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Approaches to Compensation and Valuation Issues

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ADB



Approaches to Compensation and Valuation Issues

- ADB policy (SPS) requires the borrower/client to provide adequate and appropriate replacement land and structures or cash compensation at full replacement cost for lost land and structures, adequate compensation for partially damaged structures and relocation assistance, if applicable.
- Elements of full replacement cost for land and other assets:
 - i) fair market value
 - ii) transaction costs
 - iii) transitional/restoration cost
 - iv) interest accrued
 - v) other applicable payments.



LAA 18943: Matters to be Considered in Determining Compensation Under Section 23

- market value of land preceding notification under Section 4
- damage of any standing crops and trees
- damage due to severing of acquired land from remaining land
- affect on other property (movable/immovable) or earnings
- Impact from changing residence or place of business and reasonable expenses (if any) incidental to such change
- diminution of profits of land between the time of publication of Section 6 and taking possession of the land



Current Practice to Determine Compensation under LAA 1894

- DPAC/LAC assesses/determines land cost/compensation for land by applying comparative analysis method.
- DPAC/LAC reviews records including:
 - yearly average market value as of record for each type of land
 - field report by local revenue authorities reflecting prevailing/reported market rates, and
 - updated valuation tables (minimum value for taxation purposes)
 - parameters other than market value as per Section 23 and 24 of LAA 1894.
- After scrutiny of record and deliberations, DPAC/LAC estimates compensation cost for land subject to acquisition



Issues with the Current Practice for Determining Compensation

- The DPAC/LAC process lacks any mathematical formula/equation for calculating the market value .
- Decision making process and rationale for DPAC/LAC assessment of compensation is unclear
- No clarity about how other parameters as illustrated under Section 23 of LAA 1894 are taken into account including impact for changing residence/business, impact on movable/immovable assets and impact on earnings
- Substantial difference in calculating compensation cost for different land types in contiguous villages without clear justification
- Timing of valuation and actual disbursement of compensation varies greatly



Approaches to Compensation and Valuation Issues

- In ADB-assisted projects, complaints related to compensation and valuation comprise bulk of the complaints. Some complaints have escalated to ADB Accountability Mechanism or referred to courts for resolution
- Concerns if the current approach to valuation meets the replacement cost principle required under ADB SPS. Risk of becoming a compliance issue
- Solution to verify if compensation meets ADB SPS replacement cost principle and address complaints related to compensation is to engage independent valuers to undertake independent valuation study (IVS)



Independent Valuation Study

- Undertaken by a valuation firm or expert registered with the Pakistan Bankers' Association
- Scope is adjusted based on scale of the project. Assessment may be for a sample plots or all plots to be acquired
- Includes consultation with APs and different stakeholders, field visits and physical surveys
- uses different information sources including recorded land transactions, previous and current valuation tables
- results are included in the LARP. Difference with DPAC/LAC rates was added as replacement cost support

Challenges with Independent Valuation Study

- No integration of independent valuation practice in the national legal system, therefore no acceptance of IVS by Government Line Departments.
- IVS after award requires government's approval and additional funds for payment of the differential cost assessed by IVS and DPAC/LAC
- IVS firms in Pakistan lack understanding of ADB's safeguard requirements and international best practices.



Other Challenges Related to Calculating Compensation

- Assessing compensation needed for livelihood and business losses and measures to restore livelihood to pre-project levels
- Assessing compensation needed for impacts on vulnerable groups/households
- Assessing compensation needed for severely affected households (i.e. physically displaced and/or losing 10% or more of productive assets)



Way Forward

- Integration of the IVS in government's valuation practices and procedures to provide enabling environments for the ADs, RDs and independent appraisers
- The IVS should be done before Section-5 to ensure IVS findings could be considered and included in the DPAC recommended cost
- Capacity development of IVS firms on IFIs safeguard requirements and best international practices
- Clearer methodology needs to be developed for assessing livelihood losses, and impacts on vulnerable and severely affected DPs