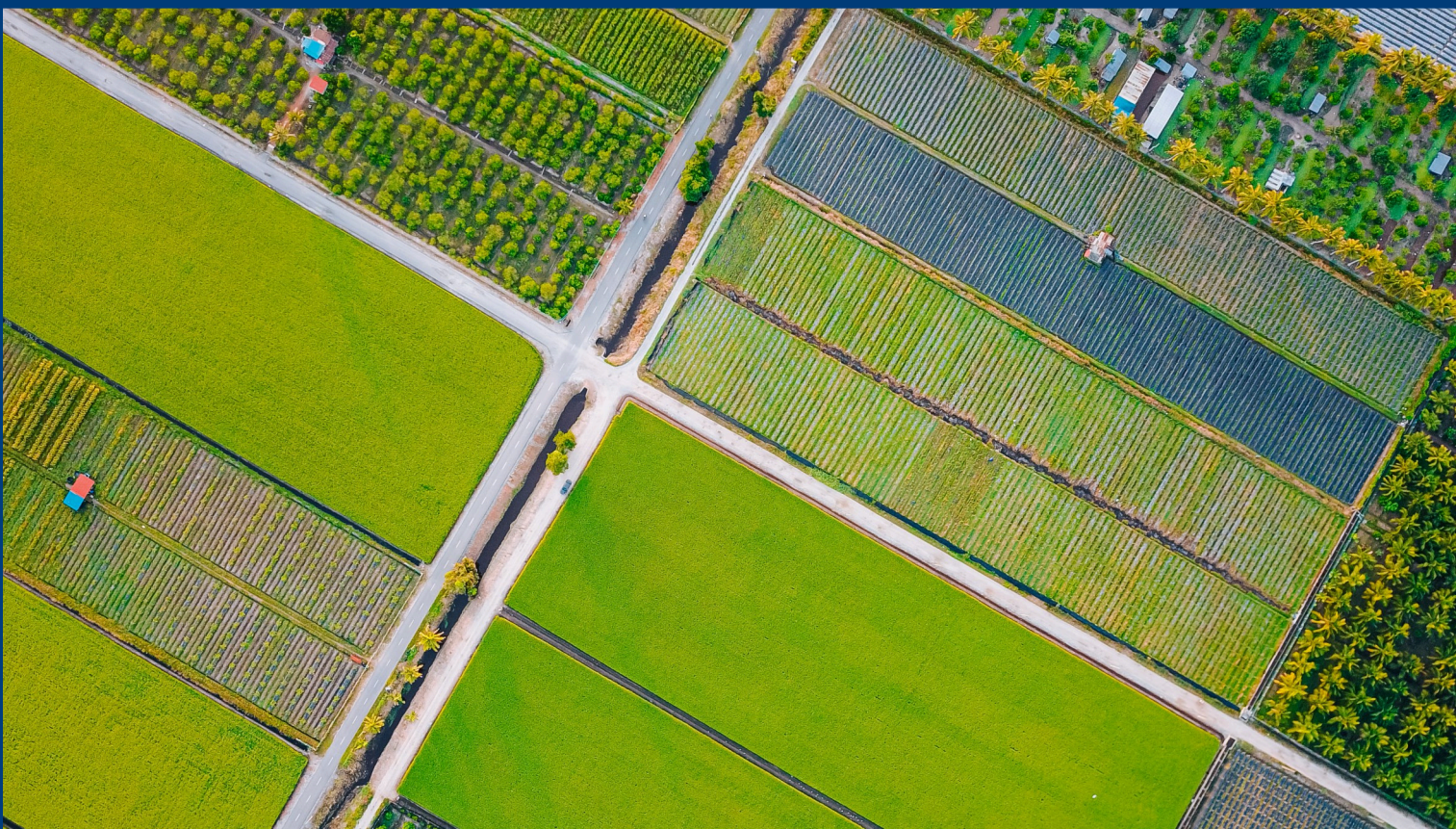




MULTILATERAL
COOPERATION CENTER
FOR DEVELOPMENT FINANCE

LAND AND ASSET VALUATION IN INVOLUNTARY RESETTLEMENT

AN EVENT REPORT



**LAND AND ASSET
VALUATION IN
INVOLUNTARY
RESETTLEMENT**
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Abbreviations

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
DMC	Developing Member Countries
ESG	Environmental, social, and governance
E&S	Environmental and Social
ERM	Environmental Resources Management
FRICS	Fellow of the Royal Institution of Chartered Surveyors
GRM	Grievance Redress Mechanisms
IFI	International Financial Institutions
IVS	International Valuation Standards
IVSC	International Valuation Standards Council
MCDF	Multilateral Cooperation Center for Development Finance
NDB	New Development Bank
NRCR	National Research Center for Resettlement
OSFG	Office of Safeguards
SFD	Sustainability and Fiduciary Solutions Department
ToR	Terms of Reference

1. Introduction and Concept

The evolving landscape of development finance increasingly recognizes the need to integrate strong social safeguards into project planning and execution. These safeguards not only align with global sustainability goals but also ensure that development projects are resilient, inclusive, and capable of delivering long-term benefits to all stakeholders. Central to these principles, as upheld by International Financial Institutions (IFI) safeguard policies, is the concept of compensation and replacement cost—a method that goes beyond mere financial appraisal to account for a full spectrum of social impacts, ensuring that all forms of value are recognized and adequately compensated.

To foster a better understanding of these concepts among borrowers and developing member countries (DMCs), the Multilateral Cooperation Center for Development Finance (MCDF), in collaboration with the Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB), and New Development Bank (NDB) with support from the International Valuation Standards Council (IVSC), co-hosted a virtual workshop titled "Land and Asset Valuation in Involuntary Resettlement." This workshop was held over three consecutive Mondays—26 August, 2 September, and 9 September 2024. Each session lasted between 2.5 and 3 hours, and was designed to engage a broad audience across the Asian region.

The workshop was divided into three thematic parts, each focusing on different aspects of valuation in involuntary resettlement:

1. Main Concepts:

- Explored the foundational elements of compensation and replacement cost.
- Discussed challenges in applying replacement cost principles.
- Examined the role of valuation at different stages of the project cycle.
- Highlighted the importance of supervising valuation processes.

2. Valuation of Affected Assets and International Standards:

- Provided an overview of fundamental valuation methods, including market, cost, and income approaches.
- Introduced the International Valuation Standards (IVS) and their application in ensuring consistent and transparent valuation practices.

3. Navigating Challenges in Practice:

- Included clinic sessions with expert valuers and Environmental and Social (E&S) staff from ADB, AIIB, and NDB.
- Addressed practical challenges in valuation, compensation delivery, and grievance settlement.

The workshop addressed a critical need for capacity building among the clients of ADB, AIIB, and NDB, all of whom face similar challenges in their projects. It aimed to enhance participants' understanding of valuation concepts, build capacity for implementing best practices, foster skills in stakeholder engagement and participatory approaches, and showcase practical applications through real-world case studies.

Targeting representatives from DMCs involved in project-level valuation, including local consultants, the workshop provided a comprehensive platform for sharing knowledge and good practices on valuation processes and methodologies.

2. Workshop Overview and Session Summaries

2.1. Part 1: Main Concepts

Part 1 focused on the foundational principles of compensation and replacement cost in involuntary resettlement. It explored the key components that ensure fair compensation and examined the challenges practitioners encounter when applying these concepts in real-world scenarios.

SESSION 1: COMPENSATION AND REPLACEMENT COST

*Presented by **Zaruhi Hayrapetyan**, Senior Social Development Specialist (Safeguards), Office of Safeguards (OSFG), ADB, and **Ben Elder**, BA BSc FRICS ACI Arb/ADB Consultant. The session was moderated by **Ines Fejzic**, Senior Environment and Social Development Specialist, MCDF.*

The session examined the key components of compensation and replacement costs, offering a detailed overview of the concepts and principles that underpin involuntary resettlement in projects funded by IFIs. It highlighted the importance of aligning compensation with international safeguards to ensure that displaced people not only receive fair compensation but are also able to restore or improve their livelihoods.

INTRODUCTION TO COMPENSATION AND REPLACEMENT COSTS

Compensation was discussed as a one-time measure intended to mitigate the impacts of land acquisition and project-related displacement. It involves financial or in-kind support designed to restore or enhance the livelihoods of affected individuals, particularly those who are vulnerable. The **replacement principle** was emphasized as a cornerstone of compensation strategies, ensuring that affected individuals can replace lost assets or income through a combination of monetary compensation, in-kind support, and additional benefits aimed at restoring their standard of living.

The session also introduced the concept of the **mitigation hierarchy**, which prioritizes avoiding impacts whenever possible. When avoidance is not feasible, impacts should be minimized, and compensation should be provided. In practice, compensation seeks to restore or improve living standards, especially for economically displaced individuals, including vulnerable groups.

COMPENSATION METHODS AND THE FIVE ELEMENTS OF REPLACEMENT COST

The session outlined the five key elements of full replacement cost, which are essential for ensuring that compensation is fair and comprehensive. These elements form the foundation of any compensation package, whether delivered in-kind or through monetary means:

1. **Fair Market Value:** This refers to the hypothetical price at which an asset could be transacted between willing, informed buyers and sellers. It is a central concept in valuation, used in both real estate and accounting, though its definition and application can sometimes cause confusion between these fields. Importantly, the depreciation of structures and assets is not considered in the valuation.
2. **Transaction Costs:** These include any expenses associated with completing a transaction, such as notary fees, administrative charges, registration fees, or survey costs for resurveying land. Often overlooked in basic compensation plans, these costs must be accounted for to ensure that affected individuals are not financially disadvantaged after the transaction.
3. **Interest Accrued:** Interest becomes relevant when there is a delay between the scheduled payment and the actual compensation. If delays occur, compensation should reflect the time value of money, ensuring that inflation and other economic factors do not diminish the real value of the compensation.
4. **Transitional and Restoration Costs:** These cover the expenses individuals may incur during the transition period following displacement. Transitional costs, such as subsistence allowances, support displaced individuals during periods of income loss. Restoration costs are intended to help restore or improve assets (e.g., land or housing) to at least the same standard as before the project.
5. **Other Applicable Payments:** In some cases, additional payments are required to comply with local laws or project-specific requirements. For example, in Armenia, affected individuals received an additional 15% above the market value for their property, as mandated by the country's legal framework for involuntary resettlement.

CASE STUDY: DORMITORY RESETTLEMENT

To illustrate the practical challenges of applying fair market value, the Dormitory Resettlement case study was presented, involving the resettlement of residents from an old dormitory. The market valuation, conducted using the **comparative method**, revealed that the compensation offered would not be sufficient for affected individuals to purchase similar housing in the region. Several factors contributed to this, including the lack of comparable properties and the unique features of the affected homes, such as external facilities like kitchens and bathrooms.

In this instance, the project introduced a **restoration allowance**—an additional payment designed to bridge the gap between the market value of the affected properties and the cost of acquiring a suitable replacement. This example underscored the need to go beyond basic market value assessments to ensure that compensation truly enables affected people to replace lost assets and restore their livelihoods.

The case study highlighted several key lessons:

- **Consultation with affected people** is essential to ensure that the valuation methodology aligns with their needs and expectations.
- The **choice of valuation methods** can significantly impact the outcome. In some cases, market value alone is insufficient, and additional compensation, such as restoration allowances, may be required.
- The importance of **minimum community standards** was emphasized, ensuring that replacement housing or assets meet basic levels of quality and safety.

THE CONCEPT OF MODERN EQUIVALENCE

The session also introduced the concept of **modern equivalence**, which aligns with the idea of acceptable minimum standards in valuation. Modern equivalence refers to the requirement to replace assets with those that meet current regulatory standards. In many cases, it may not be feasible or legal to reconstruct assets in their original form, particularly if they do not comply with modern building codes or environmental standards.

This concept supports broader sustainability goals, including reducing the carbon footprint of new construction. For example, if older building materials are no longer environmentally sustainable, they should be replaced with materials that meet current sustainability standards.

INTRODUCTION OF CHALLENGES IN APPLYING REPLACEMENT COST

Challenges in applying the concept of replacement cost in real-world situations were also examined in preparation for the following session:

- **Variability in Market Conditions:** In areas where real estate markets are underdeveloped or inconsistent, determining fair market value can be challenging. In such cases, it was suggested that valuers often use multiple methods to arrive at a reasonable estimate.
- **Delays in Payment:** A significant issue raised was how to manage situations where compensation payments are delayed. It was noted that accrued interest and inflation adjustments must be considered to ensure that compensation retains its value over time.
- **Engaging with Informal Land Users:** Another challenge discussed was how to compensate individuals living in informal settlements or using and without formal deeds or titles. While such individuals may not be eligible for land compensation, they are entitled to compensation for improvements made on the land and restoration assistance to help them re-establish their livelihoods.

CONCLUSION

The session provided a comprehensive overview of the foundational elements of compensation and replacement costs in involuntary resettlement projects. By focusing on fair market value, transaction costs, and the broader concept of full replacement cost, the discussion underscored the importance of considering all relevant factors when designing compensation packages. The need for proactive engagement with affected communities and the flexibility in compensation methods were also highlighted, particularly in challenging market conditions or where standard valuation approaches may not be sufficient.

Additionally, the session emphasized the importance of **clear communication and alignment** between safeguard specialists and valuers. Even when dealing with the same concepts, different stakeholders may use varying terminology, which can lead to misunderstandings if not addressed early in the process.

SESSION 2: CHALLENGES WITH REPLACEMENT COST

*Presented by **Suu Tran Quy**, Social Development Specialist, Sustainability and Fiduciary Solutions Department (SFD), AIIB, and moderated by **Ines Fejzic**, Senior Environment and Social Development Specialist, MCDF.*

This session built on the previous discussion, delving into the practical difficulties encountered when applying the five key components of replacement cost: fair market value, transaction costs, interest accrued, transitional and restoration costs, and other applicable payments. It focused on the challenges involved in calculating replacement cost, a crucial aspect of ensuring that the affected households can rebuild their lives following land acquisition or displacement.

CHALLENGES IN DETERMINING FAIR MARKET VALUE

One of the central issues raised was the difficulty of establishing fair market value in contexts where reliable market data is limited or unavailable. The session highlighted several common challenges:

- **Lack of comparable market data and unreliable sources:** Many regions lack sufficient sales data for similar properties, making it difficult to establish a baseline for fair market valuation.
- **Complex nature of assets:** This is particularly true for intangible assets, such as income from businesses, which are challenging to value accurately due to their variability and dependence on market conditions.
- **Market dynamics:** Asset price fluctuations and local economic conditions require continuous adjustments to valuations, demanding that evaluators stay updated with current trends.
- **Future developments:** Evaluators must consider potential future developments in the area that could influence market values, adding another layer of complexity.

- **Perceptions of value:** Perceptions of value among affected people often diverge from official assessments, necessitating careful negotiation and communication.

TRANSACTION COSTS CHALLENGES

Transaction costs include all expenses related to completing a transaction, such as notary fees, administrative charges, and sometimes transportation costs. Several challenges associated with transaction costs were noted:

- **Hidden costs:** These are costs that are not immediately apparent, such as environmental clearance and demolition, which can pose significant obstacles in accurately calculating total transaction costs.
- **Need for detailed discussions:** Ensuring accurate estimates of transaction costs across different land uses and purposes requires thorough discussions with affected communities and agencies to account for all potential expenses.

TRANSACTION AND RESTORATION COSTS CHALLENGES

The session also explored the varied needs of displaced households, particularly those relocating to different areas, and emphasized the importance of tailoring support mechanisms accordingly. Households relocating farther from their original locations may require different forms of assistance compared to those moving shorter distances or remaining on-site. Additionally, the process of transitioning from agricultural livelihoods to non-agricultural work was recognized as a particularly challenging aspect of livelihood restoration.

As a result, different relocation options require varied levels of support, making it difficult to apply a uniform approach to transitional and restoration costs. Key factors to consider when tailoring support for affected individuals include:

- **Appropriate period for income loss compensation:** Determining this requires careful analysis and consultation with affected individuals to ensure fair compensation for the disruption caused by relocation.
- **Valuation of cultural assets:** Such as temples or items significant to ethnic minorities, which present unique challenges as their value may be considered priceless and intrinsic to the community's cultural heritage.

INTEREST ACCRUAL CHALLENGES

Challenges related to accrued interest were also discussed, particularly the time gap between the calculation of compensation and its disbursement. In many cases, this delay leads to a discrepancy between the initially calculated fair market value and the actual value at the time of payment. While some national frameworks address this issue by requiring interest payments, others do not, which can complicate efforts to ensure households receive adequate compensation.

SALVAGE VALUE: DISPUTES OVER OLD OR DETERIORATED STRUCTURES

Finally, the session addressed the issue of **salvage value** in cases where old or deteriorated structures are affected. It was noted that this can often lead to disputes, as households may feel their assets have been undervalued. Whether affected persons should retain ownership of salvaged materials from their homes or be fully compensated for the structures they are losing was highlighted as an area requiring careful consideration during the resettlement process and clear communication with stakeholders.

CONCLUSION

The session emphasized the context-specific nature of calculating replacement cost and highlighted the need for a flexible approach. Clear and transparent communication with affected communities was deemed essential to manage expectations and ensure equitable compensation. The importance of stakeholder engagement and thorough market assessments were underscored as critical components in addressing the dynamic challenges encountered in many resettlement projects.

SESSION 3: VALUATION IN PROJECT CYCLE

*Presented by **Zaruhi Hayrapetyan**, Senior Social Development Specialist (Safeguards), Office of Safeguards (OSFG), ADB, and moderated by **Ines Fejzic**, Senior Environment and Social Development Specialist, MCDF.*

This session focused on understanding how valuation fits into the various stages of the project cycle, from initial planning and resettlement plan preparation to construction, including the monitoring of the compensation process. Emphasizing the importance of embedding valuation within the resettlement process, the session highlighted the need for meaningful consultation and the integration of grievance management. The role of valuation specialists at each stage, along with the steps necessary to maintain transparency and trust throughout the valuation process, was also explored.

VALUATION IN RESETTLEMENT PROCESSES

The session began by outlining the integration of valuation into resettlement processes, emphasizing that valuation is not a standalone activity but a key component that evolves as the project progresses. Four main stages were discussed:

- 1. Draft Resettlement Plan:** The initial draft resettlement plan is prepared based on preliminary designs. Even at this stage, the plan must outline a clear methodology for asset valuation and compensation. Aligning resettlement plans with both national legislation and IFI policies is essential.
- 2. Final Resettlement Plan:** Once detailed designs are available, the resettlement plan is finalized, incorporating final valuation figures.

At this stage, it is crucial to account for inflation and economic changes to ensure compensation remains fair and in line with market values.

- 3. Implementation of Resettlement Plan:** During the implementation phase, valuation must be closely monitored to identify any discrepancies or challenges, such as inflation or market shifts, which may require revaluation.
- 4. Construction and Monitoring of Compensation Delivery:** Valuation specialists may also be needed during construction to address unanticipated impacts, such as environmental damage, or to support grievance redress mechanisms when affected parties raise concerns about compensation. Clear definitions of budget sources and secured availability are critical at this stage.

MEANINGFUL CONSULTATIONS ON VALUATION

A key theme in this session was the need for meaningful consultations during the valuation process. Several critical practices were outlined to ensure affected people understand and trust the methodology used for determining compensation:

- **Regular Communication with Stakeholders:** It is essential to keep affected communities informed at every stage of the valuation process, including timelines, methodologies, and updates. A collaborative approach involving all relevant stakeholders, such as local authorities, cadastral agencies, and land banks, was encouraged to ensure a smooth valuation process.
- **Engagement of Valuation Specialists and Defining Roles:** Clearly defining the role of valuers in consultations is crucial. Valuation specialists should participate in early-stage consultations to answer technical questions and help manage expectations. Whether they lead discussions or support technical explanations, their involvement should be planned to avoid confusion or false promises.
- **Written Documentation:** Meticulous documentation is necessary to maintain transparency and address any future grievances related to valuation and compensation. To prevent misunderstandings, all agreements and commitments made during consultations should be documented rather than communicated verbally.

THE ROLE OF VALUATION SPECIALISTS IN GRIEVANCE MANAGEMENT

The session emphasized the critical role of valuation specialists in the project grievance management process, within the broader context of stakeholder engagement and consultation. When complaints arise regarding compensation or valuation, these specialists must be available to clarify the methodology, explain discrepancies, or conduct revaluations. Their involvement may include:

- **Revaluation:** In some cases, complaints may necessitate a revaluation of assets to address concerns about accuracy or fairness.
- **Clarification Letters:** Valuation specialists may be called upon to provide detailed explanations to affected households, particularly when alternative valuations are submitted by community members.
- **Valuation Audit:** A valuation audit is a check on the process and details of a valuation report for accuracy, ensuring that the methods and data used are appropriate and compliant with requirements/policy.
- **Valuation Review:** A valuation review is either a valuation process review or a review of the complete valuation for accuracy and completeness.

CONCLUSION

This session reinforced the importance of integrating valuation throughout the entire project cycle, from the preparation of the draft resettlement plan to the monitoring of compensation during construction. The active involvement of valuation specialists was emphasized as crucial for maintaining transparency, ensuring fairness, and addressing any grievances that may arise.

SESSION 4: SUPERVISING VALUATION PROCESSES

*Presented by **Ben Elder**, BA BSc FRICS ACI Arb/ADB Consultant, and **Zaruhi Hayrapetyan**, Senior Social Development Specialist (Safeguards), Office of Safeguards (OSFG), ADB. The session was moderated by **Ines Fejzic**, Senior Environment and Social Development Specialist, MCDF.*

In this session, the discussion focused on the supervision of valuation processes, highlighting key challenges in engaging qualified specialists and ensuring compliance with both IFI policies and IVS. The session emphasized the importance of well-developed Terms of Reference (ToR), clarified the distinct roles of valuation audits versus reviews, and examined case studies that showcased real-life challenges and solutions.

KEY CHALLENGES IN SUPERVISING VALUATION PROCESSES

Common challenges in supervising valuation processes were outlined:

1. **Engagement of Valuation Specialists:** A recurring issue is the limited pool of experienced and qualified valuation specialists in certain regions. This challenge is compounded when expertise in IVS is lacking, leading to potential discrepancies in approach.
2. **Capacity Issues:** Many implementing agencies may lack the internal capacity to adequately supervise valuation specialists or fully understand the requirements of IFI safeguard policies.
3. **Understanding IFI Policies:** There is often a mismatch between national valuation regulations and the requirements of IFI E&S policies, creating difficulties in implementing agencies and evaluators, particularly when they are unfamiliar with IFI safeguards and international standards.

- 4. Terminology and Translation Issues:** Clarity in terminology is essential, especially when stakeholders interpret terms like 'valuation review' and 'valuation audit' differently. Additionally, the translation of technical terms can lead to further confusion in multilingual project environments.

SUPERVISION AND THE ROLE OF THE TERMS OF REFERENCE

An important step in overcoming these challenges is the development of a well-defined **ToR** for projects requiring involuntary resettlement. The ToR plays a crucial role in clarifying expectations, defining the scope of work for valuation specialists, and ensuring adherence to proper standards. Several key aspects of the ToR were emphasized:

- **Clear Objective:** The ToR must define the specific objective of the valuation, ensuring alignment with both the local regulatory framework and IFI safeguard policies.
- **Legal Framework:** It is essential to outline the legal framework for the valuation, referencing local regulations, IFI E&S requirements, the resettlement plan or framework, and the project's entitlement matrix.
- **Relationship with Safeguards Team:** The ToR should clearly establish the relationship between the valuator and the safeguards team, ensuring coordination for field visits, data collection, and engagement with affected parties.
- **Role in Consultations and Grievance Management:** It should specify whether the valuation specialist will participate in consultations with affected communities and what their role will be in grievance management. Their involvement in these processes can greatly enhance transparency and trust.
- **Access to Services Throughout Implementation:** Valuation specialists may be required not only during the initial valuation but also throughout the project's life cycle, especially when unanticipated impacts arise during construction or when grievances occur.
- **Deliverables:** The Valuation Report is the key deliverable. Additionally, two important deliverables were recommended to be included in the ToR when engaging valuation specialists:
 - 1. Inception Report:** To ensure the valuator clearly understands the project's requirements.
 - 2. Presentation of Methodology:** A critical step where evaluators explain their approach, enabling the implementing agency to ask clarifying questions before the valuation proceeds.

VALUATION AUDIT VS. VALUATION REVIEW

A key distinction was made between a valuation audit and a valuation review, two terms often used interchangeably but with distinct meanings:

- **Valuation Audit:**

- This involves an **independent assessment** of the methods, assumptions, and calculations used by the valuator to determine the value of an asset. The audit ensures that the valuation complies with relevant standards and regulations, providing stakeholders with confidence in the process.
- An audit may also involve the **verification of data** used, such as market prices, ensuring that these data points are accurate and up-to-date.

- **Valuation Review:**

- A review, on the other hand, is typically conducted by another valuer who assesses the **methodology and assumptions** used in the original valuation. The goal is not to redo the valuation but to ensure the methodological soundness and internal consistency of the original work.

Both audits and reviews play an essential role in maintaining accountability and accuracy of valuations, ensuring that compensation is provided to the affected parties and is fair and aligned with IFI standards.

CASE STUDY: RE-EVALUATION OF AGRICULTURAL LAND

To highlight the complexities of reviewing valuation results, a case study was shared involving complaints from a group of farmers who believed their agricultural land had been undervalued. Upon re-evaluation by a second valuator, the new compensation amounts were found to be nearly double the original.

Key lessons from this case included:

- **Triangulation of Data:** The second valuer not only examined the actual sales transactions but also considered for-sale listings, providing a more comprehensive view of market trends.
- **Understanding Baseline Data:** It is critical to scrutinize the sources of baseline data, questioning whether they reflect actual sales or intended sales, whether they are recent, and whether they represent typical market behavior.
- **Clarity in Data Use:** Under IVS, valuers are responsible for clearly documenting the data sources and methodologies used in their reports. This highlights the importance of the ToR clearly outlining data requirements and expectations.

CONCLUSION

This session highlighted the complexities of supervising valuation processes, emphasizing that success depends on clear communication, proper ToR development, and adherence to IVS. By ensuring rigorous review processes and fostering collaboration among all stakeholders involved in the resettlement process, projects can maintain transparency and accountability, reduce the likelihood of grievances, and ensure fair compensation for affected parties.

CASE STUDY: TRANSACTION AND RESTORATION COSTS

*Presented by **Rutuja Tendolkar**, Partner and Asia Social Lead, ERM, and was moderated by **Ines Fejzic**, Senior Environment and Social Development Specialist, MCDF.*

This session examined a detailed case study of the Nepal Electricity Transmission Project (Nepal ETP), highlighting the complexities involved in land acquisition and market valuation for this major infrastructure project. By reviewing the methodology and key challenges, the session offered practical lessons for managing resettlement in line with international standards.

OVERVIEW OF THE NEPAL ETP

The **Nepal ETP** is part of a broader initiative to strengthen Nepal's national electricity grid and support cross-border energy trade, primarily through the distribution of hydropower. Signed between the Millennium Challenge Corporation and the Government of Nepal in 2017, the project involves approximately 300 kilometers of high-voltage power lines across 10 districts, as well as the construction of new substations. The scale of the project required significant land acquisition, presenting both technical and social challenges.

ERM, working as part of a consortium of consultants, was tasked with ensuring that the project adhered to the **International Finance Corporation (IFC) Performance Standards**, particularly Performance Standard 5, which addresses land acquisition and resettlement. This required that land acquisition follow international best practices, despite local complexities such as outdated land records, a nascent real estate market, and informal land use patterns.

CONTEXTUAL FACTORS AND PROJECT CHALLENGES

Several key contextual factors influenced the approach to market valuation for the project:

- 1. Diverse Terrain and Land Use:** The 10 districts covered by the project span a range of terrains, from urban areas to remote agricultural regions. This required a flexible valuation approach to account for varying land uses.
- 2. Outdated and Incomplete Land Records:** Many areas lacked up-to-date cadastral data, posing significant challenges in identifying landowners and verifying land boundaries.
- 3. Regulatory Gaps:** The legal framework in Nepal required depreciation to be deducted when valuing structures, conflicting with the project's aim to provide full replacement cost.

- 4. Impact on Informal Land Users and Indigenous Communities:** Many land users did not hold formal ownership rights, yet their livelihoods were still affected. Indigenous communities, such as the Adivasi Janajati, were particularly impacted by the project's footprint.

Given these challenges, the project team had to carefully align the government's and acquisition processes with the requirements of international standards, particularly around the concept of **replacement cost**.

APPROACH AND PRINCIPLES FOR MARKET VALUATION

The market valuation process for the project, particularly for the Ratmate Substation, which was discussed in the session, was designed to be transparent, collaborative, and aligned with the IFC Performance Standards. The substation, located in Nuwakot District, served as a critical hub connecting five segments of the 300-kilometer transmission line. It required approximately 20 hectares of land and involved both physical and economic displacement of local communities.

The project team followed a structured approach to market valuation, which included:

- **Land and Asset Surveys:** The team conducted detailed surveys to georeference land parcels, identify landowners and users, and assess the value of structures and other assets. This was crucial in a context where many landowners were absentee landlords, and land use rights were often informal.
- **Market Valuation Methods:** Both the Comparative Method and the Income Method were used to determine land values. The Comparative Method relied on recent market transactions, while the Income Method focused on the agricultural productivity of the land.
- **Land Categorization:** Land was categorized based on proximity to roads and infrastructure. Community feedback indicated that access to roads was a more important determinant of land value than productivity, so a road access multiplier was applied to the valuation.
- **Structure Valuation:** The valuation of structures, such as residential buildings and commercial assets like brick kilns, was based on replacement cost without depreciation. This required collaboration with both private and government engineers to assess the construction costs and materials.

The project also considered various allowances for affected households, such as compensation for temporary displacement and livelihood restoration. In some cases, such as for vulnerable households, **additional allowances** were provided based on factors like health or household composition.

KEY OUTCOMES AND LESSONS LEARNED

The project achieved several significant outcomes through its approach to market valuation:

- **Full Replacement Cost:** For land, structures, and other assets, the project successfully adhered to the principle of full replacement cost, a key requirement under the IFC Performance Standards. The government-endorsed rates generally exceeded the initial proposals, which helped build trust with affected communities.
- **Flexibility in Valuation Methods:** By using both the Comparative Method and the Income Method, the project team was able to triangulate land values and address the lack of a robust real estate market in some areas.
- **Stakeholder Engagement:** Extensive efforts were made to engage with local communities and government stakeholders, gathering input on land categorization and securing buy-in for the final valuation. This included multiple rounds of consultation to agree on the transmission line route and avoid sensitive areas, such as indigenous burial grounds.
- **Challenges with Absentee Landowners:** The project faced difficulties with absentee landowners, especially in areas where speculative purchases had been made in anticipation of the project. In these cases, the project team had to carefully verify ownership records and limit compensation to land value only, excluding allowances for absentee landowners.
- **Proactive Management of Grievances:** A key element of the project's success was the establishment of robust grievance mechanisms, enabling community members to raise concerns about compensation or other issues. The number of grievances served as a key performance indicator for public information centers, ensuring that community feedback was addressed promptly.

INSIGHTS AND BROADER IMPLICATIONS

The Nepal ETP case study provides several insights relevant to other large-scale infrastructure projects:

1. **Early Alignment on Entitlements:** Defining an entitlement matrix early in the project ensures that compensation principles are clear and helps mitigate disputes later in the process.
2. **Optimizing Project Footprints:** Significant effort was made to minimize the project's land footprint, reducing displacement and environmental impacts. This kind of planning is essential for managing the social and environmental risks of infrastructure projects.
3. **Collaborative Surveys as a Transparency Tool:** By involving local stakeholders and government representatives in the survey process, the project ensured that data collection was transparent and credible, helping to build trust with affected communities.
4. **Use of Allowances to Address Gaps:** In cases where full alignment on replacement cost could not be achieved, the project used allowances to bridge gaps and address the concerns of affected households.

CONCLUSION

The Nepal ETP serves as a strong example of how complex infrastructure projects can align with international standards while navigating local challenges. By focusing on replacement cost, transparency, and stakeholder engagement, the project set a positive precedent for future infrastructure projects in Nepal and the broader region. Lessons from this case study can be applied to similar projects, particularly in managing land acquisition where land tenure is unclear or markets are underdeveloped.

2.2. Part 2: Valuation of Affected Assets and International Standards

Part 2 explored the methodologies and standards that underpin the valuation of assets affected by involuntary resettlement. This section provides readers with a comprehensive understanding of fundamental valuation principles, including the market, cost, and income approaches. It also introduces the IVS, highlighting their role in promoting consistency, transparency, and professionalism in valuation practices globally.

SESSION 1: FUNDAMENTALS OF VALUATION

*Presented by **Guoqing Shi**, NRCR, Hohai University, China/NDB Consultant, and **Ben Elder**, BA BSc FRICS ACI Arb/ADB Consultant. The session was moderated by **Ines Fejzic**, Senior Environment and Social Development Specialist, MCDF.*

The session provided a comprehensive introduction to the key principles and methods of asset valuation, specifically tailored for projects financed by IFIs. This process is critical in determining fair compensation for land acquisition, resettlement, and other project-related impacts on private and public property.

VALUATION OVERVIEW

Valuation is the process of estimating the value of assets such as land, buildings, and businesses, primarily for purposes like compensation, sale, or tax assessment. It is essential in infrastructure projects where land acquisition is involved, ensuring that individuals and communities impacted by projects receive fair compensation. Valuation is also used to assess costs for asset replacement, particularly when restoring the livelihoods of people displaced by large-scale development projects.

Valuation is typically conducted by certified professionals with the necessary expertise to provide an accurate estimate, factoring in market conditions, asset conditions, and economic environment. This process is heavily data-driven, with appraisers relying on various forms of evidence, including market transactions, cost estimates, and future income projections. Three major approaches to valuation were explored: **market approach**, **cost approach**, and **income approach**.

VALUATION OVERVIEW

1. Market Approach

The market approach is based on the principle of substitution, which asserts that a buyer will not pay more for an asset than the cost of a comparable one. It involves analyzing comparable sales of similar assets within the same market, adjusting for differences such as location, condition, or specific characteristics. This method is particularly useful when there is a well-functioning market with sufficient transaction data.

In practical terms, this approach is often applied to real estate in urban areas where active and formal markets exist. The availability of transaction data allows for meaningful comparisons and provides a reliable foundation for valuation. The process involves identifying comparable assets, analyzing price differences, adjusting for variations, and applying the adjusted value to the subject property.

2. Cost Approach

When there is no active market for the asset or it is unique, the cost approach is typically used. This method estimates the value based on how much it would cost to reproduce or replace the asset, minus depreciation. The underlying principle is that a buyer would not pay more for an asset than it would cost to build or purchase a new one.

This approach is particularly useful for specialized assets or properties where comparable sales data is unavailable. For example, in the case of a custom-built facility or infrastructure that has no direct market comparisons, the cost approach provides an estimate by evaluating the cost of materials, labor, and other factors required to replace the asset. Depreciation, which reflects the physical, functional, and economic wear and tear of the asset, is subtracted from the replacement cost to arrive at a final value.

However, in IFI-financed projects, policies often call for compensation to be based on **replacement cost without depreciation**. This ensures that those affected by land acquisition are compensated fairly to restore their assets and livelihoods, a policy distinction that valuers must consider when working in such contexts.

3. Income Approach

The income approach is used when the asset generates a stream of income, such as rental properties, commercial buildings, or agricultural land. It estimates the value based on the present value of expected future income, adjusted for risk and the time value of money. This method is often applied to income-generating properties, making it particularly useful in urban or commercial settings where reliable income projections can be made.

The income approach assesses both the current and future income potential of the asset. It considers various risk factors, such as market fluctuations, political conditions, or economic instability, which may affect future earnings. This valuation method is essential in evaluating businesses, farms, or commercial properties where the income-producing capability of the asset is a critical factor in determining its value.

In development projects, especially those with income-generating activities such as agricultural or business operations, this approach ensures that displaced parties are compensated not only for the physical loss of their property but also for the potential income they could have earned. It is, however, more complex in cases where future income streams are uncertain or difficult to predict due to external risks.

APPLICATION OF VALUATION IN IFI-FINANCED PROJECTS

Valuation plays a vital role in projects financed by IFIs, such as the ADB, AIIB, and NDB, particularly in the context of land acquisition and resettlement. In such projects, valuations serve several key functions:

- **Land Acquisition and Resettlement:** Determining fair compensation for land, structures, and assets affected by the project. This ensures that displaced people can restore their living conditions and livelihoods.
- **Cost Estimation for Reconstruction:** Valuation is essential for estimating the costs associated with replacing lost assets, reconstructing public infrastructure, and rehabilitating displaced populations.
- **Alignment with IFI Policies:** While valuations often use the same approaches as market-based valuations, the policies of IFI emphasize replacement cost, livelihood restoration, and social equity. Therefore, valuations in IFI projects may require adjustments to ensure compliance with these policies, especially in cases where market-based compensation might not fully restore the living standards of the affected populations.

VALUATION OF EASEMENTS

A specific area of focus in the session was the valuation of **easements**, which are rights granted to use another party's land for a specific purpose, such as laying pipelines or constructing power lines. Easements impose restrictions on land use but do not transfer ownership. These restrictions can significantly affect the value of the land, as they may prevent the construction of buildings, the planting of trees, or other profitable uses of the land.

Easement valuations take into account:

- The **nature of the restriction** imposed by the easement (e.g., no structures or limited use).
- The **financial impact** of the restriction on the landowner, such as reduced income potential or lower property value.
- The **duration of the easement**, which may determine whether compensation is provided as a one-time payment or as an ongoing compensation.

In some cases, the easement may require a permanent restriction, while in others, it may only be temporary. The compensation method—whether one-time or annual—depends on the nature of the easement and the financial impact on the landowner.

PRACTICAL CONSIDERATIONS AND CHALLENGES

In practice, valuers face numerous challenges depending on the context of the project and the availability of data. In urban areas with established real estate markets, the market approach often provides sufficient information to make accurate valuations. However, in rural areas or developing countries, the lack of comparable market data complicates the process. In these cases, valuers often rely on the cost approach to determine asset value.

Additionally, projecting future income can be difficult, particularly in uncertain economic environments or for assets that depend heavily on external factors like climate, market demand, or political stability. Valuers must consider these risks when using the income approach, making appropriate adjustments to reflect the uncertainties.

CONCLUSION

The session emphasized the critical role that valuation plays in ensuring that people affected by infrastructure projects are compensated fairly and equitably. By employing the appropriate valuation method—whether market, cost, or income valuers provide an essential service in maintaining transparency and trust in the compensation process. For projects financed by IFIs, where social impact and livelihood restoration are key concerns, the valuation process ensures that displaced people are not only compensated for their losses but are also provided with the means to rebuild their lives.

SESSION 2: INTERNATIONAL VALUATION STANDARDS

*Presented by **Alexander Aronsohn**, Director of Technical Standards, IVSC, and moderated by **Ines Fejzic**, Senior Environment and Social Development Specialist, MCDF.*

This session provided an in-depth overview of the IVS and their significance in establishing globally consistent, transparent, and high-quality valuation practices across all asset classes. The presentation emphasized the critical role of standards in ensuring the comparability of valuations across different markets and jurisdictions, which is essential for fostering trust in the global financial system.

THE ROLE OF INTERNATIONAL VALUATION STANDARDS COUNCIL AND ITS MISSION

The IVSC is a global body responsible for developing and implementing valuation standards that apply to various types of assets, including real estate, businesses, financial instruments, and more. Its mission is to build confidence in valuation by:

- Establishing globally recognized and high-quality valuation standards.
- Supporting the development of the valuation profession, particularly in emerging markets.
- Promoting consistency across borders to strengthen financial markets and ensure public trust.

The IVSC collaborates with key stakeholders such as governments, regulators, accounting firms, and valuation professional organizations worldwide. Through these partnerships, the IVSC aims to ensure that valuations are conducted with integrity, professionalism, and accountability, irrespective of location.

STRUCTURE OF THE INTERNATIONAL VALUATION STANDARDS

The IVS are structured to cover a wide range of asset classes and valuation practices. The standards are divided into **General Standards** and **Asset Standards**, which together provide a comprehensive framework for conducting valuations. Establishing globally recognized and high-quality valuation standards.

1. IVS General Standards: These standards cover the fundamental aspects of the valuation process and apply to all asset classes. They include:

- **Valuation Framework (IVS 100):** This framework outlines the principles of valuation, including ethics, competency, and compliance with legal and regulatory requirements. It also emphasizes the importance of professional judgment and skepticism in the valuation process.
- **Scope of Work (IVS 101):** This standard addresses the terms of engagement between the valuer and the client, detailing the nature of the asset being valued, the valuation currency, valuation date, basis of value, and any special assumptions. The scope of work must be clearly defined and agreed upon to ensure that the valuation is fit for its intended purpose.
- **Bases of Value (IVS 102):** The basis of value refers to the definition of value used in the valuation, such as market value, investment value, or liquidation value. Different bases of value are appropriate for different purposes and the valuer must select the most relevant one for the specific context.
- **Valuation Approaches (IVS 103):** The three primary valuation approaches are the market approach, the cost approach, and the income approach. Valuers must choose the most appropriate method based on the asset's characteristics and market conditions.
- **Data and Inputs (IVS 104):** Accurate and reliable data is crucial for valuations. The data must be timely, transparent, and complete to ensure that the valuation reflects current market conditions. Valuers must assess the quality of the data and inputs used in their analysis.
- **Documentation and Reporting (IVS 106):** Comprehensive documentation is essential to ensure transparency and consistency in the valuation process. The final report should include the rationale for the chosen valuation approach, a description of the data and inputs used, and a statement of compliance with IVS.

2. IVS Asset Standards: These standards provide specific guidelines for valuing different types of assets. They include:

- **Business Valuation (IVS 200-230):** Covers the valuation of businesses, business interests, and intangible assets such as brand value.
- **Tangible Assets (IVS 300-410):** Includes real estate, infrastructure, land (both registered and unregistered), and equipment. These standards emphasize the use of appropriate comparables and methods tailored to the asset's characteristics.
- **Financial Instruments (IVS 500):** Addresses the valuation of complex financial products, such as derivatives and structured products, with a focus on transparency and rigorous review processes.

KEY PRINCIPLES IN VALUATION

Throughout the presentation, several key principles that underpin the IVS and are essential for ensuring consistency in valuations were underlined:

- **Ethics and Competency:** Valuers must adhere to high ethical standards, including independence, objectivity, and integrity. Competency is critical, as valuers must possess the necessary skills and knowledge to perform accurate valuations.
- **Professional Judgment and Skepticism:** Valuers must exercise judgment based on their expertise while maintaining a critical perspective to assess the reliability of data and assumptions. This ensures that valuations are credible and free from bias.
- **Transparency and Accountability:** The valuation process must be transparent, with clear documentation of the methods, data, and assumptions used. This fosters trust and enables stakeholders to understand the basis of the valuation.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) FACTORS IN VALUATION

The session also discussed an emerging area of focus for IVS: the integration of **ESG factors** into valuations. ESG considerations are increasingly important as they can affect the long-term value of assets and businesses, particularly in the context of sustainable development.

- **Environmental Factors:** These include the asset's carbon footprint, energy efficiency, and environmental impact. Valuers are encouraged to consider these factors, especially in industries like real estate and infrastructure.
- **Social Factors:** These encompass community relations, labor practices, and the impact of the asset on social well-being. While more challenging to quantify, these factors are becoming increasingly relevant as investors and stakeholders prioritize social responsibility.

- **Governance Factors:** Governance includes corporate transparency, board diversity, and ethical business practices. Strong governance is often correlated with better long-term performance and reduced risk.

The IVSC continues to refine its approach to ESG factors, recognizing the need for more robust data and methods to incorporate these considerations into valuations.

ADDRESSING SPECIFIC CHALLENGES IN VALUATION

One of the central themes of the session was the adaptability of the IVS to different market conditions and asset types. While market-based valuations are ideal, there are situations where alternative approaches, such as cost or income approaches, are necessary—particularly in markets with limited data or transparency.

For example, valuing **unregistered land**, such as tribal or communal lands, presents unique challenges. The IVSC has developed guidelines for valuing such assets, ensuring that they are treated equitably and transparently in accordance with international best practices. Similarly, the importance of valuing **natural capital** and **social capital**, which are becoming more prominent in the valuation of public goods and ecosystem services, was noted.

FUTURE DIRECTIONS: AGENDA CONSULTATION

To keep pace with the evolving nature of global markets and valuation challenges, the IVSC conducts regular **Agenda Consultations**. Key topics for future exploration include:

- **ESG:** Expanding the integration of ESG factors into valuation standards.
- **Technology in Valuation:** Addressing the role of artificial intelligence, big data, and automated valuation models in the valuation profession.
- **Valuation Risk:** Enhancing the understanding of risks associated with valuations, particularly in volatile or uncertain markets.

These consultations ensure that the IVS remains relevant and adaptable to the changing landscape of valuation.

CONCLUSION

The session highlighted the critical role of the **(IVS)** in ensuring consistency, transparency, and trust in valuations across the globe. By establishing a common framework that applies to all asset classes, the IVS enables stakeholders to make informed decisions based on reliable and comparable valuation data. As markets evolve and new challenges emerge, the IVSC remains committed to refining its standards and supporting the growth of the valuation profession worldwide.

2.3. Part 3: Navigating Challenges in Practice

Part 3 addressed the practical challenges that arise when implementing valuation principles in real-world contexts. It focused on providing more in-depth information to the session participants on topics they had raised during the previous two parts of the workshop. Through interactive clinic sessions with expert valuers and E&S staff from ADB, AIIB, and NDB, this section explores the discussions that took place around complex issues such as aligning national frameworks with international requirements, handling grievances, and managing stakeholder expectations. Participants engaged in discussions that provided practical insights and strategies for overcoming obstacles in valuation processes, compensation delivery, and involuntary resettlement.

CLINIC SESSION WITH EXPERT VALUERS

*Moderated by **Ben Elder**, BA BSc FRICS ACI Arb/ADB Consultant, and featuring **Nicolas Konialidis**, Director (Asia), IVSC; **Bernadette Gitari**, Chartered Valuation Surveyor FRICS MISK RV; **Rengganis Kartomo**, Managing Partner, KJPP Rengganis, Hamid & Rekan; and **Guoqing Shi**, NRCR, Hohai University, China/NDB Consultant.*

The session focused on addressing challenges and methodologies related to asset valuation, particularly in complex scenarios such as land acquisition, compensation for agricultural and urban properties, and easements. The discussion involved valuation professionals from IVSC and covered both the technical aspects of valuation and the broader implications for affected communities. Key themes examined included approaches to valuation, compensation mechanisms, and the integration of international valuation standards with local regulations. The following key points were discussed:

VALUATION APPROACHES

- **Market Approach vs. Cost Approach:**

- The **income approach** converts projected cash flows into a single current value. The value of an asset is determined by reference to the income, cash flow, or cost savings generated by the asset. This requires reasonable projections of future income amounts and timing, which are then discounted to the valuation date.
- The **market approach** relies on available comparable transactions, which can be difficult to obtain in less developed or specialized markets. It is generally the preferred method when comparable data is available, particularly in urban or real estate markets.
- The **cost approach** is applied when there is no direct comparable market data, often used for unique or specialized properties. This method calculates the cost to replace or reproduce the asset with a modern equivalent, adjusted for depreciation and current conditions. Both methods can be used simultaneously in complex valuations, with one typically serving as a checkpoint to validate the other.

- Within the cost approach, there is a distinction between **Reproduction Cost** and **Replacement Cost**: Reproduction cost focuses on recreating an asset exactly as it is, while replacement cost is concerned with providing a substitute asset that has the same utility. These concepts are especially relevant when data is incomplete or when valuing assets like land with limited comparable data.

CHALLENGES IN AGRICULTURE AND REMOTE LAND VALUATION

- **Agricultural Land**: In cases where market value data is limited, valuation often involves combining market data for land with cost-based methods for improvements, such as infrastructure or plantations.
- **Nomadic Groups and Informal Land Uses**: For nomadic groups and other seasonal or informal land uses, the valuation must consider the characteristics of the right to temporarily use the land without formal ownership. Compensation can be based on the utility and access to the land, rather than strict market value. This underscores the importance of understanding the functional use of the land for its temporary occupants.

VALUATION OF TREES AND CROPS

- **Compensation for Permanent Crops**: Compensation for permanent crops, such as trees, is typically based on the market value of replacing the plants, considering their maturity at the time of valuation.
- **Multiple Cropping Systems**: Compensation must account for both physical and non-physical losses, including future income from crops that could have been produced. It may also include compensation for workers or tenant farmers who share in the production without owning the land.

EASEMENTS AND RESTRICTIONS

- **Easements**: Easements, such as those under power lines or pipelines, limit land use without removing ownership. Compensation is typically calculated based on the loss of utility of the land (e.g., restrictions on building) rather than full land acquisition. Whether this compensation should be paid as a lump sum or spread over time is often context-dependent, with inflation and changes in land value over time being important considerations.
- **Valuation Considerations**: The valuation must reflect the change in property value before and after the imposition of the easement, accounting for the reduced utility or development potential.

COMPENSATION MECHANISMS

- **Comprehensive Compensation:** Compensation should reflect both market value and any additional social impacts, such as loss of livelihood or production capabilities. For example, in Indonesia, compensation for agricultural land may include compensation for lost crop yields due to land acquisition.
- **Limited Comparable Data:** In areas with limited comparable data, creative solutions, such as using nearby regions with similar economic characteristics or adjusting for local conditions, can be applied.

RECONCILING IVS WITH LOCAL REGULATIONS

- **IVS:** IVS offer principles-based guidance that provides flexibility while emphasizing transparency and consistency (*as described in detail under Session 2: International Valuation Standards*). However, local laws may require specific valuation methods or data points, particularly for tax purposes, that do not always align with market value.
- **Navigating Local Requirements:** These requirements should be prioritized, explained, documented, and reported to ensure compliance with IVS. Valuers must provide clear documentation of how local regulations influence the valuation process, ensuring transparency in cases where government-prescribed data may conflict with market realities¹.

PRACTICAL DATA COLLECTION METHODS

- **Data Collection in Emerging Markets:** In some regions, especially in emerging markets, data collection may rely on both formal sources (e.g., property portals) and informal networks (e.g., local brokers or community data).
- **Agricultural Valuations:** In agricultural valuations, data from cooperatives or marketing organizations may serve as proxies when direct transaction data is unavailable. However, the challenge lies in reconciling informal market data with formal valuation requirements.

USE OF MULTIPLE VALUATION APPROACHES

- **Multiple Valuation Methods:** It is often appropriate to use multiple valuation methods (e.g., cost, market, and income approaches) to ensure robustness, especially in complex valuations like agricultural or special-purpose properties. The final valuation should reconcile the methods used and justify the selection of the most appropriate approach for the asset in question.

¹ Please, note, that donor requirements in practice and often legally supersede local regulations, as a project become ineligible for funding if it is non-compliant with donor requirements.

INFLATION AND TRANSACTION DATA CHALLENGES

- **Inflation and Currency Fluctuations:** Inflation and currency fluctuations can pose significant challenges when adjusting historical transaction data to reflect current values. In high-inflation environments or where official data is unreliable, valuers must use professional judgment to make necessary adjustments and provide an accurate reflection of current market conditions.

CONCLUSION

The first part of the clinic session highlighted the complexity of valuation in both developed and developing markets, particularly when dealing with non-standard assets or where formal data is limited. Valuers must balance the requirements of local regulations with international best practices, while ensuring transparency and fairness in their assessments.

CLINIC SESSION WITH ADB, AIIB AND NDB E&S STAFF

*Moderated by **Ines Fejzic**, Senior Environment and Social Development Specialist, MCDF and featuring **Zaruhi Hayrapetyan**, Senior Social Development Specialist (Safeguards), OSFG, ADB; **Suu Tran Quy**, Social Development Specialist, SFD, AIIB; **Parthapriya Ghosh**, Senior Social Development Specialist, SFD, AIIB; **Maya Gabriela Villaluz**, Senior Environmental Specialist/Registered Land and Asset Appraiser, SFD, AIIB; **Pelumi Fadare**, Social Development Consultant, SFD, AIIB; and **Guoxin Zhou**, Senior E&S Specialist, ESG Department, NDB.*

The second session of Part 3 of the workshop focused on reinforcing key messages from previous sessions and providing additional context on various aspects of policy and eligibility, national frameworks versus IFI requirements, compensation delivery, and grievance settlement, particularly in relation to land acquisition, valuation, and involuntary resettlement. The session featured input from IFI E&S staff and covered key topics that emerged from questions and feedback gathered during Parts 1 and 2 of the workshop. Below is a comprehensive summary of the key points discussed:

POLICY AND ELIGIBILITY

- **Types of Displaced Persons:**
 - There are three types of displaced persons typically considered under IFI policies:
 1. **Persons with formal legal rights:** Fully entitled to compensation for land and improvements.
 2. **Persons without formal legal rights but with claims recognizable under national law:** Eligible for compensation for land and improvements.
 3. **Persons without formal or legal rights:** Eligible for compensation for non-land assets and other improvements (e.g., structures, crops).

- Some national governments may choose to provide additional allowances for the third group, though this varies across countries.

Informal Economies and Migrant Workers:

- Income loss due to displacement, whether in the formal or informal economy, must be addressed through livelihood restoration programs.
- Seasonal migrant workers should be consulted and included in these programs, especially if project activities disrupt their income.
- **Replacement Cost and Social Value:** Compensation should reflect replacement cost without depreciation. In cases where social and community networks may be disrupted, it is essential to consult affected communities and develop strategies (e.g., relocation of entire communities to nearby areas) to minimize social impacts.
- **Involvement of Valuers:** Valuers are typically involved in preparing resettlement plans, and it is essential to ensure that valuations align with **market value** and **replacement cost**. Involving qualified valuers is critical, and the data used must be transparent and up-to-date.

NATIONAL FRAMEWORKS VS. IFI REQUIREMENTS

- **Compensation Laws and Replacement Cost:**
 - Some national frameworks allow for compensation based on official depreciation rates, which can result in undervaluation. IFIs, however, require compensation to be based on replacement cost, which may involve topping up government-mandated compensation to meet this requirement.
 - The distinction between **compensation** and **additional assistance** (e.g., transitional allowances) was highlighted. These are separate from compensation for asset loss and are provided to support affected persons during the transition period.
- **Legal Implications of Resettlement Plans:**
 - Resettlement plans are binding documents for the borrower (often the government) as part of the loan agreement. While national laws must be respected, IFIs require that valuation methodologies align with replacement cost principles.
 - If municipalities handle land acquisition and valuation, it is crucial to ensure their processes are transparent and in line with IFI policies to avoid conflicts of interest.

COMPENSATION DELIVERY

- **Timing and Delays in Payment:** Delays between the scheduled and actual payment of compensation can lead to grievances. Compensation should reflect the **current market value**, and if the delay is significant (more than six months or one year), the land should be revalued to account for market fluctuations or inflation.
- **Compensation for Very Small Accommodations:** For very small accommodations, such as apartments, where replacement with a similarly sized unit is not feasible, affected persons are typically entitled to small-size replacement housing. The goal is to ensure that the affected household is at least as well-off as before the project.
- **Easements and Compensation:** Easements (e.g., under power lines) that restrict land use without displacing residents are typically compensated based on market value or a negotiated agreement. If the restriction causes a significant loss of land use, compensation is mandatory.
- **Environmental Damages:**
 - **Contractors** are typically responsible for compensating environmental damages during construction. If the damage occurs outside the right-of-way or was unforeseen, it should still be accounted for, and compensation should follow the Environmental and Social Management Plan.
 - The **Project Management Unit** may bear responsibility if the contractor's actions lead to damages, but contractors may be financially penalized.

SETTLEMENT OF GRIEVANCES

- **Managing Expectations:** Projects should have a clear **administration strategy** for managing affected persons' expectations, particularly regarding valuation and compensation. Early and continuous communication with stakeholders helps manage expectations and avoid over-promising by surveyors or other project representatives.
- **Handling Grievances:** Effective **Grievance Redress Mechanisms (GRM)** should be established early and maintained throughout the project. All grievances should be documented and addressed, including those from absentee landowners. The GRM should also address complaints about valuation results, with clear procedures for verification and appeals.
- **Valuation Timing and Complaints:**
 - Complaints related to the timing of valuations can arise when there is a disconnect between the preparation of the land acquisition plan and the actual valuation. This can lead to perceptions of under-compensation if property values have changed in the interim.

- Clear communication with affected persons about the process and timing of valuation, as well as the rationale behind the final compensation amount, is key to minimizing grievances.

OTHER ISSUES

- **Depreciation and Salvage Value:** Compensation is based on **replacement cost** without deducting depreciation or salvage value, even if the structure is old or deteriorated. If people are allowed to take salvageable materials, this should not be deducted from their compensation.
- **Third-Party Agents and Bribery:** Third-party agents involved in land acquisition must operate transparently and in compliance with legal and IFI requirements. To avoid bribery, third parties should be overseen, and the process should be subject to regular audits.
- **Long-Term Leases:** In some countries, such as China, long-term leases (e.g., up to 30 years) for agricultural land are common. Lease rates are negotiated and often reflect the annual output value of the land, though they may be adjusted based on local market conditions.

CONCLUSION

The second part of the clinic session emphasized the complexities involved in implementing resettlement and compensation processes, particularly in reconciling national frameworks with IFI policies. Proper valuation, transparent communication, and effective grievance mechanisms are essential to ensuring that project-affected persons are compensated fairly and that their livelihoods are restored. The involvement of qualified professionals, regular consultation with affected communities, and thorough documentation of procedures are key to successfully managing these challenges.

3. Key Takeaways

The virtual workshop on "Land and Asset Valuation in Involuntary Resettlement" provided a platform for participants to deepen their understanding of valuation concepts by building their capacity to implement international best practices and address the challenges inherent in projects involving land acquisition and resettlement. Key takeaways from the sessions include:

- **Compensation at Full Replacement Cost:** Compensation for affected individuals should go beyond fair market value to include all relevant elements such as transaction costs, accrued interest, transitional and restoration costs, and any additional payments required by local laws. Compensation for structures should exclude depreciation. This ensures that affected persons can fully restore or improve their livelihoods following displacement.
- **Importance of Comprehensive Stakeholder Engagement:** Proactive and transparent communication with affected communities is essential. Engaging early and meaningfully with stakeholders—especially through consultations with those affected by involuntary resettlement—ensures that their expectations and needs are addressed and integrated into the valuation and compensation processes.
- **Challenges in Valuation Methodologies:** Determining fair market value can be difficult in regions with underdeveloped or inconsistent real estate markets. Undervaluation of property due to underreported sales prices in contracts is a critical issue in many countries. Using multiple valuation methods (market, cost, and income approaches) is recommended to arrive at a comprehensive assessment. Flexibility in applying valuation principles is important to account for local complexities.
- **The Role of IVS:** Consistency and transparency in valuation practices are crucial. IVS provide a reliable framework for ensuring high-quality valuations across different asset types and markets. Their emphasis on ethics, competency, and professional judgment supports more equitable outcomes in resettlement projects.
- **Addressing Non-Market Assets and Informal Land Use:** Valuing non-market assets, such as cultural heritage sites or communal land, presents specific challenges. In such cases, compensation should consider both the economic and intrinsic social value of these assets. Similarly, informal land users must be compensated (for structures and crops) and provided with the means to restore their livelihoods, even if they do not hold formal land titles.
- **Supervision and Oversight in Valuation Processes:** Effective supervision of valuation processes is essential to ensure alignment with IFI policies and international standards. Clear ToR, ongoing communication with valuers, and thorough audits or reviews of valuation reports are crucial for maintaining accountability and fairness.

- **Navigating Delays and Market Fluctuations:** Delays in compensation payments can erode the value of compensation due to inflation or market shifts. In cases of significant delays, valuations must be updated to reflect current conditions, ensuring that affected persons receive compensation at present-day values.
- **GRM:** Establishing and maintaining robust GRM throughout the project lifecycle is critical for addressing complaints related to compensation, valuation discrepancies, or project impacts in general. GRMs provide a vital forum for resolving disputes and ensuring that grievances are handled transparently and efficiently.
- **Case Studies Highlight the Importance of Flexibility:** The case studies, including the Dormitory Resettlement and Nepal ETP, illustrated the importance of adaptability in addressing valuation challenges. These examples showed how flexibility in compensation approaches and active stakeholder engagement can lead to more sustainable and socially responsible outcomes.
- **Capacity Building for Local Valuers and Practitioners:** Continuous training and capacity building for local valuation professionals are essential to ensure they can effectively apply international standards and best practices. Investing in local expertise contributes to more accurate and transparent valuation processes, particularly in developing markets with limited access to reliable data.
- **Balancing National Frameworks with International Requirements:** Navigating the differences between national legal frameworks and IFI policies can be complex. Ensuring alignment with international standards, particularly around replacement cost principles and livelihood restoration, is essential for delivering equitable outcomes in resettlement projects.

The Multilateral Cooperation Center for Development Finance (MCDF)

The Multilateral Cooperation Center for Development Finance (MCDF) is a multilateral initiative designed to increase high-quality infrastructure and connectivity investments in developing countries through partnerships. With a central goal of encouraging the adoption of IFI standards, it is designed to reinforce the numerous existing global, regional, and sectoral initiatives established in response to the worldwide need for more connectivity infrastructure. This includes supporting the implementation of the G20 Quality Infrastructure Principles, the UN Agenda 2030 and its Sustainable Development Goals, and the Paris Climate Agreement.

MCDF is unique in the way it pursues its goals by acting as a 'one-stop shop' for both developing country governments and new partners - sharing information, building capacity and assisting with project preparation.

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