Resettlers' Livelihood Levels

Take the clear case of an irrigation dam. The state invests in the cost of the dam and of the irrigation system for downstream farmers.

Farmers downstream are beneficiaries of financial investments made by the state in improving their welfare (state pays full cost of irrigation system, also of the dams).

However, NO investment is made by the same project in support of the upstream displaced reservoir residents: they only get a partial restitution for what was extracted away from them. This is neither an increment over their prior wealth, nor an additional investment.

Is social justice compatible with different financing of farmers upstream and of farmers downstream? If not, how can this be corrected?

The Lack of Economic Analysis for Resettlement Project Components

- In project practice, resettlement structured as a “project component” is not subjected either to full-scale economic and financial analysis, or to a specially adjusted “component-economic analysis.”
- Many RAPs do not include a distinct economic analysis and budget.
- Most frequently missing is the economic analysis of reconstructing resettlers’ productive basis at the new relocation site. This leaves the resettlement budget under-financed.
- Project CBA (Cost-Benefit Analysis) is applied to the project at large, for justifying the investment. But CBA, by definition, is insensitive to cost and benefit distribution among the project stakeholders.

[Topic for discussion: why is it important to analyze distribution, and determine who stands to gain and who stands to lose from a project?]

- Cost externalization: How does it occur? Why is it unacceptable?
- Economic sensitivity analysis is not applied to resettlement.
- Conclusion: Under current guidelines, resettlement operations do not receive the scrutiny of a full battery of analytical economic techniques.

PRC's Innovations in Resettlement Economics: Continuous Refinement of Valuation Criteria and Increasing Compensation Standards

- Deficiencies of valuation procedures and of low compensation levels have been identified early in the PRC (particularly, regarding land compensation in water conservancy projects).
- Because low compensation cannot achieve the PRC's policy objectives in resettlement, the Government adopted several increases, stage by stage, of the range of land compensation rates.
- Discuss increases in land compensation in the PRC (next slide)

PRC's Innovations in Resettlement Economics (continued)

- In essence, e.g., compensation was increased, amazingly, from equivalent of 3 times annual output value (AOV), to 40 times AOV!
- (The political will and the “policy message” of increasing [more than tenfold] the compensation levels are unmistakably clear.)
- The PRC's increases in compensation are a form of channeling to resettlers a combination of “compensation for losses” with “investments” for development.
- (Consider also the PRC approach of channeling compensation resources partly to the community, not only to individuals)
- **Conclusions**
 - ⇒ Political will is present for avoiding impoverishment by displacement.
 - ⇒ Financial inputs for enhancing the outcomes of resettlement are necessary and have been made available in the PRC.
- World Bank comparative analyses have concluded that, in similar classes of projects, livelihood outcomes of resettlement in the PRC are, on average, significantly higher than those in other Asian countries.

Japan's Innovation: Eminent Domain Expropriation and Compensation

Use of “land lease” and rent payments

- Japan has experimented with ways to avoid expropriation and one-time compensation only.
- The Innovative approach at Japan's three Jintsu-gawa dams (W1, W2, W3), small and medium scale, consisted in a land-lease approach, without applying the Eminent Domain law even in these public sector projects.

Japan's Innovation: Replacement of Compensation and Eminent Domain-based Expropriation with Land Lease and Rent Payments (continued)

- Farm land “contributors” to the Jintsu-gawa dam projects were paid an upfront fee, plus an annual “rent” for land (paid out from the benefits of the power plants, as annuities). This did reduce resistance to dams, provided options for investing in alternative livelihood, plus security payments (continuous rent). Rents continue to be paid by the power companies for 50 years now!
- The same Jintsu-gawa method of land-lease for rent was planned for Numata dam, Japan's biggest (eventually, not built).
- Japanese resettlement researchers consider that the precedent embodied in Jintsu-gawa and Numata planning “still appear to be innovative” today.

(Nakayama and Furuyashiki)

Discuss the New Argument for Financially Enabling Resettlement to Become Development

- A new argument is emerging from the analysis of impoverishment risks and actual impacts of DFDR, developed in a few emerging publications on the economics of resettlement.
- Discuss the “pros and cons” of what, in essence, this argument states (see next slide)

Summary Rationale for a New Argument

To achieve “resettlement with development” it is necessary to reform compensation levels and supplement compensation (that is usually less than even restitution) with financing investments in resettlers’ accelerated redevelopment.

Currently, project investments are channeled only to non-displaced project beneficiaries, but not to those displaced as well.

There is no development or moral justification for financially de-coupling displacement from development investments.

The new argument, conversely, is: the resettlers are among the primary stakeholders of the project. They make the project possible by ceding their lands and houses for the project’s “right of way.” Therefore, projects must be structured and financed so as to contain explicit development programs and development-focused investments for resettlers, incremental to compensation.

This would achieve the “to improve” objective of the resettlement policy, and will reduce poverty, instead of creating new, added poverty.

Summary Rationale for a New Argument

Suggestions for discussion:

First: Scrutinize the counter argument that resettlers' impoverishment is inevitable and should be tolerated.
Is this argument convincing?

Second, ask: (and surely, this is the first question likely to come up): How can investment resources be provided?
Where would the money come from?

The Financial Dimension of Capacity Building

- Earlier in the training course it was concluded that the strengthening of “capacity building” for risk management has two main aspects:

INSTITUTIONAL CAPACITY

and

FINANCIAL CAPACITY

Dual capacity

is essential

- The only real way for “resettlement risk management” and for preventing impoverishment was “resettlement with development,” through the recommended strategies (see IRR model). Development requires investments, compensation alone doesn’t finance or produce development.

Where Would the Money Come From?

Three main sources for investing in “resettlement with development”

- The best manager is not able to manage the severe economic and financial risks without adequate financial means.
- Low financing—(i) insufficient compensation and (ii) lack of investments—has chronically undercut countless resettlement project managers.
- Thus, three main sources of financing must be mobilized:
 - ⇒ Initially, the upfront budget allocation for compensating displacement
 - ⇒ Opening access to resettlers (with priority) to employment opportunities in project construction/civil works
 - ⇒ After project completion, implementing mechanisms for benefit-sharing.

Benefit-Sharing: Policy Support

- International policies explicitly include the principle of “enabling resettlers to share in project benefits”
 - ⇒ World Bank Resettlement Policy of 1990 (OD 4.30) and of 2001 (OP/BP 4.12)
 - ⇒ ADB Involuntary Resettlement Policy of 1995 and OMF2 of 2006
- The ADB involuntary resettlement policy “treats involuntary resettlement as a development opportunity and allows planners to manage impoverishment risks and turn the people dispossessed or displaced into project beneficiaries,” (OMF2 2003, Para. 3).
- In practice, however, measures for sharing and channeling to resettlers a fraction of the projects’ financial benefits are still rare: good practices in the PRC, Brazil, and a few other countries (see further slides). They need to become “general” project practice.

Rationale for Benefit-Sharing: Hydropower Projects

- Justification for benefit-sharing
 - ⇒ Goes far in preventing impoverishment, helps poverty reduction
 - ⇒ It is economically rational for the project itself and its region
 - ⇒ Equitability/moral rationale
 - ⇒ Political rationale
- Dam projects are the sector most advanced in evolving mechanisms for benefit-sharing.
- The economic rent arising from dam projects is a significant source for financial support beyond compensation. Must be used also for investments in local area development. Potential for benefit-sharing exists in other sectors as well (with modified mechanisms)

Options for Benefit-Sharing and Equity-Sharing in Mining Sector Projects

- Consider Mining Sector Projects: Develop and discuss rationale for benefit-sharing or equity-sharing
- Owners of stock-shares in private mining (extractive) companies partake in benefits (a stream of dividends) because they invest money in purchasing shares on the market. People displaced by “right of way” see their land “invested,” but are being bought out before construction, at prices that do not reflect the future development potential of the land acquired. Their land is indispensable to the extractive industries.
- Is it reasonable to regard the resettlers too as “shareholders,” and institute legal arrangements for benefit-sharing with those who yielded their land to the projects?

Options & Mechanisms for Benefit-Sharing for Resettlers' Development

1. Enhance compensation levels with a predefined % above replacement costs (this approach, however, is risky and rarely desirable)
2. Direct transfers of a fraction of revenues as royalties
3. Creating revolving development funds
4. Equity sharing in new project products, co-ownership
5. Taxes paid to regional and local government (this is not only a “resettlement-specific” form of benefit-sharing)
6. Regular allocation (enacted by law) of a fraction of power benefits for local area development (or directly to resettlers' groups, enterprises, etc.)
7. Preferential electricity rates or reduced water-related fees

Participation of resettles in negotiations for benefit-sharing and in managing redistributed benefits can improve the solutions.

Country Experiences: Benefit-Sharing in Colombia Mechanisms for Transfer of Royalties

- Enactment of Legal Framework for Benefit Transfers
 - ⇒ 1993: National Law #99;
 - ⇒ 1994: Decree 1933;
 - ⇒ 1996: National Law 344—Environment Compensation Fund
- Hydroelectric plants have legal obligations (1993/1994) to transfer:
 - ⇒ 3.8% of project revenue to the region’s watershed agencies
 - ⇒ 1.5% of project revenue to municipalities bordering reservoir
 - ⇒ 1.5% of project revenue to municipalities upstream of dam
- **1996 Law:** 20% of project revenue to “Environment Compensation Fund”
- Use of revenue is mandated by law (e.g., for watershed protection)

Country Experiences: Benefit-Sharing in Brazil Distribution of Royalties

- Brazil is one of the world's 3 highest-investing countries in major dams, with severe problems of post-relocation and resettlers' integration.
- One-time cash compensation proved disastrously insufficient (e.g., Tucurui dam, Balbina dam, impoverishment).
- 1988 Brazilian Constitution includes principle of royalties payment to resettlement areas.
- Several laws adopted to implement benefit-sharing through payment from royalties: Laws 7990 (1989), Law 8001 (1990), Law 9433 (1997), Law 9984 (2000) (see next slides)
- Legal Framework entitlements to royalties, 1990—Law #8001 defines procedures: monthly financial allocations
- Royalties are paid over the lifetime of power plants, to help long-term “economic sustainability of affected communities.”

❖ (Egré, Roquet, Durocher, 2002; Gomide, 2004)

Brazil: Good Practice of Benefit-Sharing

New (Improved) Laws in Brazil for sharing/using dam proceeds

- Law 9433 (1997)
 - ⇒ Outlines the national water resources policies and guidelines, and introduces the concept of payment for water use.
- Law 9984 (2000)
 - ⇒ Creates the national water regulatory agency and increases from 6% to 6.75% the amount to be paid by power generation companies. The additional 0.75% is the back-payment for water use.

Brazil: Good Practice of Benefit-Sharing Laws for Transfer of Royalties

First Steps: Law 7990 (1989) and Law 8001 (1990)

- The laws have introduced financial compensation (*6% of the generation “tariff of reference”*) to be paid by power-producing companies (>10MW) to States and Municipalities affected by reservoirs (including local and upstream regularization reservoirs).
- Distribution of royalties (Law #8001)
 - 45% - To Affected States
 - 45% - To Affected Municipalities
 - 8% - To Federal Elected Regulatory Agency
 - 2% - To Ministry of Science & Technology

Brazil: How Much Benefits were Shared in 2004? Amount of Royalties Channeled to Local Communities

- In 2004, 137 hydropower plants with 145 reservoirs were scheduled to pay over US\$400 million in financial compensation, or as royalties, to 22 of Brazil states and 593 municipalities as follows:

2004: Communities Receiving Royalties (R) and Financial Compensation (FC)		
16 municipalities (R only)	325 municipalities (both R and FC)	252 municipalities (FC only)

Brazil: Annual Payments to Inundated Reservoir Areas

- Generation companies pay 0.75% of real (R\$)44.20 per MWh for water use
 - ⇒ How the proceeds are used is the responsibility of the national water regulatory agency, required to assess and rank local needs.
- Compensation for inundated areas: Power generation companies pay 6% of R\$44.20 per MWh (US\$0.93/MWh). Itaipu, largest dam of Brazil, pays more: US\$1.99/MWh.
 - ⇒ Distribution of the proceeds is 45% for States, 45% for Municipalities, and 10% for the Federal Government.
 - ⇒ Continuity of revenues over time supports faster growth of resettlement areas.

Country Experiences: Benefit-Sharing in the PRC Creation of Development Funds: The Reservoir Development Fund

- Prior to 1980s, unsatisfactory financing of resettlement.
- Post-1980, Enactment of Several Legal Frameworks:
 - ⇒ 1981: Decree of M. Finance & M. Electric Power, 0.1 Fen/kWh for life of power plant for reservoir
 - ⇒ 1985: State Council Decree—Post-relocation Development Fund for irrigation support
 - ⇒ 1986: Land Administration Law—regulation resettlement
 - ⇒ 1991, revised 1996: Regulation by State Council
 - ⇒ 1996: State Planning Commission & M. Finance, M. of Hydropower and M. of Water; Post-Resettlement Fund for Rehabilitation

PRC: How are Post-Resettlement Rehabilitation Funds Used?

- **Reservoir Fund (1981):** 0.1 Fen/kWh of electricity sales, allocated for
 - ⇒ For reservoir maintenance: irrigation, drinking water, and transportation facilities
 - ⇒ For economic support to population displaced by reservoir
- **Post Resettlement & Rehabilitation Fund:**
 - ⇒ Financed by 1 to 5 Fen/kWh, for 10 years; introduced in all projects starting from 1986, to date
 - ⇒ Helps resettlers develop new production systems
 - ⇒ Rate calculated to yield 250–500 y/year per resettler
- The institutional manager of the Reservoir Fund is the Provincial Resettlement Bureau.

Country Experiences: Benefit-Sharing in Canada

Canada Equity Investment and Sharing

- Hydro-Quebec (public power utility) developed partnership strategy with option for equity-sharing.
- Local indigenous communities (and others) can “invest directly” in hydro-projects by contributing part of their land.
- Project benefits are distributed proportionally among partners.

Country Experiences: Benefit-Sharing in Norway

Taxation with Mechanism for Redistribution

1997: Adoption of New Law: “Electrical Power” Taxation Act

- Tax on project: 28% of benefits of all power companies (private or public)

Distribution: State: 20.75%

Country: 2.50%

Municipalities: 4.75%

- Natural Resource tax: 27% of net revenue (less operating costs, tax, depreciation)
- In-kind Benefit-Sharing: Power plants deliver up to 10% of electricity at cost to the local administration.

Country Experiences: Japan

Eliminating Expropriation, Leasing Land, and Paying Rent

- Three Jintsu-Gawa Dams: No. 1, No. 2, No. 3 (small dams, limited land requirements, built in 1950s)
- To avoid land expropriation, Government of Japan agreed to lease the land from the owners rather than expropriating and relocating them.
- Payment for land lease was structured into:
 - ⇒ One up-front payment, to enable farmers to search for alternative livelihoods and invest into creating alternative income-generating activities.
 - ⇒ Periodic rent payments for the leased rent, in perpetuity. This way, the land leased remains an income source for farmers and their children, ensuring livelihood even if the alternative economic activities do not succeed from start.
 - ⇒ Recent research confirmed that rents are paid even now, 50 years after dam construction, and accrue to the new generation in the families of initial owners.

(Nakayama, Furuyashiki)

Japan: Government Invests in Alternative Economic-Productive Bases for Resettlers

- Numata Dam (planned 1960s)
 - ⇒ Reservoir displacement of about 10,000 people
 - ⇒ Government planned resettlement with development: every resettler would receive twice as much land as owned before.
 - ⇒ To procure new land, the Government planned the conversion of 1,500 ha dry land on the slopes of Mount Akagi into padi rice fields with irrigation at the Government's cost.
 - ⇒ When not all land of a family was to be submerged, the Government also planned to pay rent in perpetuity for the submerged portion, rather than paying a one-time compensation, as if the submerged land was leased by the farmers to the state.
 - ⇒ For other macro-economic reasons, the decision to construct the Numata Dam was abolished in 1972.

(Nakayama, Furuyashiki)

Conclusion: Benefit-Sharing is Feasible!

What can we learn from these good practices shown in the previous slides?

Seven distinct mechanisms, but same purpose: transfer of resources *additional* to compensation

- Differences reflect country particularities, preferences
- Political will is indispensable: Such mechanisms cannot be enacted by project managers, they require political decision
- Legislation is indispensable, to ensure compliance in benefit allocation
- Useful: Legislation should specify *proportion of sharing* among stakeholders, explicitly earmarking the displaced groups
- Prescribing by law *specific uses* of the transferred resources prevents distortions in application over time
- Monitoring from bottom-up is indispensable: it is good to maintain the *self-organization of resettlers* as common interest group
- Thus, supplementing compensation is feasible!!

Conclusions

- This lecture concludes the training course on risk analysis and management. It included the identification of main impoverishment risks and of basic strategies and new options for managing risks and fostering resettlement with development.
- Displacement and resettlement, because of their risks, will remain one of the thorniest, most complex activities.
- Recognition of the risks of impoverishment and recurrent failures brought crucial issues into current discussions. Better policy and operational solutions are incessantly researched, sought, implemented, and tested.

Conclusions (continued)

- Emphasis is needed on upstream identification and explicit risk analysis for all resettlement operations and on planning directly targeted counter-risks development strategies.
- Further, the economic and financial analytical methods, and the reform measures discussed in these modules, have high potential for bringing better standards and substantial success in resettlement performance. Benefit-sharing approaches need experimentation and legal enactment.
- If displacement and resettlement operations are transformed into “resettlement with development,” not only the resettlers themselves but the national development process will benefit.

References

This list of references contains a number of basic ADB documents on resettlement and other studies directly relevant to the themes addressed in the training modules. The trainer should make that the course participants have access with priority to the basic policy documents and should make the decisions s/he considers appropriate as to the selection and amount of other studies to be recommended for reading by course participants.

Also, the trainers are encouraged to recommend to course participants some country-specific and locally-specific readings, related to the projects with which the participants are most directly familiar.

One simple way the trainer can facilitate more reading as “homework,” and thus more informed discussion, is for the trainer to arrange for photocopying a set of the main readings in a bound set and distribute it to course-takers who otherwise may not have access to the recommended materials.

- Asian Development Bank (ADB). 1995. *Involuntary Resettlement Policy*. Manila: ADB. Available: www.adb.org/resettlement
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