The Economics of the Fair Compensation in Large-Scale Land Acquisition

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Research Question

Is the fair compensation for local communities and indigenous people achievable at all in Large-Scale Land Acquisitions? Can it be combined with the interests of foreign investors and host governments?

Introduction

The right to fair compensation and the Free, Prior and Informed Consent (FPIC) principle for local communities and indigenous people in land acquisitions are widely recognized at the international level. (UN, 2007; FAO, 2012)

Yet, the exiting evidence suggests that the participation of local communities affected by Large-Scale Land Acquisitions (LSLAs) is very limited and that the right to fair compensation often exists only on paper, leading in some cases to documented episodes of dispossession, displacements and forced evictions. (Nolte et Al., 2016; HRC, 2010)

Local communities and indigenous populations often are economically, socially, and politically marginalised. They heavily rely on land for their livelihood and typically hold land under customary and informal tenure regimes. (RRI, 2015)

Existing economic models for fair or just compensation do not consider the peculiar range of actors, behaviours, tenure regimes and outcomes involved in LSLAs. (Blume et al., 1984; Duke, 2014)

Definitions and Methods

Fair compensation is defined as any form of compensation that at least restores the livelihood of affected populations.

This research develops a simple yet original theoretical model for fair compensation in LSLAs.

Findings from the model are compared with the literature in order to identify the main factors contributing to the success (or failure) of the negotiation process.

The model

An international investor plans an investment requiring a large-scale land lease in a foreign country. The land is owned by the State, but the concession area is inhabited by a local population claiming customary rights. The investor can offer a compensation to the locals to avoid the cost of delaying the project due to the opposition they would put in place in case of negative impacts on their livelihood. The players have to negotiate the land rent, the compensation and the actual size of concession area a = [0, A].

- Investor (max. profit Π): \[ \max \Pi = \{0, R(a) - C(a)\} \]
- Government (max. revenue θ): \[ \max \theta = \{0, T(a)\} \]
- Locals (max. livelihood Λ): \[ \max \Lambda = \{L(A), L(A - a) + K(a)\} \]

Where \( R \) is the total revenue for the investor and \( C \) is the total cost; \( T \) is the total land rent paid by the investor if the deal is concluded; \( L \) is livelihood that locals get from the land they have access to and \( K \) is the compensation. \( R, C, T, L \) and \( K \) are defined as:

\[ R = pa \]
\[ C = f + ca^2 + T(a) + K(a) \]
\[ T = ta \]
\[ L = \max(A) \]

Where \( p \) is the (exogenous) market price of the investment output, \( f \) and \( c \) are respectively fixed costs and production costs, \( t \) is the land rent; \( l \) is the livelihood and \( k \) is the compensation – all of them measured per year per hectare.

Assuming complete information, the model yields an optimal solution such that:

\[ k^* = 1 \]
\[ t^* = 0 \]
\[ a^* = \frac{p-t}{2c} \]

Conclusions

The model suggests that the achievement of fair compensation for local populations and indigenous communities affected by LSLAs is possible, but only if specific conditions are met.

Complete information, participation, profitability of the investment after deduction of land rent and compensation, recognition of customary tenure regimes, enforcement of the right to reject the project and clear rules for compensation are the main conditions for the success of negotiations.

When these conditions are met, the fair compensation can act as a catalyser for those investments that are real development opportunities, rather than land grabbing.

Literature cited