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ASSESSING LAND INVESTMENT QUALITY

A methodology to assess the quality of land concessions and leases in the Lao PDR

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Investment in land and natural resources is expanding worldwide. Despite rhetoric to the contrary, investors are not purchasing virgin land.⁽¹⁾ Nearly half of all land deals globally are for land already cultivated by small-scale farmers.⁽²⁾ Land investments can boost economic growth, but often do so at the cost of local livelihoods and environments. Some investments, however, have greater and more negative social and environmental impacts than others. In the absence of a transparent system to monitor the impacts of these investments, governments have little basis on which to regulate or restrict harmful investments – or to promote high-quality investments.

The Lao People's Democratic Republic (Laos) is heavily dependent on its natural resource base as an economic asset. Already in 2012, agriculture, tree-plantation, and mining concessions covered a total area of 0.99 million ha – nearly equaling the size of the area under rice production, and still expanding.⁽³⁾ Focusing on the primary sector in Laos, we developed a methodology to assess the quality of investments in concession and lease projects. The methodology is based on interviews with stakeholders, using a set of standardized questionnaires. We assessed aspects of compliance as well as economic, social, and environmental impacts of land deals. Using data from the interviews, we further developed a metric to rate and benchmark land deals. This rating system allows the Government of Laos (GoL) to review the implementation of projects individually as well as across product groups or sectors.

This initiative is a joint effort of the GoL and the Centre for Development and Environment of the University of Bern, with funding from the Swiss Agency for Development and Cooperation. This summary provides an overview of the methodology, which is described in detail in our full report, "ASSESSING LAND INVESTMENT QUALITY: A methodology to assess the quality of land concessions and leases in the Lao PDR".

Read our full report

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MEASURING INVESTMENT QUALITY IN LAOS

A national concessions and leases inventory

We began with an inventory of all current land concessions and leases. In Laos, as in many countries, concessions are often granted at the local or regional level. National inventories make it possible to see and analyse existing investment projects nationwide, and to analyse patterns and trends within and across invested products. The latest inventory details the locations and size of each project, as well as key characteristics including the investors' national origin, the products in question, and spatially explicit data on the areas allocated by the government and the areas that investors have actually developed. We collected this data by cross-checking central government, ministry, and local government agency databases; obtaining signed official documents including key information on concessions and lease projects from the representatives of relevant province and district offices; and conducting participatory mapping with local government authorities.

Indicators of investment quality

Based on international standards, Lao law, and interviews with government officials and international experts, we divided investment quality into four facets: (1) legal compliance, (2) environmental impacts, (3) economic impacts, and (4) social impacts. Within each facet, we devised six to eight key indicators that could be measured in a survey of stakeholders. Multiple sources were consulted to determine the variables to include in the survey questionnaires, including Lao laws and regulations, the FAO Voluntary Guidelines⁽⁴⁾, and the World Bank report, "The Practice of Responsible Investment Principles in Larger-Scale Agricultural Investments"⁽⁵⁾.



Figure 1: Quality of investment is assessed through four facets: compliance, environmental impacts, economic impacts, and social impacts.

Survey design

We designed questionnaires for interviewing stakeholders in order to assess the quality of investment of agriculture and mining concession projects. We included affected villagers, government authorities, and company representatives. For each project, we surveyed officials and citizens in the villages most and least impacted by a land investment. We calculated the level of impact based on the amount of land lost in a village and the population of the village. We conducted interviews with the three main stakeholder groups as follows:

- **Villagers** We interviewed representatives of households who lost land to the investment project, whose members work for the project, who lost no land, and with no members working for the project. Village-level interviews were conducted with leaders including village chiefs, elders, foresters, and women's union members.
- **Government agencies** We interviewed district and provincial government offices including Agriculture and Forestry, Natural Resources and Environment, Planning and Investment, Energy and Mines, Finance, and Labour and Social Welfare. We chose to focus on the district level, as local authorities tend to have the best knowledge on the development of individual projects on the ground. Provincial-level questionnaires focused broadly on the positive and negative impacts of the project to corroborate local results.
- **Companies** We interviewed land lease and concession investors, including the company director, deputy director, or site manager, as well as any knowledgeable technical staff.

Facet	Indicator	Selected questions from questionnaires
Compliance	Surveying & approval	Was land cleared before or after the proper legal procedure was complete (contract signed, project approved, land survey conducted, and concession map created)?
	Concession boundary	Has land been cleared outside the concession boundary and if so, by how much?
	Contract violation	Has the concession contract been violated and if so, how seriously?
	Village consultation	Was the whole village informed of the project before it was approved? Did they have an opportunity to negotiate its key aspects?
	Village consent & grievance mechanisms	Village consent & grievance mechanisms: Did villages consent to the project in a free, prior, and informed manner? Were villagers able to raise grievances after the project began?
	Project progress	How quickly is the project advancing? Is it ahead of schedule, behind, or abandoned?
	Progress reporting	Has the company provided regular progress reports to the government?
Environmental impacts	Types of forest cleared	Have forests been cleared illegally by the project?
	Environmental Impact Assessment (EIA)	Did the company conduct an EIA before implementing their project?
	Environmental reporting	Has environmental reporting occurred as required, and has an Environmental Management Plan (EMP) been created?
	Chemical use & management	Are the chemicals being used approved and what impacts have they had on surrounding areas?
	Pollution	What degree of air, water, soil, and noise pollution is produced by the project? How good is the project's waste disposal system?
	Livestock impacts	Has the project impacted the number of livestock in surrounding villages?
Economic impacts	Amount of household land lost	How many households lost land in the village and how much land has been lost per household?
	Importance of cleared land	How important was the land cleared for the project to villagers' livelihoods?
	Compensation	Has compensation been provided to households that lost land and how did the valuation process occur?
	Payment of fees	Have all required fees, royalties, and taxes been paid in full?
	Infrastructure development	What amount of promised infrastructure has been developed and to what degree were local communities involved in decision-making?
	Income change	Have household incomes increased or decreased as a result of the project?
	Change in natural resources	Is there a change in the availability of natural resources important to village livelihoods, as a result of the project?
	Impact on local economy	Are villagers satisfied with out-grower schemes, if provided, and does the company process its output locally?
Social impacts	Use of foreign labour	Is the company's use of foreign labour within legal limits?
	Age and gender of labourers	Are the ages of workers within the legal limit, are all age groups represented, and are men and women employed in equal numbers?
	Wage rates	Are wage rates above the minimum wage? Are men and women paid equally?
	Labour practices	Have there been reports of poor working conditions or unfair labour practices?
	Labour sourcing	How many jobs are available for villagers surrounding the project area?
	Health & safety aspects	Are health insurance or payments provided? Are workers trained in safety procedures and has the project impacted villagers' health?
	Impact on food security	Has food security for surrounding villages changed as a result of the project?
	Technology transfer & social development	Did the company introduce new technology or training that villagers now use in their own farms and businesses? Did the company provide the agreed social development programmes?

Table 1: Overview of indicators and selected questions from the QI questionnaire on the four facets: compliance, environmental impacts, economic impacts, and social impacts.

A RATING METRIC FOR QUALITY OF INVESTMENT

We developed an index to rate investment quality using the information from the stakeholder surveys, and the national land concession inventory. Because ratings always involve value judgements on what impacts are important, we designed a system to give a quick overview of performance and allow users to examine different aspects of investment quality. Our rating system consists of three tiers: Tier 1) a simple numerical score, Tier 2) a visualization of how a project scores in each facet, and Tier 3) a measure of scores for each indicator with the four facets.

Tier 1

We rate each project on a scale of 1 to 100. Investments rated close to 100 performed well in terms of their environmental, economic, and social impacts, and were in compliance with Lao law. Each of the four facets (compliance, and economic, social, and environmental impacts) is weighted equally. To come up with scores for the four facets, we defined key indicators for each category based on one or more variables in the Quality of Investment (QI) survey. Indicators are weighted equally. Applied to rubber plantation concessions we assessed in Luang Prabang Province, we found none of the investments were of exceptionally high quality. This result is in line with the affected communities' perception of the projects.

Project name Overall project score (Tier 1)

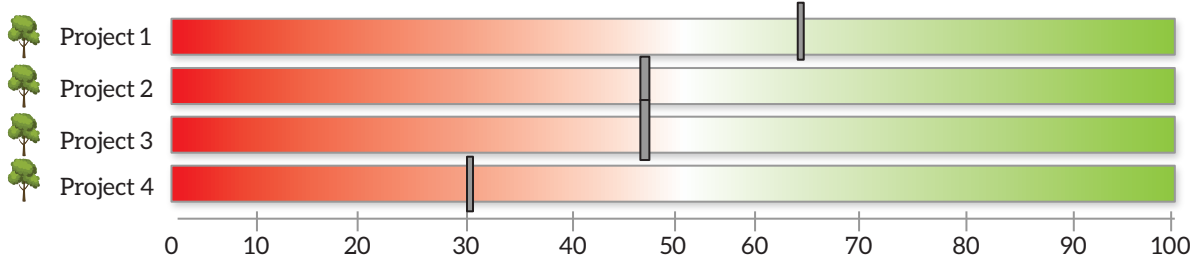


Figure 2: Tier 1 scores of the IQI for four rubber plantation projects in Luang Prabang province sorted in descending order, from highest to lowest score.

Tier 2

Tier 2 allows us to easily compare performance in the different facets, and focuses attention on the aspects of an investment project that may require improvement or regulation. For the rubber concessions in Luang Prabang, we see that investments with the same overall ratings can perform quite differently in terms of environmental and economic impacts on the one hand, and legal compliance on the other.

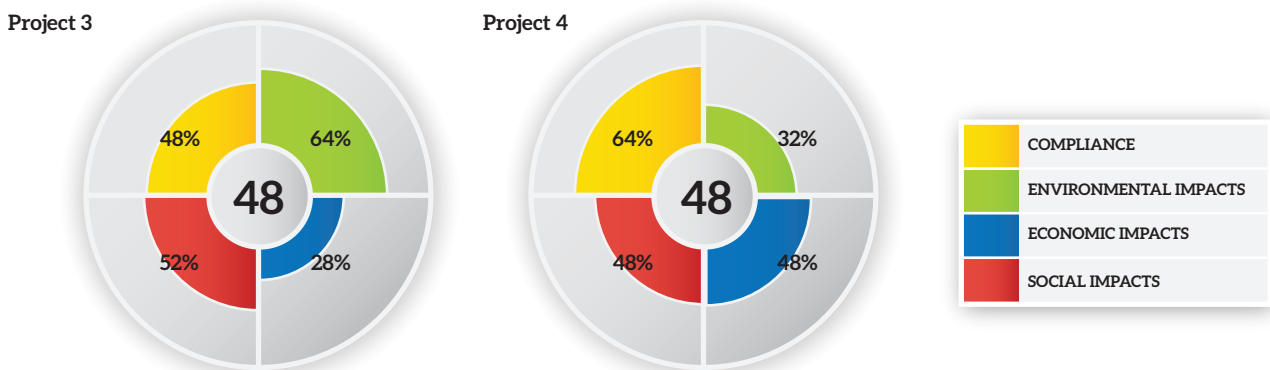


Figure 3: Comparison of IQIs (Tier 2) for two rubber plantation projects in Luang Prabang province.

Tier 3

Tier 3 permits a closer look at the specific variables that may have performed poorly. Figure 4 shows how Project 3 performed for each indicator. For example, the project's environmental performance is relatively good and all taxes and royalties have been paid by the project. However, none of the households that lost land have been compensated. The land lost to the concession was economically important to villagers: more than 50% of households lost land, a majority of which lost more than half their land. The project has not benefited the affected households in terms of income.

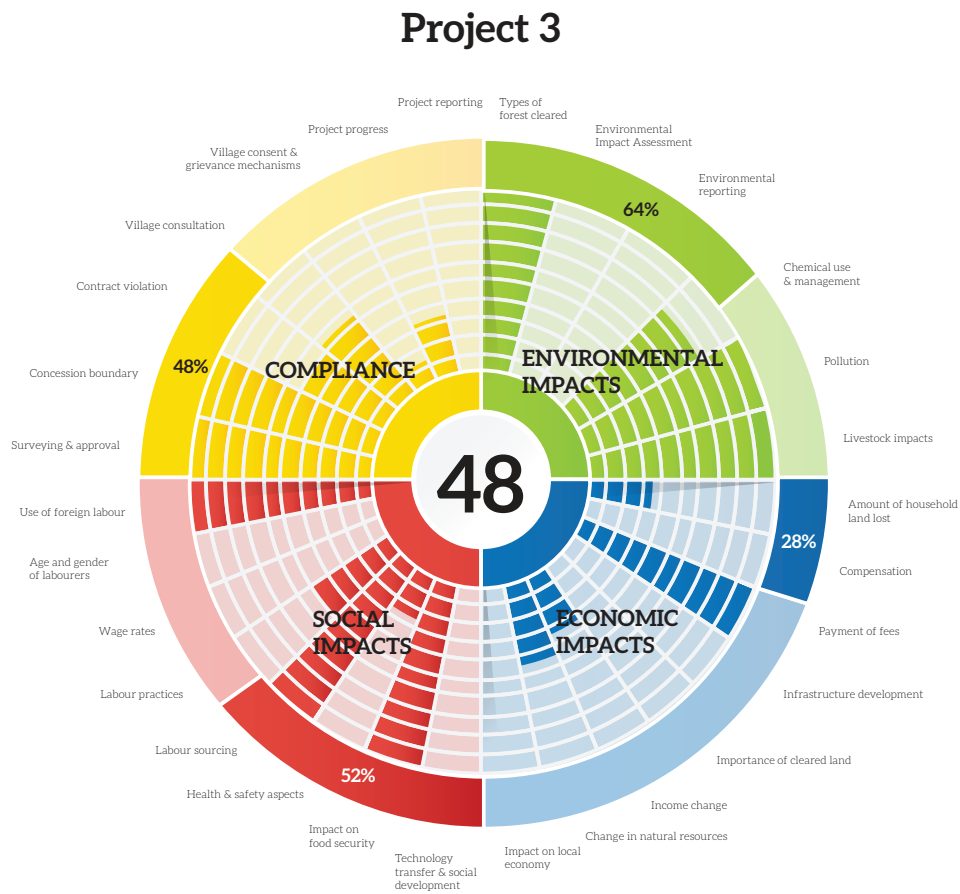


Figure 4: Examples of the visualization of the IQI at Tier 3. At this most detailed level, all the indicators contributing to each facet are clearly visible.

CHALLENGES

Evaluating the impacts of land concessions is challenging for multiple reasons. First, there are many conflicting metrics to determine what constitutes a high or low quality investment. Second, evaluating the relative importance of these impacts is a highly subjective exercise, as the methodology inevitably reflects the values of those who design it, the evaluators who implement it, and the agencies that fund it. To minimize the subjectivity of our assessment, we followed international guidelines and standards, and tried to operationalize selected concepts into questions that were adapted to the local context. Third, in many instances there were different perceptions of a single issue, and inevitably, conflicting information would emerge from different sources due to differing interests. For this reason, we chose to interview all stakeholder groups. Finally, our methodology is time-consuming and expensive. In the future, it would be desirable to set up an information management system that automatically creates scores for a selected set of indicators, by sector and company, as governments approve and monitor concessions. The scores would still need to be complemented by interviews, but this semi-automated approach would save a great deal of time.

LOOKING FORWARD

Evaluating the quality of investments gives governments a baseline from which to analyse, regulate, and improve the outcome of investments in the country's natural resources. The results enable us to point out key stumbling blocks that are linked to "bad" investments, and key stepping stones that lead to "good" investment outcomes. Ideally, the QI assessment should be carried out repeatedly, allowing projects to be evaluated as they develop, with an increase or decrease in scoring over time, rather than the single baseline study score. Projects which fail, repeatedly, to improve their scores – and hence continue to negatively impact local communities or the environment – could then face strong measures, such as fines or contract cancellations. The system can also be used to develop guidelines for responsible investment. This will bring us closer to the goal of using land acquisitions as a tool to contribute to socio-economic development, poverty reduction, and sustainability in Laos.

Assessing Quality of Investment of land concessions in the Lao Decide info III project

A joint initiative of the GoL and the Government of Switzerland, Lao DECIDE info strives to improve access to key data and information for development planning and decision-making. The project is currently in its third phase (2013–2018). It receives technical and conceptual support from the Centre for Development and Environment (CDE) of the University of Bern, Switzerland. Lao Decide info is mandated by the Swiss Agency for Development and Cooperation (SDC).

The present assessment builds on the first land concessions inventory carried out by GoL and the German international cooperation agency GIZ. Seven departments from four Ministries partnered to carry out an update and enhancement of this land concession inventory. Five of these departments participated in the quality of investment assessment:

- The Department of Investment Promotion (IPD), Ministry of Planning and Investment (MPI)
- The Department of Planning and Cooperation (DoPC), Ministry of Agriculture and Forestry (MAF)
- The Department of Land Administration (DoLA), Ministry of Natural Resources and Environment (MoNRE)
- The Department of Mines (DoM), Ministry of Energy and Mines (MEM)
- The Department of Geology and Minerals (DGM), Ministry of Natural Resources and Environment (MoNRE)
- The Department of Agricultural Land Management (DALaM), Ministry of Agriculture and Forestry (MAF)
- The Department of Forestry (DoF), Ministry of Agriculture and Forestry (MAF)

Box 1: The DECIDE info III project and its land concession component in a nutshell.

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