

Giving cash compensation

Providing cash compensation to poor households generally leads to unsustainable spending, contributing to longer-term impoverishment. Projects that minimise cash compensation and provide replacement housing and land achieve the greatest success with their projects and achieve a social licence to operate.

Challenges

- Monetisation of resettlement (cash-only compensation) and giving in to demands for cash-only compensation.
- Communities failing to invest cash compensation wisely resulting in short-term spending on consumer goods and leading to longer-term impoverishment.
- Cash payments which result in dependency on the company, an increase in antisocial behaviour and abandonment of traditional livelihoods and safety nets.
- Cash compensation causing inflationary issues in mining communities.

Lessons and recommendations

- Minimise cash compensation. Support may be needed to build investment skills for poorer households. Companies should therefore construct replacement housing and provide replacement land to impacted households so that they have the maximum safety net to provide shelter and food for themselves.

- A commitment to provide physical replacement only, with no option for cash compensation, ensures displaced people are provided with adequate housing and do not become homeless in the medium term. However, this may not always be possible or appropriate as national law may require cash compensation for crops. The project should still work to minimise negative impacts.
- Criteria for limiting cash compensation are important. Set out the proposed types and levels of compensation to be paid. Outline where and when compensation will be paid.
- Implement measures to support households to manage cash compensation. Households receiving significant sums of cash compensation should be provided with financial management training, investment advice and assistance to open bank accounts. Tailor training for households with a low level of education.
- Staged payments of cash compensation should be used, if possible, to limit the risk of households spending one large payment unwisely.
- Provide appropriate methods for compensating for common property and cultural resources. It is difficult to compensate for the loss of common property and cultural resources in cash. The company should investigate providing alternative sites and supporting wider community projects to compensate for this loss.
- Alternative models of benefit sharing that give impacted communities a long-term stake in the project benefits should be investigated.

Companies should construct replacement housing and provide replacement land to impacted households to ensure that they have the maximum safety net required to provide shelter and food for themselves.