

NOTES ON THE POLITICAL AND ECONOMIC DIMENSIONS OF PRIVATIZATION AND
TURNOVER OF IRRIGATION INSTITUTIONS - SOME CONCEPTUAL ISSUES AND
SELECTED COUNTRY EXPERIENCES

By

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Introduction

Just as much as the 1950s and 1960s were characterized as a period of governmental expansion, the 1980s and 1990s will undoubtedly be identified as the era of de-nationalization and market oriented reforms.

The vigor with which governments in a wide variety of national settings are striving to curtail the scope and magnitude of the state and adopt policies which places greater reliance on the private sector and market forces, is astounding. As an editorial in the Financial Times sometime back had noted "rarely has an innovation in economic and monetary policy caught on as quickly as in so many countries as privatization".

Countries at different levels of socio-economic development, with regimes of dissimilar ideological orientations and political character are adopting privatization programs of various sorts affecting such diverse areas as manufacturing, telecommunications, electricity and municipal water supplies, education, prisons, garbage collection. Irrigation schemes have not escaped from the global bandwagoning of privatization and market oriented programs reform.

In this paper examines some of the conceptual issues relating to privatization with particular reference to the "privatization" of irrigation institutions.

Definition and Scope of Privatization and Turnover

Privatization and turnover has many dimensions and therefore it is not an easy to define. In broad terms it entails the shifting of a function either in whole or in part from the public sector to the private sector.¹ In other words it represents a self-conscious effort to curtail the scope and boundaries of state responsibility and place greater reliance on private actor and market forces to

¹ Butler (1991), cited in Freibenbaum and Henig (1994).

pursue social goals.²

In relation to irrigation privatization and turnover it relates to the efforts taken by government to change the prevailing relationship between state agencies managing the irrigation facilities and the farming community. The magnitude of the change varies from country to country under an assortment of labels. In its extreme form it could involve the outright transfer of the ownership of irrigation schemes or facilities to water users (New Zealand, Bangladesh, Indonesia)³. In such an event it is usually considered as privatization. The common form in most gravity flow irrigation system it involves the transfer of a specific function such as operation and maintenance (O&M) responsibilities of secondary and tertiary canals to farmer groups (Sri Lanka, Philippines)⁴. In such instances the term "turnover" is more appropriate. In Sudan "privatization" entails the disengagement of the State from the provision of support services for irrigated agriculture (Sudan).⁵

Objectives of Privatization and Turnover

It is noteworthy that the current wave of privatization, irrespective of whether it relates to irrigation or the other sectors of the economy, is being pushed forward by politicians and state officials rather than a process driven by the demands of social groups or classes (Ikenbury, 1990). For example, there is no evidence of farmers in developing country settings pressurizing the government to transfer O&M responsibilities to them. In many developing as well as developed countries, organized labor have been found to oppose it because privatization signals an end to the welfarism and political patronage unions usually enjoy. It is hard to visible support for the process from public sector employees, as they risk losing their employment or a curtailment in some of the way-side privileges.

Thus, at the broadest level, this signifies that privatization programs are more attuned to attain goals of government. These objectives economic, political or a combination of both.

² Feigenbaum and Henig (1994)

³ see Farley (1984), Johnson et al (1992).

⁴ see Vermillion (1991), Wijayaratne (1994).

⁵ For a global review of privatization and turnover of irrigation institutions see Vermillion (1992).

Economic Dimensions

It is common knowledge that the initial thrust of privatization programs emerged out of the crises many countries found themselves in, due to decades of highly interventionist policies. The enlarged state, soaring public sector deficits and increased borrowings had put pressure on the financial stability of governments. Privatization was seen as a means of reduction in the size and scope of the state and providing the means for reducing budgetary deficits and financial austerity.

In the case of the irrigated sector, the impetus for the privatization and turnover (P&T) of irrigation institutions stems from the dominant perception that irrigation agencies, like other government bureaucracies, lack the incentives and responsiveness to optimize management performance. Farmers have a direct interest in sustaining the cost efficiency, profitability and physical conditions of irrigation systems (Vermillion, 1992).

Other reasons advanced include:

- * Cost savings for the public sector, by encouraging farmers to incur O&M costs themselves or to pay for public services they receive.
- * Increased on-farm irrigation efficiency through volumetric pricing. Currently, the marginal cost of water to farmers is zero, and therefore they are encouraged to use water to the physical maximum of productivity if they can get it. With volumetric pricing, farmers would ration their use of water to economically optimum levels.
- * Increased allocative efficiency through water markets.
- * Cost recovery - irrigation agencies to recover the cost of supplying water from farmers. This will not only contribute to the financial sustainability of the agency, but since a substantial part of the revenue of the agency depends on user fees they will be compelled to improve their irrigation service to clients (Sekler, 1992).

The foregoing perspectives provide a strong economic rationale for P&T of irrigation systems. After all, it was the fiscal and budgetary crises which governments encountered which resulted from decades of highly interventionist policies that initially propelled the mass movement towards privatization.

Rationalizing privatization programs in terms of the potential economic gains is legitimate and pragmatic. However, it downplays the motivating power non-economic factors and their consequences. This aspect merits some elaboration as in most country situations, the turnover of irrigation systems is being implemented within the overall context of macro-economic and political adjustments.

Political Dimensions of Privatization and Turnover

The motivations of government could be a deliberate attempt to relax its control over the economy and reorder its political goals or it could involve state maintaining a controlling interests in the economic and political outcomes whilst the mechanisms for implementing these goals are being reformed.⁶ In the latter case, the private sector would then find itself operating within the nexus of economic and institutional control, where prices for key factors of production are administratively and access to key resources, particularly capital, dependent on political decisions and state patronage a vital element for success.

Shifting responsibilities from the state to NGOs or the private sector alters the institutional framework through which stakeholders articulate, arbitrate and advance their individual and collective interests (Feigenbaum and Heinig, 1993). The consequences of such an institutional restructuring will not be the same for all. Some groups in a more privileged position would find their interests more clearly defined and readily promoted. Other groups will find their interests adversely affected. Each group will expend resources in an effort to influence privatization policy in their favour. As the relative success of a particular group depends on the effectiveness of its lobbying power, rent seeking behavior will be the order of the day.

Another aspect of the political dimension which is a more specific to irrigation schemes, entails the transformation of the prevailing modes of production. The role of public management agencies is not entirely economic. Social and welfare objectives are usually given a prominent place. Where public agencies have been in charge of irrigation schemes for significant time, a stable system of relationships develops between the agency and farming community, often based on welfarism. Divesting of state management puts in place an alternative sets of equivalents.

Private sector management sees ends and means differently. Their principal aim is maximization of returns to investments. The pursuit of this aim could result in management taking actions that could be to the disadvantage to the farming community and in extreme cases exploitative.

Similarly, where user groups take over the management, the interests of the more powerful groups on the basis of class, caste and even political affiliations could dominate production relations to the detriment of the less powerful members of the community. These provide fertile conditions for major conflicts which could stifle P&T programs.

⁶ see Ikenbury (1993).

Consequences of P&T programs as outlined above are indicative of the political character of IMT. Therefore, ignoring the political perspective misses a larger set of dynamics which could undermine the sustainability of the effort. Yet, this remains an under-researched area.

Review of Experiences With Management Turnover

This section reviews experiences of privatization and turnover of irrigation institutions in selected countries where the turnover program had been implemented.

In Asia where much of the larger gravity irrigation schemes are agency managed, efforts at privatization and turnover has centered on three key areas: i) the devolution of O&M responsibilities to water users association, ii) cost-recovery through the collection of water fees iii) restructuring irrigation management organizations and making them financially viable and sustainable. In this paper reviews briefly the Philippines programs, the turnover of pump schemes in Indonesia and Sri Lanka's efforts at fostering participatory management.

Philippines.⁷

In the Philippines the turnover of irrigation management responsibilities to water users' organizations has been a major policy objective since the late 1970s. The program was implemented in four phases: i) identification, investigation and selection; ii) pre-construction; iii) construction; iv) operation and maintenance (Wijayarathne and Vermillion 1994).

In the first stage, the National Irrigation Agency (NIA) feasibility studies are carried on the systems tentatively identified based on a range of technical, agro-ecological, institutional and socio-economic information. The final selection is based on the outcome of the feasibility studies and ratification workshops held at provincial and regional offices of the NIA.

During the second stage Institutional Development Officers (IDOs) are hired by NIA. The recruits are provided training in and trained in group dynamics, organizational and financial management. The role of IDOs is to mobilize community participation in construction activities and subsequently catalyze the formation of water users' associations.

The turnover of management responsibilities to farmer organizations

⁷ This section is drawn heavily from Vermillion (1992) and Wijayarathne and Vermillion (1994).

is done on the completion of the construction activities. These include responsibilities for O & M and the collection of user fees. This does not mean that NIA ceases its responsibilities. After turnover, NIA continues to assist farmer organizations by holding training program and workshops for the associations. These includes assistance in the formulation of O&M plans, delivery of water to service areas and in the selection of O&M personnel for plan implementation (Wijayarathne and Vermillion, ibid).

Sri Lanka⁸

Sri Lanka has been experimenting with various institutional forms to enlist the collaboration of farmer groups in O & M since the late 1970s. Two of the major efforts carried out on a pilot basis. The first was the creation of joint project committees comprising of Irrigation Department officials and farmer representatives. The second experiment was recruiting Institutional Organizers to facilitate the formation of water user groups and carry out rehabilitation works.

Based on these and other experiences, in 1988 the government took measures to establish farmer organizations at the distributory levels to take full responsibility for the operation and maintenance of secondary and tertiary canals.

The goals of the program were two-fold:

- Improvement of productivity of the irrigation schemes through improved farmer ability to manage the system to serve crop needs.
- Increasing the share of irrigation expenditure borne by the farmers.

The participatory management policy had three major components:

- Creation of farmer organizations
- Creation of joint management committees comprising farmers and agency officials
- Transfer of O & M responsibilities for secondary and tertiary canals to farmer organizations.

To facilitate the process the government amended the Agrarian Services Law to grant more legal recognition to farmer organizations. more recently, the Irrigation Ordinance was amended to grant more powers to legally recognized farmer organizations in the major irrigation schemes. These include:

⁸ This section is based on a draft paper by Jeff Brewer on Participatory Management in Sri Lanka.

- The power of distributory canal organizations to operate and maintain the distributory and field channels, including the power to collect fees from farmers.

Indonesia⁹

In 1994 the Indonesian government initiated a program to transfer pump schemes of less than 500 hectares initially to the local government and subsequently (i.e after 2 years) to water users' association (WUA). These schemes constitute 70 percent of all public irrigation or 21 percent of the total design area for public irrigation in the country. The overall objectives of the program was to save funds for O & M from the small-scale systems to enable the funds to be reallocated to larger systems. To date a third of the 3000 public sector irrigation schemes have been officially handed over.

The turnover process involves six basic steps:

- A provincial-level survey of basic information of all eligible schemes
- Field inventories involving systems walk through and interviews to obtain information on existing management roles and to determine whether or not physical repairs are needed or not.
- Preparation of a detailed profile of each system by trained irrigation personnel, together with farmers, to plan institutional and physical improvements needed prior to turnover.
- needed systems repairs are identified, prioritized and designed by farmers in collaboration with irrigation service personnel.
- Physical works are executed using local labor where possible.
- WUAs are organized, trained in O & M responsibilities and O & M work plans are prepared.
- The final stage involves the formal handing over of the system to water users.

⁹ This section is based on Sam H Johnson and Peter Reiss (1993); Vermillion (1992).

Assessments of impact of the turnover program shows mixed results. The program has had a positive effect in government budgetary terms with an anticipated saving of US \$ 13.5 million over the 15 years projected for plan implementation. However, at the scheme level impact has been less impressive. The service areas are far less than designed and pumping hours have been less have declined or remained static (Johnson and Reiss, 1993). This is largely the result of failure to include agricultural extension and credit facilities in the program . Another factor had been the installation of pumps far beyond the skills and resources of WUAs to operate and maintain them (Johnson and Reiss, *ibid*) . The considerable attention given to construction had overshadowed the need for more attention to institutional development and O & M training to WUAs.

Key Lessons

- Turnover programs should not be viewed a way to transfer costs to the farmers. It should give farmers greater control over their farming activities. For farmer organizations to be effective, they should be given autonomy in decision making. Without that autonomy its unlikely that the organizations will be very effective.
- Irrigation turnover process does not necessarily enhance local self-reliance
- Where new technology is being introduce to WUAs they must be appropriate for local conditions.
- management turnover is not an isolated program but forms an integral part of institutional development process in the irrigated subsector.
- The financial autonomy of the agency and the introduction of irrigation services provide an incentive for agency to support the management turnover and work in partnership with farmers in system management and in the provision of support services.
- Successful management turnover cannot occur without providing the framework granting legal status to farmer organizations and recognizing their rights to raise revenue, apply sanctions and undertake contracts.
- A comprehensive package is necessary which includes credit, extension and other support services.
- Government agencies still have to pay a vital role in providing training, authorize rights and carry out a regulatory function.

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