REVIEW OF POLICY ON PRIVATIZATION AND TURNOVER OF IRRIGATION SYSTEMS WITH PARTICULAR REFERENCE TO THE WHITE NILE PUMP SCHEMES

BY

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INTRODUCTION

The initiatives taken recently the Government of Sudan in 1991, to curtail its primary role in the management of the country's irrigation systems and correspondingly increase the role of the private sector and farmer organizations in the management of the irrigated sector symbolized a radical shift from the policy pursued by government for nearly three decades.1

The change in policy was apparently in response to the mounting economic difficulties encountered by government in the face of hyperinflation, low levels of investment, dwindling foreign exchange earnings, reduced access to international credit and cutbacks in foreign aid.

The rapid decline of official reserves and the compelling need for financial austerity and curbing public expenditure, several state-owned enterprises and service organizations were targeted for privatization. Among the public agencies identified for privatization were the parastatal bodies vested with the responsibility of administering the countries publicly managed irrigation schemes. Thus, the attempt to privatize and turnover the irrigation schemes formed part of the larger effort of the Government of Sudan at macro-economic adjustment and restructuring under its National Economic Salvation Program 1990-93.2

The turnover program got underway in the wheat season of 1991-92 with the White Nile Agricultural Services Administration (WNASA) a parastatal body vested with the responsibility of managing the White Nile pump schemes, withdrawing its administration of all but

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1 During this time the government owned the land, set the cropping pattern, supplied all production inputs and services, maintained and operated the irrigation facilities and intervened in marketing by procuring the crop from the producers at administratively set prices.

2 In the early 1980s an attempt was made to divest some of the parastatal agencies managing the country's agricultural sector with the transfer of some of state-owned mechanized rainfed farms to the private sector. Although in the 1984 and 1986, the government passed resolutions to dismantle the two public Corporations managing the White and Blue Nile pump schemes, these were not implemented.

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AND TURNOVER OF IRRIGATION TO THE WHITE NILE PUMP SCHEMES

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38 schemes transferring their management to the private sector and farmer organizations.

Policy making is a complex and tedious exercise. In formulating policy, governments take a number of factors into considerations. These included ideological persuasions, political goals, economic factors, social–cultural factors and other strategic considerations. It is the weightage attached by government to the various factors which ultimately shape public policy. Although some of the factors apparent, others are made less explicit, depending upon what government perceives to be in the best interest of governance and the nation.

This paper reviews the privatization and turnover policy in Sudan as it relates to the White Nile Pump Schemes. It highlights the key provisions of policy and examines their implications in relations to the White Nile Pump schemes. Based on the present analysis and the evidence from other countries where P&T programs are implemented, the proposes preconditions which must be satisfied to realize the envisaged benefits of the privatization program.

2. Overview of the Macro-Economic Environment.

To place current efforts at privatization in Sudan in perspective, it is necessary to have a broad understanding of the prevailing macro-economic environment in the country.

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Until recently the agricultural economy of Sudan was highly State regulated. The State not only controlled the means of production, it intervened in the input and product market and also to on the responsibility of providing the support services. The private sector on the whole was conspicuously sparse. In this setting state patronage was important especially as there were few means for advancement outside the state sector.

Steps have now been taken to curtail the role of the state in the economic affairs of the country and encourage the private sector. Attempts have been made to restore markets and there has been some

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expansion in commodity circulation. However, it is not clear just how much autonomy the private sector has gained through these measures. The economy is still characterized by chronic shortages, high inflation and prices bear little relationship to real costs. Moreover, the tradition of state dominance continues to be reflected in the institutional framework which is still oriented to a state regulated economy. These are indeed difficult circumstances for the smooth implementation of a privatization program, but the process initiated seems to hold out hope for the future.


The key provisions of the prevailing policy as it relates to the White Nile pump schemes are as follows:

1. The emphasis of the P&V of the White Nile pump schemes program so far, has been on the dismantling of the White Nile Agricultural Services Administration (or the White Nile Corporation as often called) - the parastatal agency which had administered the schemes and provided farmers with production inputs and ancillary services - and transfer their management to farmer organizations and private holding companies.

2. The irrigation facilities including the pumps will remain as government property and will be operated and maintained by the Ministry of Irrigation. (It is understood that under the proposed IPAD project the irrigation facilities will be transferred to farmer organizations).

3. The schemes were to be leased out to private companies only with the concurrence of the tenants associations in the respective schemes on terms and conditions of the take-over. The lease was for a period of one year. The contract could be renewed annually with the agreement of both parties.

4. Implications of Policy and Some Outcomes

4.1 Emphasis on Divestiture

In essence, "privatization" of irrigation schemes in Sudan essentially involves the disengagement of state in the provision of support services to the irrigation schemes and turnover this function to the private sector and farmer organizations. However, the government continues to maintain its control over the means of production by retaining the ownership of land, manage the irrigation facilities, and the possibility of intervening in the input, product and capital markets through the state controlled marketing organizations and financial institutions.

The principal concern of government has been on divesting the WNASA. Some 70 percent of its staff had been retrenched and the administration of WNASA was withdrawn from all but 36 schemes of the 174 pump schemes.
The emphasis on divestiture of WNAS and the rapidity with which it was implemented has had its consequences. Some authorities on privatisation argue that speed in implementation is a vital factor for privatization to succeed. Perhaps this has some relevance in the case of White Nile schemes as divesting WNAS had been contemplated since 1987, and was only partially done in 1991. However, due to the lack of a planned and orderly transfer of management, the sudden withdrawal of WNAS administration had handicapped tenants in some of the schemes especially in Kosti and Renk area who were unable to make alternative management arrangements on time.

At present, sixteen schemes have been taken-over by a private sector company - The White Nile Company. The change over to private sector did not alter the prevailing rights to water. The MOI continues to operate and maintain the irrigation facilities and the private company would levy the water charges from the tenants and reimburse the MOI.

Thirty three schemes in the Dueim province have been provisionally brought under a management organization set up on initiative of the political leadership of Dueim. The fate of the remaining schemes is unclear. Field inquiries carried out during the 1993/94 revealed that a large number of the such schemes in Kosti and Renk did not have a management system and the land had been left fallow. Some of the tenants interviewed indicated that they intend forming a company or such organization to manage the schemes, but they were unsure whether could mobilize the necessary financial resources to do so.

Our inquiries reveal that as divestiture was the primary concern the government had devoted its energies to identifying the assets to be affected by privatization but had been lax in delineating adequate means and procedures for implementation complementary policies aimed to foster competition, restructure incentives and motivate the private sector and other non-governmental entities to participate in the privatization program.

Ample evidence worldwide relating to other sectors of the economy shows that the mere transfer of assets from State to non-governmental organization had not yielded desired results unless complementary measures were taken to facilitate non-governmental entities to function effectively.

The experience of Chile is instructive in this regard. The first phase of privatization was undertaken rapidly when some of the state-owned enterprises were sold-off, in a period of macro-economic instability and without complementary to improve the incentive structure in the relevant sectors. When far-reaching reforms aimed at adjusting macro-economic and sectoral policies were pursued subsequently, many of the privatized enterprises went bankrupt, as they were unable to compete in a more competitive environment.
4.2 Perceptions of Stakeholders

The transfer of management of irrigation systems from state administration to farmer organizations or the private companies entails different interest groups accepting tasks and responsibilities which they do not have at present. Accommodating and accommodating the views of these groups is a critical factor in planning and implementing a privatization and turnover program.

In the case of White Nile pump schemes there three principal stakeholders: i) Private sector companies, ii) The tenants represented by the Tenants Union, iii) The employees of WRASA.

Private Sector

Private sector involvement in the management of the White Nile pump schemes has so far been negligible. Only one company, the White Nile Holdings Company (Al-Gabda) has come forward and is currently managing 16 schemes. In the next presentation Dr. Dingle will assess the impact of the private sector intervention in system management. I will confine myself to a few observations:

Al-Gabda Holdings concentrates its activities in the Kosti region. This is partly for logistical reasons which facilitate management and partly for other considerations of a strategic nature. Discussions with the company’s management revealed that it is interested in schemes in the other areas especially in the D buffs region where the tenant union is strong. Al-Gabda prefers to negotiate with tenants directly without the intervention of the union. The company also has very stringent selection criteria which ensures that the schemes selected are those in which the irrigation facilities are in proper order and the soil fertile. Besides, these the company will only if its terms are satisfied, which includes a 50:50 share system between farmers and the company. Whereas, under WRASA and the farmer managed system follow an individual account system. The implications of this on tenant incomes will be is explained in another paper in this volume.

A key question addressed in our study was why other private sector institutions had shown little interest in managing the schemes? Officially, there are no restrictions for any private company to take over the management of the schemes as long as they have agreed on the terms and conditions with the tenants.

In this regard, discussions were held with the Director of a large company which had wide business interest including large scale rainfed agriculture and also were involved irrigated agriculture in some of the schemes in the Blue Nile area. In addition, discussions were also held with two other companies which had taken over the management of smaller schemes in Kosti area but had subsequently

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 opted out. Several reasons were cited for the lack of interest in
the White Nile schemes. These include: poor physical infrastructure
in the White Nile area, uncertainty about government policy, heavy
taxation, and more importantly the difficulty of mobilizing
financial resource.

White Nile Holdings Company had been very efficient in this
respect. They had been able to mobilize the support of a
consortium of eight financial institutions, which includes some
state banks and private banks, to finance their operations. As to
whether other companies could benefit from similar facilities from
the existing financial institutions remains unclear.

There is no doubt that intervention by the White Nile Company had
been beneficial. Rapid appraisals of the schemes as well as the
findings of a formal survey conducted during the last season do
indicate that the provision of services by the company had been
efficient. In addition the tenants had been able to obtain higher
yields than in previous years.

Whilst, acknowledging these positive aspects it would be in the
best of the tenants for the government to create conditions for
other companies (both big and smaller ones) to intervene in the
White Nile schemes and foster competition among potential service
providers. In the absence of competition it would mean a
replacement of a state monopoly by a private sector monopoly in the
provision of services to the White Nile schemes. The lack of
competition could lead to higher costs, collusion and created
perceptions about corruption. It is also conducive for managers to
take actions inconsistent with farmer interest such as performing
a shoddy work in an effort to boost profit or deny services when
the costs are high.

Tenants Union

The group of people who are significantly affected by the
privatization program are the tenants. As in other irrigated
schemes in Sudan almost all tenants are members of the Tenant's
Union. In the course of our fieldwork we interviewed several
ordinary members as well as union officials, to ascertain their
views of the privatization programs. Various views were expressed.
Some of the ordinary members stated that they know nothing about
the program except for the fact that WNASA had ceased to manage
their schemes and they had to make the own arrangements to
cultivate their holdings. Tenants from Dueim province where the
tenant union is strong, and those in schemes managed by WNASA
firmly rejected any involvement of the private sector. The reasons
for this go beyond the mere fact that it is the private sector. The
tenants in these schemes were contended with the present managerial
arrangements.

It is the fate of the schemes which currently do not have any
formal or informal management organization that merits immediate attention. These are schemes in which the physical infrastructure is poor and are unlikely to attract the private sector as their unions are relatively weak and tenants do not have the capabilities nor the capacity to mobilize sufficient financial resources to set-up management organizations on their own. Organizations on the scheme seem to be ignored by the authorities. As a result, as Dr. Dingle had observed during his recent field visit, informal land transactions such as rent out land is taking place. The urgent need for the state authorities to assist the tenant of these schemes to set up a management system. The possibility of creating a management organization similar to the one the tenants in Duseim is worth exploring.

5. Two other issues on present policy merits attention: One relates to water charges and the other the annual contract awarded to the private sector.

a. Water Charges

At present the irrigation facilities are operated and maintained by the MOI. A predetermined water charge is levied which is far below the actual cost of O&M. During the last season (1993/94 season) water charges were set $#. 1800 for cotton, $#. 1500 and $#. 3000 for other crops and forestry/gardens respectively.

Although this is advantageous from the system management’s point of view it is an additional burden on the state. This is perhaps one reason why the private company as well as the management were pleased with the present arrangement and are reluctant to take over the irrigation facilities. It would be easier for the government to work out the actual cost of supplying water and recover the amount from the scheme management. A better option would be to transfer the irrigation facilities as well. I understand that this is one of the components of the proposed IPAD project.

b. Annual Contracts

The present policy of contracting out of schemes to the private sector on an annual basis needs to be reviewed. I understand that the reasoning behind this is that, it would give an opportunity for the private sector and the tenants to try their arrangements and if it is to their satisfaction, continue the contract for another year. There is some logic in this reasoning. Nonetheless, it creates a certain degree of uncertainty in the minds of the management and the tenants, consequently the management in particular, is reluctant to carry out major or long term development activities. For instance, some of the schemes managed by the White Nile Company had not been deep ploughed for years. The company does not intend to carry out this activity as it is uncertain whether it will continue managing the scheme in the next year.
that merits immediate withdrawal. These activities involve the private sector. Their main purpose is to provide a sustainable and profitable business. The tenants have the capabilities to operate their farms efficiently, but the financial resources are limited. The result of this is that the tenants are unable to meet the current levels of production. Production is being contracted out or sold to private companies. One concern is the effect on the tenants in the long term. The tenants need assistance: annual contract payments are made.

A further issue is that annual contracts give the company a financial incentive to withdraw its activities once it finds that major investments are required to sustain the current levels of production. The tenants will have to find new ways to sustain their livelihood.

7. Preconditions for Success

i. The Need for a Vision

There is an urgent need for the government to have a clear vision about the future status of the White Nile pump schemes. During the discussions with the various authorities on the subject, there seemed some vagueness about their future role. The immediate concern of handing over the schemes to private companies or the tenant organizations. This will no doubt ease the financial burden on government on the short-run, but will have an adverse effect on the economy at large in the longer term.

Therefore, it is important for the state to formulate clear objectives, design a strategy and employ various instruments to attain its objectives. Contracting out or selling of the schemes to the private sector is one option, but there are several other possibilities. Some of the possibilities which are being considered involve joint enterprises involving financial organizations and provincial governments. The Dueim Model could be instructive in this regard.

Then there are the joint agency-farmer managed systems which are successfully implemented in Asian irrigation systems. The NFA-farmer partnership in the Philippines is a good example. It is also been successfully implemented in the larger irrigation systems in Sri Lanka. Privatization and turnover programs should be carefully designed, tested and monitored and appropriate conditions, and those that are effective could be replicated on a large scale.

ii. Choosing Complementary Macro-Economic and Sectoral Policies

The mere change in ownership or management systems will not guarantee the desired results. In fact, numerous studies relating to privatization in industrial and services sector have clearly shown that it is immaterial whether the ownership of an enterprise is public or private, but it the economic environment in which they operate. The positive effects of management change are far from automatic. This would require appropriate macro-economic and sectoral policies which could involve deregulation and liberalization, providing incentives to foster greater competition and less government interference to permit greater freedom of entry to private and other non-governmental agencies in the provision of goods and services.
iii. Institution and Capacity Building

Before management turnover can take place in countries that have for several been highly state regulated, the basic foundations for non-governmental entities to function effectively need to be constructed. This would require not merely the relaxation of state control but, design of institutions that private sector and non-governmental entities could rely upon to protect their rights and interests. It requires the active effort of the state to design the legal framework and institutions in relation to property rights, water rights and the rights of non-governmental organizations such as farmer organizations. New institutions are needed not only at the macro-level but at the micro or scheme level where the policy is being implemented.

Besides the creation of institutions, there is the need for capacity building especially in the tenant managed systems. The tenant organizations are already in place. But the tenant union had functioned as a strong lobby and devoted its energies to obtain better deals for its membership. They are excellent negotiators, but they may need to develop their managerial capacities. For instance, unlike gravity irrigation systems, financial management is an important responsibility in pump irrigation schemes.

Besides the union leadership, the tenants themselves must be trained to manage their holdings as farmers rather than as tenants. Until now the tenants enjoyed the full patronage of the State and were virtually "spoiled". But under private sector or farmer management, it is unlikely that the same degree of patronage will be extended.

Under the turnover programs implemented in most Asian countries, farmer training is a major component of the exercise.

In Indonesia for example, prior to turnover of the pump schemes, Water User Associations were formed prior to turnover. Training sessions were organized which emphasized organizational, administrative and financial management. Training workshops were held for pump operators which emphasized the technical aspects. (There are few copies of an ITIMI publication which explains the turnover process of the pump schemes in Indonesia - the Indonesian experience may be very relevant to the White Nile Schemes).

In addition, there must be an appropriate incentive structure for farmers to take management responsibilities of their schemes. At present there no such incentives, the schemes in which farmers have created some form of organizations have done so through sheer compulsion to fill the vacuum created by the sudden withdrawal of WNASA. Fortunately such schemes had strong tenants union and also a committed political leadership...
to back their efforts. Not all schemes have this advantage. In Asian irrigation, the state provides a number of incentives for farmers organizations. In Sri Lanka, farmer organizations are given small tractors on easy payment terms once they have attained certain performance standards.

iv. Need for Oversight

The transfer of management of irrigation systems from the public sector to non-governmental entities represents a radical organizational change. This would result in the transformation in the production relationships between the farmers (here tenants) and the management agency. Under state management, the principal objective is service provision. In addition, social and welfare objectives are given a prominent place. Private sector, on the other hand, sees means and ends differently. They do not focus directly on social welfare or providing a defined level of goods and services. Their principal objectives are financial. The aim is to maximize the returns to their investment. In the pursuit of this aim, they may focus their management to maximize the returns to the investment. In the pursuit of this aim, they may result in the management taking measures which would be disadvantageous to the tenants, at times this could even be exploitative. There are well-known examples of such occurrences, which became institutionalized. The latifundia-minifundia case in some of the Latin America which were notorious for the exploitation of small farmers by big companies. Government should beware of such developments and formulate and put in place appropriate mechanisms for oversight, to ensure that costs are not high, the quality service maintained and the prevention of undesirable production relationships. Unrestrained privatization could be disastrous.

v. The Role of the State

There is a popular belief that P&T entails a reduction in the scale and scope of government, sell off public assets and permit the private sector to deliver all goods and services. This viewpoint is overly optimistic. Over-reliance on the market to determine the economic fortunes of a country could be very dangerous.

It is true that in the post second world war era especially in the 1960s and early 1970s, the state in developing countries and most notably in Africa, expanded substantially. This to extent was encouraged by the very financial institutions who now advocate and even pressurized governments to retreat. It is also true that during the period of expansion the state ventured into areas not traditionally associated with the public sector - especially commercial activities - in which its intervention had been disastrous. High-cost and heavily subsidized state owned enterprises, inefficient and corrupt parastatal agencies involved in produce marketing/distribution and managing natural resources in some countries, are commonly...
cited example to substantiate the argument about the fallings of the state and therefore, the case for lesser government.

It is beyond the scope of this paper to enter into detailed debate on markets vs states. It is suffice to say that state has and will continue to perform a leading role in the privatization process. It has a crucial role to play in crafting new institutions in country situations which had previously lacked a framework for non-governmental entities to function effectively; creating viable markets; designing and implementing complementary legislation especially with regard to property rights; occupational training and capacity building, especially in assisting farmer organizations, at least in their formative years, to fulfill their obligations; and also formulate and perform a regulatory function.

What all this means, in the context of Sudan’s privatization policy is for redefine clearly the responsibilities of the state in irrigation management and also, elucidate the role of the private sector and non-governmental bodies - both at the national level and at the state/provincial levels. These should be widely communicated as it would instill confidence among the various stakeholders and prevent misunderstandings of the intentions of the government.

6. Concluding Remarks

Privatization and turnover of irrigation schemes is an extremely complex process. There are many constraints and obstacles which must be overcome. In the case of Sudan it is particularly challenging as the government is attempting to privatize/turnover not only the irrigation schemes, but other publicly owned enterprises as well without much external assistance.

The White Nile Scheme is good "pilot exercise". The lessons from this experience could provide useful guidelines for designing and implementing turnover programs for other schemes. In this context we do hope that IIMI study of the privatization of the White Nile schemes would be useful.