

Module 2

What is Livelihood Restoration

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From “livelihood” to “livelihood restoration”



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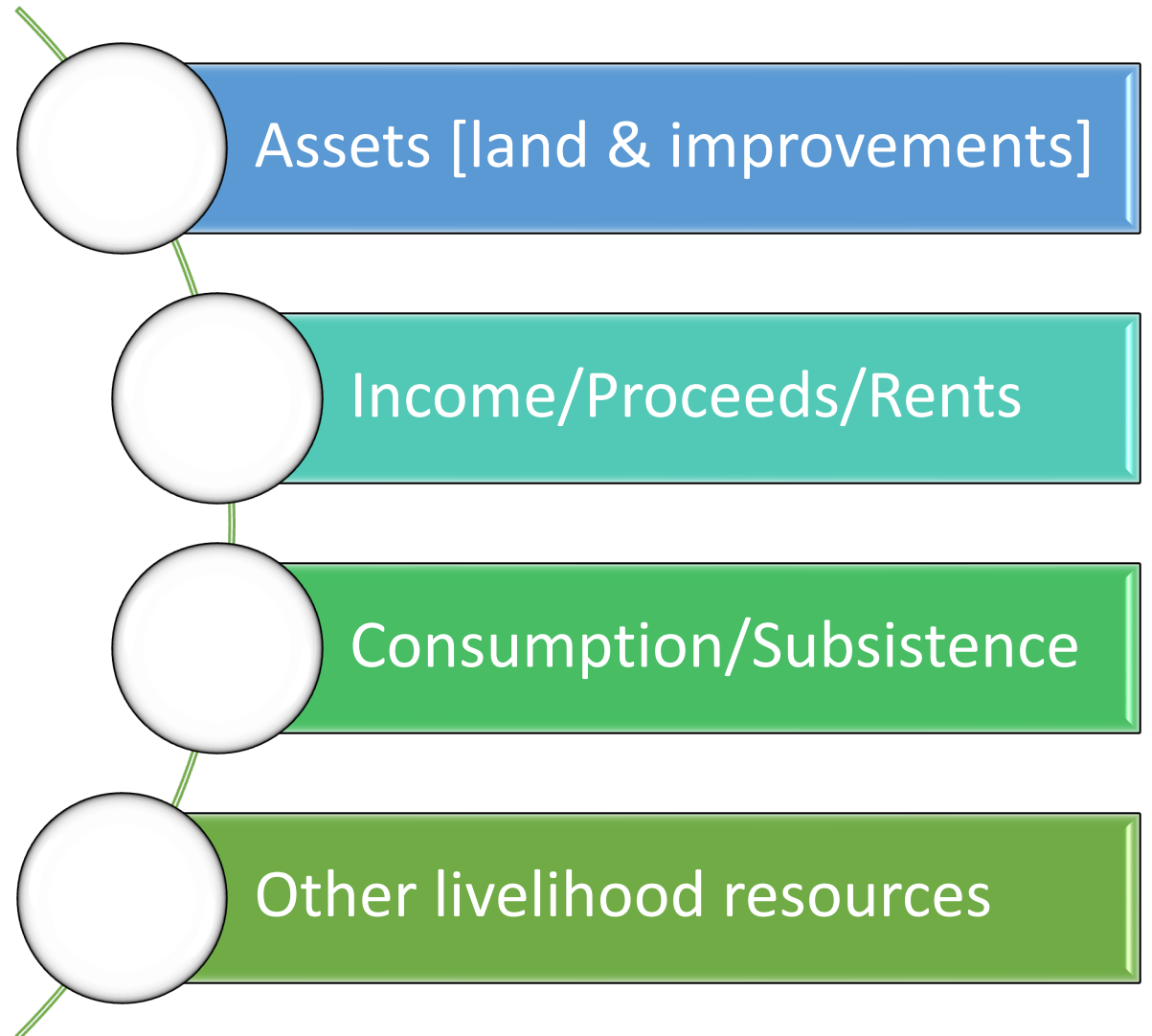
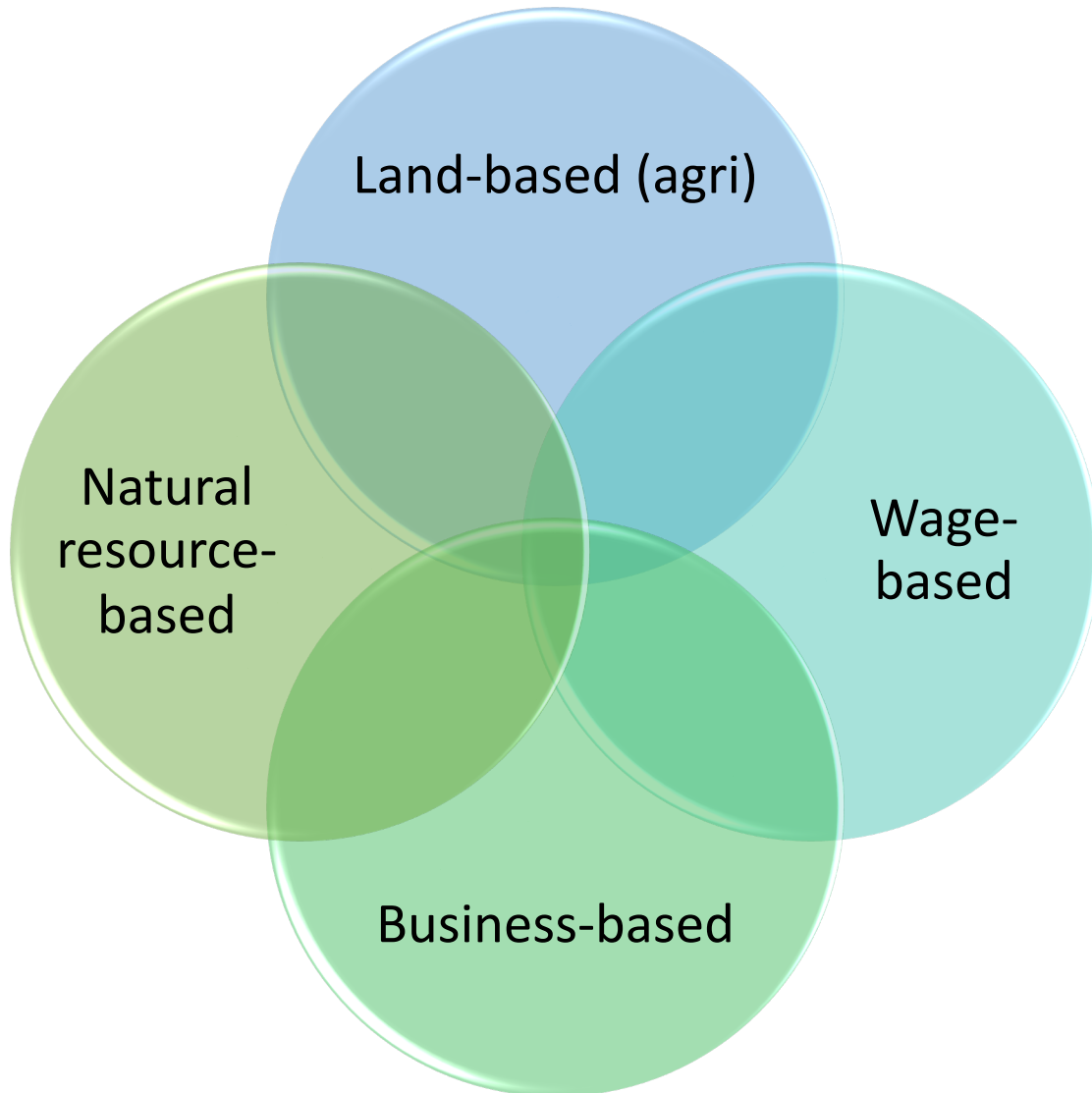
In this session we will cover..

Replacement
Principle

Replacement
Challenges

Restoration vs
Improvement

Livelihood systems are contextual



Operating Environment

Basic
infrastructure

Basic social
services

Social
networks,
communities
and culture

Location,
location,
location!

Security

Replacement Principle of Livelihood Restoration: Replace What is Lost at Replacement Cost/Value

Assets & Resources

- Land
- Improvements above and below
- Natural resources

Livelihood sources

- Income or proceeds
- Consumption
- Sources of food & subsistence

Other capital

- Location
- Community assets & services
- Psycho-social dimensions

What is Livelihood Restoration?

Replacement Principle => Replacement
Cost or Value

Lost Assets &
Resources (+Access)

Livelihood
Sources/Mean

Key Takeaways:

*Refer to handout and additional slides

1. Replacement principle requires that all **lost assets** and **livelihood sources/means** are replaced/restored;
2. Replacement is done through either (a) in-kind compensation with replacement of assets and livelihood resources of equivalent utility and value (**replacement value**) or (b) cash compensation at **replacement cost**.
3. **If projects trigger significant changes in the way APs make a living, then essential additional measures are needed to further assist in restoration.**

Important considerations

- LR is applicable to **all APs**
- LR should be scaled to the magnitude and severity of impacts
- LR should be sensitive to vulnerabilities: additional considerations might be needed (transitional assistance and support)
- Is not limited to eminent domain!

Key Challenges in Achieving Replacement

RC

- No market value, transaction costs borne by APs, deductions for depreciation, informal livelihoods not included, livelihood resources not assessed

Gender

- No assessment of differences in ownership /tenure; limited understanding of livelihood sources for women; no appreciation of differentiated impacts of LA/LUR on employment and income activities

Key Challenges in Achieving Replacement

Cash

- Highly prevalent and preferred on both sides; may be spent on goods/services/debts/health spending, but not restoration. Real value falls with inflation; cannot replace access to resources such as land or NR; risk of exploitation for vulnerable APs

LUR

- Non-monetizable goods/services/factors are not valued: eco-system services. Should be valued at use value & monetary exchange value. Require targeted and context-specific LR.

Livelihood improvement:

- ✓ Improve livelihoods for Disadvantaged and Vulnerable(DV)
- ✓ Physically displaced DV => achieve improved living conditions
- ✓ Everyone else: Improve or at least restore livelihoods and standards of living

Resources:

- **Session 9 handout on LR and additional slides on replacement cost**
- **Draft MCDF report on a virtual workshop on "Land and Asset Valuation in Involuntary Resettlement (not for distribution)**
- **Draft ADB GPN on LR (not for distribution)**
- **Presentations on fundamentals of valuation and valuing agricultural assets (not for distribution)**

Q&A

Have any questions or clarifications?

Let us know.

Raise your hand, write in a piece of paper or approach any of our moderators or rapporteurs.

Additional Slides on Replacement Cost/Value

What is Due Compensation?

- Replacing what is lost:
 - In-kind compensation through replacement assets (at replacement value)
 - Monetary compensation (cash) at replacement cost
- Enables a displaced person to acquire assets to replace losses
- Replacement requires **valuation** which needs to ascertain both:
 - the utility or use value and
 - the monetary or exchange value of lost assets and of potential replacement assets
- Replacement usually involves a combination of in-kind and monetary compensation

FIVE Key Elements of Replacement Cost

1. **Fair Market Value**: This is a key element in compensation, referring to the hypothetical price at which an asset could be transacted between willing and knowledgeable buyers and sellers . There are different bases to arrive at market value!
2. **Transaction Costs**: Transaction costs are any expenses associated with completing a transaction, such as notary services, administrative charges, registration fees, or survey costs for resurveying land, and taxes.
3. **Interest Accrued**: Interest applies when there is a time lag between the scheduled payment and the actual compensation. If delays occur, affected individuals should receive compensation that reflects the time value of money, ensuring that inflation and other economic factors do not erode the real value of their compensation.

FIVE Key Elements of Replacement Cost

- 4. Transitional and Restoration Costs:** These costs cover the expenses that individuals may incur during the transition period after displacement. Transitional costs, such as subsistence allowances, help support displaced people during a period of income loss. Restoration costs, on the other hand, are intended to help improve or restore assets (such as land or housing) to at least the same standard they were before the project.
- 5. Other Applicable Payments:** In some cases, additional payments may be required to meet local laws or project-specific requirements (*e.g., additional surcharge for land compensation – can vary greatly and can amount to times the original market value when involves eminent domain*).

In-kind replacement requires:

- (i) An entitlement to their ownership and/or use, i.e., **security of tenure**
- (ii) **Equivalence of purpose and relevance** to the affected persons,
- (iii) Choice/alternatives/options, and
- (iii) **Availability** of such assets in a given context.

Replacement based on cash compensation requires:

- (i) Amount at replacement cost that enables an affected person to purchase assets to replace losses.
- (ii) It involves valuation at current fair market value, including all transaction costs
- (iii) If cost method is used, no depreciation can be deducted (refer to reference materials on fundamentals of valuation and valuing agricultural lands)

Valuation of Assets and Livelihood Resources Requires:

- Qualified and experienced experts to undertake valuation
- Data bases on prices for land, housing, construction materials, agricultural products, services and labor
- Functional institutions, such as land registries, specialized government agencies, real estate companies
- Functioning markets with adequate volume of transactions, willing parties, free information, respected property rights, without coercion (may need proxies in the absence of functioning markets)