

# ASSESSING COMPENSATION VALUES FROM RESETTLEMENT PROJECTS: THE NEED TO INCORPORATE ELEMENTS OF FREEDOM AND JUSTICE

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## ABSTRACT

*The compensation for communities who are relocated to make way for development projects is often underestimated. As a consequence, the displaced communities often find their welfare to be worse off after resettlement and hence, the compensations do not provide justice to them. This paper reviews the issue of compensation and the approach for making compensation. In particular, it reviews the classical compensation theory by Kaldor-Hicks and also the modern theories of compensation. This paper argues that the Kaldor-Hicks compensation criteria are limited to explain the changes in the welfare of the displaced communities after resettlement. Thus, there is a need to consider the elements in Amartya Sen's conception of freedom, capability and liberty as well as Rawlsian theory of justice in modern compensation theories in order to capture the real changes in the welfare. A broader conceptual framework for the economics of compensation employing the role of freedom is constructed to provide a comprehensive understanding on the role of freedom and rights in compensation valuation for future development projects.*

**Keywords:** compensation, welfare, freedom, liberty, capabilities approach, legal entitlement, social exclusion

## 1.0 INTRODUCTION

This paper addresses the issue of compensation, the welfare aspects of compensation and the approach for making compensation. Big development projects such as hydroelectric dam constructions often induce displacement. A large number of people, especially the indigenous communities, have to be relocated. Dam constructions have accounted for significant

displacement of indigenous communities. This includes the constructions of the Bakun Dam in Sarawak (WCD, 1999), the Sungai Selangor Dam (Swainson & Mc Gregort, 2008) and the Three Gorges Dam in China (Hwang, Cao & Xi, 2011).

The displaced communities who have to move from one place to another are often unsatisfied with the resettlement arrangements of the state authorities. Resettlement can cause cultural, social and economic value losses to the displaced communities. Thus, compensations need to be given to the communities. However, compensation is often not properly handled by the state authorities. This is often more serious in developing countries where the state authorities are more powerful in forcing resettlement. The state authorities in these countries always have the upper hand in dealing with resettlement and compensation.

Compensation is linked to welfare. If the welfares of the displaced communities are not compromised in a compensation deal, there is not much problem with the compensation. It is important to review the classical and modern theories of compensation to understand compensation process and to identify the elements that need to be taken into account when dealing with compensation. This would enable us to compare and understand the weaknesses of the state authorities in handling or dealing with compensation. In this paper, we discuss eight displacement risks of resettlement and we assess the risks using the classical Kaldor-Hicks compensation test. Finally, we discuss the important contribution of the modern compensation theories by Amartya Sen that addresses freedom, capability and liberty, and the Rawlsian theory of justice.

## **2.0 THEORIES OF COMPENSATION**

Communities often have to be resettled in order to give way to important development projects such as the constructions of hydroelectric dams. Normally, constructions of hydroelectric dams lead to relocation of the surrounding communities to another place. This leads to social and economic losses that are suffered by the communities. Cernea (1990) identified eight displacement risks faced by the communities who are resettled. The eight important risks are landlessness, joblessness, homelessness, marginalization, increased morbidity and mortality, food insecurity, loss of access to common properties and social disarticulation. The communities need to be adequately compensated for their losses.

The idea of compensation is to bring the victim up to the baseline of well-being (Goodin, 1989). During resettlement, properties such as houses and lands are taken away by government to make way for development projects. This is detrimental to the welfare of the communities because they lose their properties. Compensation payments for assets loss are necessary to restore the resettlers' livelihoods.

The welfare of the communities can be conceptualized in terms of indifference curves. An indifference curve shows different bundles of goods between which a consumer is indifferent. The utility is represented by the indifference curve. The move from one indifference curve to another shows the change in utility. In the case of resettlement, the indifference curve would be lower if the utility has moved down (the communities suffer economic and social losses such as

loss of house, land, forests, culture loss and decrease in rapport with neighbors). These losses need to be compensated to restore the indifference curve (utility) back to the original to a higher indifference curve. This utility concept comes from the utilitarian approach to welfare economics. Welfare economics is concerned with evaluation of individual and social welfare levels, and the welfare impact of economic and social policies.

### Classical theory of compensation

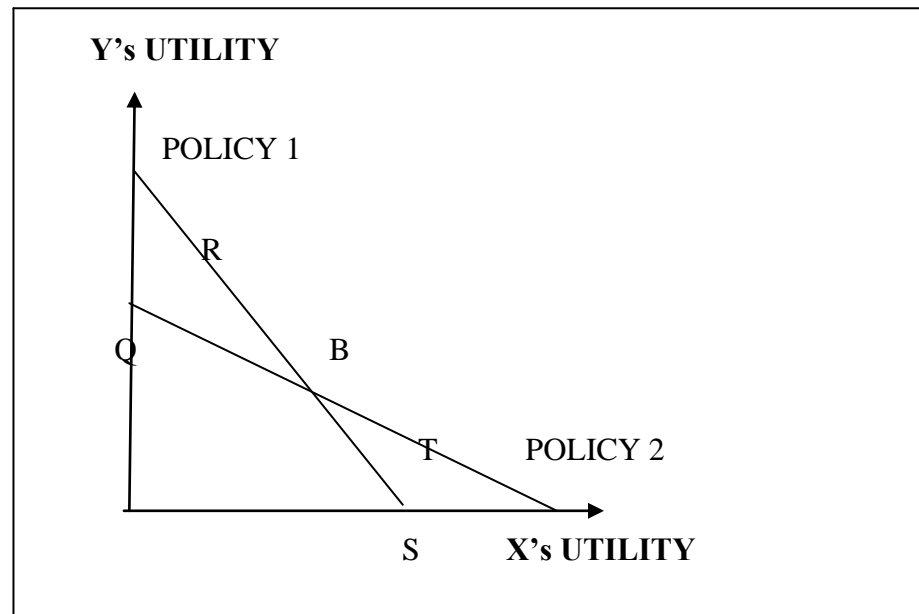


Figure 1. Kaldor-Hicks welfare criterion

The classical theory of compensation uses the Kaldor-Hicks potential compensation test. Nicholas Kaldor and John Hicks (1939) devised the Kaldor-Hicks potential compensation test to hypothetically compensate the welfare of the loser. In this compensation test as shown in Figure 1, there are two policies namely policy 1 (current situation) and policy 2 (after resettlement). From Figure 1, the benefit of gainers in policy 2 (after resettlement) shown in area QBR in which communities are better off is larger than the benefit of the worse-off party in policy 2 (after resettlement) shown in area BST. In order for people to choose policy 2 instead of policy 1, the loser needs to be better off by being hypothetically compensated by the gainers and both parties are better off in moving from policy 1 to policy 2. Policy 2 is preferred to policy 1 if there is Pareto improvement. Nicolas Kaldor and John Hicks (1939) proposed this welfare criterion that has been called the potential Pareto-improvement criterion or the potential compensation test.

However, there is a limitation in this utility-based interpretation of potential compensation test which has been debated. According to the utility-based interpretation of potential compensation test, the losers do not need to be compensated in actual condition. This interpretation has been a controversial issue and has been criticized by Just, Hueth & Schmitz (1982) because it is possible to make a large group of people worse off and only small group of people better off without the

actual payment of compensation. It is irrational to make people better off without the actual payment of compensation. In the case of resettlement, the displaced communities are compensated by the state authorities according to market value though the compensations are often undervalue and inadequate. The concept of the welfare of the communities is only restricted or limited to the economic values such as market value of land and house when governments are dealing with compensation. Market price-based evaluations are often used in valuation of compensation and opportunities for people to express valuations are not taken into account. Utilitarianism influences the idea on what kind of inputs (social and economic compensations) shapes the desired outcomes (economic growth and development of a rural area) deemed as the best results for the largest number of people. However, the utilitarian approach poses debatable questions because its central tenet is economic growth. The utilitarian approach cannot be used in the economics of compensation because the approach demonstrates shortcomings by not viewing the people's end as a primary object of evaluation and this may result in a decline in the well-being of the people. The utilitarian approach in compensation narrowly views development as a process of economic growth and not as means to expanding the real freedom of the people. Thus, the utilitarianism approach cannot be used in compensation analysis. There is a need to employ a more comprehensive compensation theory that views development as expanding peoples' freedom and capabilities by looking at each person as an end. We discuss the core ideas and the significance of the capabilities approach in modern compensation theories by Amartya Sen and John Rawls in the following paragraph.

### **3.0 MODERN COMPENSATION THEORIES BY AMARTYA SEN AND JOHN RAWLS**

#### **3.1 Valuation approach in benefit and cost analysis**

The concept of welfare is not limited to the utility of individuals in terms of economics values. The welfare concept involves a broader definition that incorporates other elements such as capabilities, freedom and social justice. Elements like justice and redistributive social policies are important in the measurement of individual welfare levels (see eg. Elster & Roemer, 1991). Understanding these elements is very important in doing valuation and giving compensations. These elements are often considered important by the displaced communities in their valuation of welfare.

Compensation principles need to be based on valuation of the communities' losses. Valuation of the loss can be done through benefits and cost analysis. Amartya Sen in his article 'The Discipline of Cost and Benefit Analysis (2000)' stated that with the current benefit and cost analysis approach, valuations are often done entirely on an analogy with the market mechanism. He argued that the 'human costs' were not taken into account in the market valuation procedure. This results in incomprehensive compensations. Thus, he suggested the use of social choice approach to capture the human loss in doing valuation. He also discussed elements such as capabilities, freedom and liberty as important aspects in doing valuation and compensation. These elements in modern theories of compensation should not be ignored. The main idea of Amartya Sen with regard to development process is that people must have freedom to do what they want and there is no institution that can restrict their rights to enjoy freedom. Each element or concept of modern compensation theories highlighted by Amartya Sen is discussed in the

following paragraph. It is crucial to understand these elements in the evaluation of compensation policies for development project. Better compensation policies that incorporate these elements of modern compensation theories are needed to reduce the dissatisfaction caused by poor handling of compensations in resettlement projects. At the end of the discussion on the elements, we provide a conceptual framework to explain the linkages or interconnections between the elements of freedom and development in the case of economics of compensation. The narrow view of development that only encompasses GNP growth or industrialization and ignores individual freedom is no longer valid and should be disregarded in the economics of compensation because it occluded distributional inequalities. Thinking of development in terms of GNP per capita failed to capture the other aspects of development such as health and education which are not highly correlated with GNP and thus it is not a good measurement of the overall wellbeing of the people (Nussbaum, 2003).

### **3.2 Freedom, liberty and welfare**

Freedom is an important element in the valuation of a project. It is linked with the evaluation of welfare of the people. If the communities or people do not possess freedom, the welfare will decline as a result. Thus, valuation and compensation must take into account the element of freedom of choice. Freedom of choice is highlighted in Sen's Liberal Paradox chapter in his book of collective choice and social welfare<sup>1</sup>.

In Sen's article of Freedom of Choice (1988), he highlighted the concepts of freedom and this is very important. He postulated that values must serve as means of pursuing the aim of freedom. The forced displaced communities in big development projects particularly in dam constructions often did not have freedom of choice. Some of the resettlement projects in Malaysia have illustrated that individual's freedom of choice were not taken into account in the development projects. This includes the resettlement projects for the constructions of the Bakun dam (Jehom, 2008), the Batang Ai Dam (Ruth, 2010) and the Sungai Selangor Dam (Swainson & McGregor, 2008). The instrumental role of freedom often is not taken into account by the state authorities in the valuation and handing out of compensation. This leads to the decline in the welfare of the communities. The valuation and compensation processes are not so effective as a result of this. Displaced communities often look at the aspects of freedom to do things and their access to resources and properties for valuing their welfare change.

For example, in most cases of resettlements due to hydroelectric dam constructions, the individuals had the freedom of access to more resources such as fruits, forest products and vegetables prior to the resettlement. The communities also had the freedom to move around and get the resources they want. After resettlement, the communities lost all the freedom in the new environment and the element of freedom is viewed as an important aspect in the valuation of welfare. Certainly, communities hope the valuation and compensation by state authorities take into consideration the loss of their freedom. However, the compensation by state authorities usually does not include the element of freedom. Sen (1988) in his article Freedom of Choice also mentioned that freedom is not only limited to commodities and income given but has a broader prospect that covers the elements of functioning and capabilities.

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<sup>1</sup> Sen, A. (1970). *Collective choice and social welfare*. San Francisco: Holden-Day.

In designing compensation that captures the aspect of freedom, each individual has their own dignity and must be respected as a human being who shapes his or her life and not being instructed on how to behave. In other words, the affected communities should be given the chance to actively participate in the development process, compensation process and resettlement process. The indigenous communities must be viewed as an agency or a part of the development process. They must be given the role or chance to have democratic participation to design compensation policy that expands their overall well-being.

### **3.3 Capabilities approach**

Amartya Sen's Capabilities approach is a useful element for evaluation of individual welfare. Capabilities approach views human being as an end and not as means to economic growth. This means that individuals are the primary objects of moral concern (Brighouse and Swift, 2003). The evaluation of projects should judge the effects to the individual human beings. For example, compensations given should be based on evaluation of the effects from the development projects to the indigenous communities who are being relocated. The assessment of development projects impacts on social and economic freedom and political and civil rights provides an input to the compensation valuation and the welfare of the people should be taken care of. The indigenous communities cannot be viewed as a barrier to development and their capability to achieve something valuable must not be ignored in compensation valuation. We propose a comprehensive democratic compensation framework that links the capabilities set of individual indigenous communities to the social and economic context (derived from Internal Risk and Reconstruction Model by Cernea). This proposed framework can be applied in the resettlement context.

There are two concepts in the capabilities approach namely functionings and capabilities. Sen (2003) defines the functionings as the achievement of a person which comprises of individual's activities and state of being. Functionings are achieved outcomes. For example in the context of resettlement of the indigenous communities, the functionings are hunting animals, bathing in the river, attending a school, and planting of crops to earn subsistence living. Capabilities are different from functionings. Sen defines a capability as "a person's ability to do valuable acts or reach valuable states of being (Sen 1993, p.30)". In other words, capabilities are the freedom of opportunities a person has to achieve something considered valuable to him. Capabilities are the potential of a person to achieve functionings, for example, having river to catch fish, having forest to hunt animals, and living in a society where lots of friends are there to chat with. Since the idea of compensation is to bring the welfare or well-being of an individual up to the base-line, valuation for compensation by the state authorities must take into account the concept of functionings and capabilities. There must be an institutional arrangement that supports these opportunities or freedoms to use the capabilities to exercise the functionings. This can create justice and equality.

Besides, Sen (2003) also stated that capability is a derived idea which reflects the potential achievement of the people and this involves a person's interest to choose the live they want. The individual welfare of each person is decided by themselves. The communities should have their rights to choose the lives they want. The communities may like to stay in a place where they can

achieve their potential achievement such as having different facilities and using the abilities to work for their livelihood. For example in the case of Bakun hydroelectric dam construction which caused displacement of the surrounding communities, the communities should have the freedom and capability for hunting and collecting wild fruits to earn a better life after resettlement. Institutions should provide hunting ground such as forests or river for the indigenous communities who have strong attachment to the nature. The process of doing valuation of compensation should not ignore these aspects. This can increase the well-being of the indigenous communities who are resettled.

This capabilities approach which comprises the elements of functionings and capabilities can provide a guideline for valuation and compensation. The objective is to improve the welfare or to at least maintain the welfare of the communities. Proper valuation of compensation needs to be carried out to determine the level of benefits of the communities. However, evaluation for compensation given should be based on capabilities and not functionings. “This is because evaluating only functionings or the outcomes provides too little information about how well the people are doing” (Walker and Unterhalter, 2007). The displaced communities might have different capabilities across individual though the functionings or outcomes are the same. In the case of resettlement of the indigenous communities, evaluation of the equality in giving compensation should be based on the real freedom or the opportunities each individual had available or capable to choose from and to achieve what is considered valued to the individual. This can prevent the individual from being marginalized and excluded in enjoying the benefits or fruits of development projects.

### **3.4 Legal entitlement**

Another element that is important in valuation for compensation is legal entitlements (Sen, 1988). Legal entitlement or rights of the communities is very important in doing valuation for compensation. For example, in the case of Bakun hydroelectric dam which resettled about 10000 people from their home, the legal entitlement or rights to native customary lands is important. The communities use the land to plant crops and for cultural activities to maintain the livelihoods of their families. Besides that, the native customary lands are important as a burial ground for the ancestors and communities feel free to move around and do anything on the lands. These lands are the rights of the communities. The resettlement processes due to the development projects would affect the welfare of the communities. The compensation should reflect the valuation of legal entitlement or rights of communities. The communities should not be deprived of the rights that they have on the resources, lands and environment.

The rights as mentioned by Sen (1999) in his book *Development of Freedom* also include political and civil rights. The example of political and civil rights is the liberty to participate in public discussion as mentioned by Sen (1999). The denial of political and civil rights by the authoritarian regimes in involuntary resettlement leads to unfreedom. Development theory encompasses the removal of unfreedom so that communities are free to choose their own lives in terms of social and economic arrangement, as well as political and civil rights. There must be no restrictions toward the rights to possess freedom and exercise their own capabilities. This is important because communities need to have a say in the resettlement processes. The communities should be given the rights to participate in any activities of resettlement. The

communities should have political and civil rights to voice out their views. Their views need to be taken into account in valuing compensation. In many cases of resettlement around the world, the communities' political and civil rights have been ignored by the state authorities in valuing compensation. When a development induces displacement, the state authorities should prioritize the human rights of the affected communities when valuing compensation in order to mitigate social deprivation, poverty and inequality among the communities.

Sen also viewed food security as an entitlement. The loss of food security after being resettled is an important consideration. The communities may have access and are entitled to various resources around them such as the river, land, trees and gardens before resettlement. The communities can also move freely to use these resources to produce food. However, these resources may be gone if they are resettled and compensated with a new environment with infertile land where they are unable to plant fruit trees and others. This will lead to the decline in the welfare of the community and therefore food security should be accounted for in the valuation of compensation.

### **3.5 Social exclusion**

Sen (2000) also dealt with the concept of social exclusion. Resettlements due to big development projects often cause social exclusion. The logic behind it is that when communities are resettled in a new area, the skills they possess such as hunting for animals and collecting fruits in the forest to maintain livelihood will be irrelevant. This often results in social exclusion in job markets. This means that the communities will be unemployed in the new environment because the skills they possessed cannot be used. Subsequently, unemployment will cause poverty, loss of freedom, psychological harm and misery (Sen, 2000). This social exclusion is also related to Sen's capabilities approach. Social exclusion will negatively affect the welfare of the people and must be accounted for when state authorities determine compensation valuation.

### **3.6 Justice (John Rawl's theory of justice)**

John Rawl in his Theory of Justice in year 1971 stated that apart from utility, justice should also be included as the basis in issuing compensation. Rawl (1971) pointed out that "Goods are welfaristically understood as happiness, pleasure or preference and utility (happiness and pleasure) are too subjective for giving compensation at the bar of justice". In doing valuation for compensation, the state authorities shall consider the element of justice and not just utility in terms of income. The life prospects of the communities and the people will be affected if the compensation valuation is not done fairly. Every person is entitled to their rights and justice. Unfortunately, in most cases of developments which induced displacements in the Asian countries, the voices of the affected communities were not taken into consideration in the compensation process (Judge, 1997; Swainson & McGregor, 2008; Hwang, Cao & Xi, 2010). The affected communities' livelihoods are worse off after resettlement. Social justice and liberties of the communities were often left out. This has resulted in unjust compensation and feeling of dissatisfaction arose among the communities.

In Rawl's (1971) Theory of Justice, social goods are defined as rights and liberties, income and wealth, opportunities and power and social bases of self-respect. In the case of compensation, the state authorities must ensure that every person in the communities shall possess the rights to



think and participate in any decision-making process involving valuation of compensation. Besides, the communities should be given chance to work and to have proper occupation as well as freedom to move around the environment and to own the resources. Self-respect is also important whereby the communities realize that they are in their highest-order interests and have self-confidence in whatever they do. Giving compensations in the form of tangible goods according to market-value and focusing on the basis of utility of tangible goods alone in dealing with valuation of compensation is not sufficient. The broad definition of social goods in the presence of justice is much more important in valuation of compensation.

#### **4.0 COMPARISONS BETWEEN THEORETICAL PERSPECTIVE, EMPIRICAL PERSPECTIVE AND POLICIES FOR COMPENSATION**

In this section, we try to compare the theoretical perspective, the empirical perspective and the policies for compensations from around the world in terms of empirical evidences, main contributions and the remaining controversies, as shown in Table 1. This enables us to understand the current advantages and weaknesses of compensation from the theoretical, empirical and policies perspectives. This gives a direction for future study to fill in the gap highlighted by the limitation or controversies on compensation issues.

Table 1

*Comparisons between theoretical perspective, empirical perspective and policies for compensation*

	Theoretical	Empirical	Compensation policies
Literature	Sen (1988, 1989, 2001, 2003) and Rawls (1971)	There are a few studies on resettlement impacts around the world: Hwang, Cao & Xi (2010) studied the Three Gorges Dam; Agba, Akpanudoedehe and Ushie (2010) studied the Bakassi River, Nigeria	1. Swainson & McGregor (2008) studied the Compensation for Sungai Selangor Dam
Main contributions from literature	<ol style="list-style-type: none"> <li>1. Sen contributes the concept of freedoms and capabilities in welfare economics. Settlers should be given rights to function according to his capabilities to prevent decline in welfare.</li> <li>2. Rawls contributes his concept of social justice in determining what constitutes fair distribution</li> </ol>	<ol style="list-style-type: none"> <li>1. Understanding the impacts of resettlement which would be used as the basis to form variables to study compensation and resettlement cases in the future.</li> </ol>	<ol style="list-style-type: none"> <li>2. Intrinsic values such as cultural, spiritual and social values must be compensated to improve welfare.</li> </ol>

Table 1

*Comparisons between theoretical perspective, empirical perspective and policies for compensation (Continued)*

Controversies remaining from the literature	<ol style="list-style-type: none"> <li>1. It is hard to determine how much freedom and capabilities should be exercised in real lives. There is no instrument to measure level of freedom and capabilities.</li> <li>2. How to measure justice in real situations is a challenge in itself.</li> </ol>	<ol style="list-style-type: none"> <li>1. Resettlements cause communities to lose homes, schools, villages, crops, fruit trees and communal forests. The challenge is to find new environments similar to the original environments so that the utility or welfare is not reduced.</li> </ol>	<ol style="list-style-type: none"> <li>1. Very hard to measure and compensate less-tangible values in real lives.</li> </ol>
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Table 1, explains the theories of compensation, the practical applications and the controversies arised from the compensation and resettlement policies. As shown in Table 1, freedom and capabilities must be included to measure the overall compensation for the people affected by development projects, as mentioned by Amartya Sen and John Rawls, two prominent welfare economists. However, the challenge lies in how to measure the loss of fewer tangible assets, such as the environment and social loss, to account for policy purposes. In other words, it is very difficult to measure the compensation for the loss of affected communities. Thus, the best compensation policy is the state authorities must try to consult the opinions and loss of properties incurred by the affected communities to account for better compensation.

## **5.0 PROPOSED DEMOCRATIC COMPENSATION FRAMEWORK OF INDIVIDUAL CAPABILITIES**

In a resettlement case, some segments of the populations, usually the indigenous communities, are relocated and subsequently they suffer from social and economic welfare losses. The social and economic welfare losses are identified in Michael Cernea’s Impoverishment Risks and Reconstruction Model (IRR). Amartya Sen identifies the social and economic welfare of the communities as the instrumental freedoms or sometimes called “capability enhancers” that

contribute directly or indirectly to what the people have to live the way they like to live (Sen, 1999). The distinct types of instrumental freedoms are political freedoms, economic facilities and social opportunities. Thus, we incorporate these social, economic and political variables into the compensation model to explain their connections with valuable capabilities and valuable functionings. External factors like institutional supportive efforts provide the playing field or environment for the resettlers to utilize their capabilities to achieve functionings.

Table 2

*Proposed democratic compensation framework of individual capabilities set (capabilities and functionings) in the social and economic resettlement context*

<b>Valuable Capabilities</b>	<b>External Factors (Institutions Supportive Efforts)</b>	<b>Valuable Functionings</b>
<b>Social</b>	<b>Social</b>	<b>Social</b>
1. Having been taught to read and provided with the ability to choose to achieve aspects of education valued by the individual	1. Provide education facilities and qualified teachers in a good learning environment	1. Being educated
2. Having good health facilities and the ability to choose to use the facilities	2. Provide health facilities	2. Being able to enjoy health care
3. Having clean water and sanitation facilities and the ability to choose to use the facilities	3. Provide clean water and sanitation facilities	3. Being able to access clean water and sanitation facilities
<b>Economic</b>	<b>Economic</b>	<b>Economic</b>
1. Having adequate job opportunities and being able to exercise their skills in the available job markets	1. Provide job opportunities such as giving land concession, land benefits sharing and providing financing and technical support	1. Being able to look and ask for better job opportunities
2. Having the reason to choose desired jobs from the jobs available in their environment	2. Provide adequate jobs that are desirable for the communities to choose.	2. Being able to choose desired jobs
3. Having good public infrastructures and the ability to reason the valuable use of public infrastructures	3. Provide good public infrastructures such as roads, electricity, and internet.	3. Being able to enjoy good public infrastructures

**Political and civil rights**

1. Having a place for them to participate in public discussions during resettlement process and being able to think and reason the value of participating in discussion

1. Having a place for them to participate in public discussions for compensation process and being able to think and reason the value of participating in discussion

**Political and civil rights**

1. Allow the communities to participate in public discussions for them to act as an agency

2. Allow and provide a place for the communities to participate in public discussions for them to act as an agency

**Political and civil rights**

1. Being able to participate in public discussions during resettlement process

2. Being able to actively participate in public discussions during compensation process

As shown in Table 2, there are three layers to achieving valuable functionings. The first one is valuable capabilities. Capabilities are the potential to achieve the functionings but capabilities must be supported by external factors before functionings (actual outcome) can be achieved. For example, in the social context of resettlement in a new place, the functioning is to be educated. Thus, the first step to achieve this actual outcome is to have valuable capabilities (the potential to be educated). The valuable capabilities are having been taught to read and write and the ability to choose to achieve aspects of education valued by the individuals. However, to achieve the valuable functionings, the valuable capabilities must be supported by external factor effort such as the institutional effort to provide the education facilities and qualified teachers in a good learning environment for communities that valued the aspects of education. Finally, the valuable functionings of the communities being educated can be achieved. Without support by institutions, the valuable capabilities cannot turn into valuable functionings. This is where the compensation by institution comes in. The state authorities (institutions) can compensate the affected communities by providing education facilities and qualified teachers in a good learning environment. This will satisfy the needs of the indigenous communities who valued the importance of education so they are able to exercise their capabilities in becoming educated (valuable functionings). The needs of the indigenous communities can be realized and fulfilled by the state authorities through participation of resettled communities in public discussions.

## 6.0 CONCLUSION

Government or state authorities focus a lot on development projects. Many of the development projects induce displacement of communities. Through development projects, state authorities aim to develop the nation. However, developing the nation is not only about the economic growth of a country. Every aspect of the welfare of the people and other values need to be looked into. Whenever there is a big development project that results in displacement of people, state authorities need to take into consideration the individual interests, food security, poverty of the

people and to go beyond economic development goals. Aspects of freedom, justice, individual rights, legal entitlement and capabilities should be taken into account and policies should be designed in ways that would incorporate these aspects in the resettlement program (Sen, 2001).

Compensation packages should not only focus on the traditional ‘welfarist criteria’ of utility of market goods. Other important elements that go beyond the traditional ‘welfarist criteria’ of utility which are part of ethical and social judgement criteria in the modern compensation theories should be taken into account. These elements such as the freedom to choose, liberty, capabilities approach, legal entitlement and justice should be considered in valuation of compensation. The lack of these elements which are considered human costs can lead to ineffective compensation approaches. Justice, for example, should be accounted for in the valuation of compensation in order to make the displaced communities feel appreciated, confident and given the appropriate consideration. The compensation also needs to incorporate liberties and freedom for without freedom, the welfare of the communities will be worse off. These new elements would reduce the conflicts between the displaced communities and state authorities concerning valuation of compensation and the communities would not feel discriminated or treated unjustly. Thus, individuals will accord high level of legitimacy to the enforcing agencies or state authorities. The challenge for state authorities therefore is to value these elements and incorporate them appropriately into their compensation program.

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