

# Land Acquisition for Business and Compensation of Displaced Farmers



## In brief

- Rapid industrialization and urbanization has led to land acquisition from farmers across the developing world. However, inadequate compensation for displaced farmers has also fuelled social unrest in both China and India recently. This study examines how adequate compensation can be distributed to those displaced by local governments.
- The findings imply a strong basis for ensuring compensations exceed market values. Theoretically, efficiency considerations alone require farmers to be over-compensated for their loss of agricultural income. When factoring in considerations of equity, fairness and political sustainability, this argument is strengthened.
- Mis-classification of land grades in the land records in Singur, West Bengal, resulted in owners of high grade multi-cropped land being offered compensations below market value. Land acquisition reduced incomes of owner cultivator and tenant households, and agricultural workers were more adversely affected than non-agricultural workers.
- **Key recommendations:**
  - Supplementary surveys of acquired areas are needed as official land records are insufficient to determine market valuations.
  - Compensations should exceed the market value of the land.
  - Determination of compensation should incorporate local information about land and livelihoods.
  - Auction-based methods could a way to elicit the reservation values of owners.
  - Appropriate compensations should include a variety of options, including lands in neighbouring areas and commercial property on acquired areas.
  - A land acquisition regulatory commission should be set up.
  - Local governments should be consulted and actively engaged in the process.

## Policy Motivation

Inadequate compensation for farmers displaced by lands acquired by local governments under powers of eminent domain for purposes of industrialization, mining and real estate development have fuelled significant protest movements in China and India lately. This has given rise to policy discussions concerning the need to amend land acquisition laws, to ensure that farmers whose lands are acquired are suitably compensated. Ensuring that the gains from urbanization and industrialization are evenly shared with traditional rural communities is an important goal in its own right. It is also becoming apparent that this is necessary to ensure the political sustainability of growth based on transition of less developed countries into urbanized, industrialized societies.

## Policy Impact

*“Ensuring that the gains from urbanization and industrialization are evenly shared with traditional rural communities is an important goal in its own right”*

The Indian Parliament as well as various state legislatures are currently debating provisional bills for a new Land Acquisition Act. It is the topic of intense discussions in the media and civil society. For instance this topic was the leading issue in the recent IGC sponsored conference on the West Bengal economy in January 2012, where the views expressed by Nobel laureate Joseph Stiglitz on land acquisition policy had a huge media impact. The project’s findings will inform and influence these debates, and hopefully have some impact on the new legislation.

These issues are also gaining prominence elsewhere in South Asia and sub-Saharan Africa. An FAO report stated that large-scale land acquisitions of farmland in Africa, Latin America, Central Asia and Southeast Asia had made headlines in the preceding year in a flurry of media reports across the world. The report focused on Ethiopia, Tanzania, Ghana, Mozambique, Madagascar, Mali and Sudan. Given the informal nature of property rights and corruption, there has been increasing concern about how to put in legal and procedural mechanisms to protect local interests and livelihoods as lands are being converted for the purpose of facilitation foreign direct investments. A key issue highlighted in the report is that of compensation, in particular, on what it should be based on as well as who should be entitled to it.

## Audience

Officials in concerned ministries in the Indian government and various state governments; the Indian Planning Commission; newspaper outlets; concerned academics.

## Results and Lessons

The findings of the project create a strong basis for ensuring that compensations offered be in excess of market values. The theoretical analysis shows that under a broad class of circumstances, efficiency considerations alone require farmers be

*“The argument for over-compensation is further strengthened by considerations of fairness, equity and political sustainability of industrialization drives”*

over-compensated for their loss of agricultural income in the event of conversion. The argument for over-compensation is further strengthened by considerations of fairness, equity and political sustainability of industrialization drives. The empirical study of compensation of displaced farmers in Singur, West Bengal shows that misclassification of land grades in the official land records resulted in a owners of high grade *Sona* (multi-cropped) lands being offered compensations below market values. Moreover, reservation values of a significant proportion of owners exceeded market values, owing to considerations of preferences regarding risk and locations.

Land acquisition significantly reduced incomes of owner cultivator and tenant households, despite their efforts to increase incomes from other sources. Agricultural workers were more adversely affected relative to non-agricultural workers, while the average impact on workers as a whole was insignificant. Adverse wealth effects associated with under-compensation significantly lowered household accumulation of consumer durables, while effects on other assets were not perceptible. Regarding the form of compensation, most households expressed preferences for non-cash forms of compensation, with diverse preferences across different forms of non-cash compensation depending on occupation and time preferences.

## Policy Implications

- Official land records are insufficient to determine appropriate market valuations; supplementary surveys of acquired areas are needed.
- Compensations should exceed market value of land.
- Exact determination of compensations need to incorporate local information about land and livelihoods.
- Auction-based methods could be used as a way to elicit reservation values of owners.
- Appropriate forms of compensation should include a variety of options ranging from lands in neighboring areas, commercial property on acquired areas, pensions indexed for changes in cost of living, training and employment opportunities.

*“A land acquisition regulatory commission with quasi-judicial powers should be set up to carry out land acquisition”*

## Implementation

A land acquisition regulatory commission with quasi-judicial powers should be set up to carry out land acquisition, gather information about land valuation and reservation values of owners, spillover effects on those not directly affected.

Local governments (panchayats) should be consulted and actively engaged in the process. Once an investor declares interest in investing in a factory or mine in a particular area, panchayats in that area could be asked to carry out surveys or auctions in their respective jurisdictions to ascertain willingness of local owners to give up their land for specified compensation amounts, and submit a bid to the land acquisition authority for the amount of total compensation needed to locate the new facility in their jurisdiction.

## Further Readings

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