

Calculating compensation amounts

There is no one formula for calculating compensation on land access and resettlement projects. Failure to adequately compensate impacted households is one of the greatest causes of grievances and conflict on projects. There is a need to engage experienced valuation professionals early in the planning process to avoid setting expensive precedents and ensuring that all the project stakeholders agree to the compensation process.

Challenges

- Failure to adopt a participatory approach to determine compensation rates.
- Failure to adequately define the scope of involvement of independent valuers.
- Compensation rates that are notably higher than, or different from, government rates creating a precedent others cannot follow.
- National compensation rates not meeting minimum international standards, particularly consideration for loss of profits—innovative approaches may be required to ensure adequate replacement at full replacement cost.
- Adopting different compensation rates for people with the same types of assets, resulting in mistrust and requiring subsequent mitigation.

- Overcompensation resulting from attempts to comply with both national and international legislation (where these have different and sometimes conflicting requirements).
- Delays in payment of cash compensation.
- Failure to explain why cash compensation is adjusted in subsequent years when different people are paid at different times.
- Setting early precedents during the exploration phase that are unaffordable later in the project.

Lessons and recommendations

- Reflect on precedents from other projects—however rates should be determined based on the local context and current full replacement values.
- A transparent, participatory approach to determining compensation should be undertaken.
- An experienced independent valuer deemed acceptable to companies and communities should be used.
- The compensation policy should be consistent.
- The methods used for valuation should be clearly documented and disseminated.
- Compensation rates should be updated if the process is undertaken over a long period.



¹Adapted from IFC (2002). *Handbook for Preparing a Resettlement Action Plan*. Washington, DC, IFC.