

## **Irrigation Investments in India in the Last Three Decades: An Analysis of Economic Performance**

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### **Summary**

As in many other countries, the poor economic rate of return of many past irrigation projects in India contributed to the decline in irrigation investment and lending by international agencies, especially since the 1990s (Gulati and Narayanan 2003, Pitman 2002, Jones 1995). Furthermore, these low rates of economic return may have diminished the poverty reduction impacts of such irrigation projects. The performance of Indian agriculture has been closely related to changes in agricultural productivity. Increases in agricultural productivity have been partly attributed to substantial increases in irrigated area (Meizen-Dick and Rosegrant 2005, Vyas in Mundle et al. 2003). This study provides a systematic analysis of the factors determining the performance, measured in terms of economic rate of return, of irrigation projects using data from 314 irrigation projects worldwide. Specifically, this paper: (1) examines the trends in performance of irrigation investments in India over time and contrast it to trends in South Asia and worldwide; (2) establishes the factors that determine performance of irrigation projects worldwide; and (3) draws lessons for future irrigation projects in India.

This paper offers some insights into irrigation projects in India based on a consistent set of data on irrigation projects implemented in developing countries worldwide in the last four decades. The database includes 37 projects for India which, based on information for 2001, amounts to 24% of the official irrigated area in the country. Using the audited or completion economic internal rates of return, our data show that the performance of irrigation investments in India have been declining over time, whereas in Asia as a whole they have remained relatively stable and at a global level they have in fact been trending upwards.

This paper finds that as far as irrigation investment, or project, size (in terms of total irrigated area) is concerned, there are underlying significant economies of scale. However, our results also suggest that at the system or scheme level, how projects are managed appears to be more important than scale.

The analysis presented here shows that, for major investments, the economies of scale mean that the larger the project the better the economic performance, although the availability of water supplies is a serious constrain in many of the Indian rivers. Also, while some of these projects perform poorly, many perform reasonably well, and therefore could be a positive component of the particular links proposed under the NRLP. However, the additional capital costs of such links are likely to detract from the economic performance of specific investments, and therefore require careful scrutiny. Given that the global analysis also demonstrated that new developments on previously rainfed lands perform poorly, developing links for major new irrigation developments are likely to be unattractive from an economic perspective.

Bank staff supervision shown to be significantly increasing over time and substantially higher in India's projects than those in other countries or regions, must be capturing serious implementation constraints that have to be properly understood and addressed if projects are to succeed. Among the sources of difficulties in implementation cited are inadequate advanced preparation, incomplete engineering designs, insufficient staffing, land acquisition and resettlement, and procurement.

The experiences in giving farmers increased roles in operation and management of irrigation systems have been mixed. Most of the available evidence are at the micro level or scheme specific and there is no sense of whether this policy decision is on the right track. More studies have reported the problems and why programs such as irrigation management transfers cannot or do not work. The Government of India has embraced this policy of shifting more responsibilities to farmers by establishing water users' associations (WUAs) but many reports have pointed out how the process has been very slow in taking off and the difficulties in making WUAs work.

The result in this paper is in line with more recent evidence of promising positive impacts of greater farmer participation in irrigation operation and maintenance (O&M) in terms of enhancing project performance. However, while our results provide support for such a policy, the inherent difficulties and challenges in making participatory initiatives should not be underestimated. Building capacities and stronger farmer groups requires a lot of time and resources which the Government and donors should invest in for projects to be viable and sustainable.

The paper provides empirical support to the policy of crop diversification in irrigation projects and indicates that this is in the right direction in terms of achieving better project performance. The trends in India's irrigated crops show that paddy irrigation is declining while irrigation for other cereals is rising. Despite policy pronouncements encouraging the shift to high value crops, it appears that the country is yet to realize this. While not discounting the associated risks and difficulties in irrigating high value crops, systems irrigating these crops have significantly done better than those irrigating paddy. This is an opportunity which the country can seriously consider and take advantage of.

While this paper offers some key investment areas which can be pursued by the Government of India and the international development community, it has not addressed the role of private sector in agricultural water development and management. This knowledge should complement the recommendations espoused in this paper. From the above, it is clear that there are areas that would need further and careful study, particularly with regards to ensuring performance of major investments in irrigation in the context of inter-basin transfers, and increasing water scarcity.

# Irrigation Investments in India in the Last Three Decades: An Analysis of Economic Performance

A. Inocencio and P. G. McCornick<sup>1</sup>

## 1. Introduction

The performance of Indian agriculture has been closely related to changes in agricultural productivity. Increases in agricultural productivity, in turn have been partly attributed to substantial increases in irrigated area (Meizen-Dick and Rosegrant 2005, Gulati and Narayanan 2003, Vyas in Mundle et al. 2003, Pitman 2002). Agriculture accounts for over 80% of consumptive water use in India (Pitman 2002), and could be even higher than 90% (Amarasinghe, et al., 2005; and Meizen-Dick and Rosegrant, 2005). The rise in irrigated area came about with the massive irrigation investments, that began in the 1960s and peaked in the 1980s, by the government with substantial support from international donor community. In the early 1990s, public spending in agriculture slowed down and this translated into reduced spending in irrigation (Meizen-Dick and Rosegrant 2005, Gulati et al. 2005, Gulati and Narayanan 2003, Pitman 2002, Fan, et al. 1999). Gross capital formation in agriculture declined from an average of 54% in 1980-81 to 26% in 1999-2000 (Mundle *et al.* 2003). Support from multilateral and bilateral donor agencies also declined over the same period, although there are recent efforts to reverse the downward trend in investments in water related infrastructure, including irrigation (Peacock, et al. 2007, World Bank 2004).

The poor economic performance of many past irrigation projects in India may have contributed to the decline in irrigation investment or lending by international financial agencies in the 1990s (Meizen-Dick and Rosegrant 2005, Raju and Gulati 2005, Gulati, et al. 2005, Pitman 2002, Jones 1995). Furthermore, the low rates of economic return may have also resulted in diminished poverty reduction impact of these irrigation projects (Meizen-Dick and Rosegrant 2005, Kikuchi, *et al.* 2003; Rosegrant and Svendsen 1993).

The proposed river interlinking project will technically make available more water for consumptive and productive uses with water diverted from surplus to deficit areas. With agriculture as the biggest user, increasing competing demands from other sectors and the fact that large proportions of the national and state budgets continue to be invested in the sector with apparently less expected results, it is essential that the agricultural water projects be well formulated and implemented to ensure greater efficiency and better overall performance including higher productivity.

To formulate better future irrigation projects in India, a deeper understanding of irrigation projects and their performance relative to those in other countries is important. Project performance is influenced by internal and external project factors which could be a combination of physical, socio-economic, institutional and policy factors. Among the internal factors are those which are related to formulation, design and implementation of projects. Specifically, costs of irrigation projects, agricultural productivity (yields and cropping intensity), operation and maintenance, and expected life time and gestation period of

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investment are among the key factors. Some of the key external factors, which are beyond project control, are those that define the macro setting and policy environment (e.g. policies on pricing and tariffs for agricultural inputs and outputs and unforeseen changes in the market) of the country where a project is implemented.

This paper uses consistent data for 314 irrigation projects worldwide. The dataset includes 37 projects in India and a total of 91 projects in South Asia. The remainder are from 49 other countries in sub-Saharan Africa (SSA), the Middle East and North Africa (MENA), Latin America and the Caribbean (LAC), Southeast Asia (SEA), and East Asia (EA). The dataset contains some key project characteristics and indicators of performance which make possible systematic analyses of irrigation projects and their performance. Using this data set, this paper aims to: (1) examine the trends in performance of irrigation investments in India, and contrast these with the trends in South Asia and worldwide; (2) determine the factors that influence performance of irrigation projects worldwide; and (3) draw lessons for future irrigation investments in India.

This paper is constrained by the fact that the dataset is based on projects that have been co-financed by the given country and a multi-lateral agency. It does not include projects that were fully funded by a government or those which were solely funded by bilateral agencies. Furthermore, while the projects in the dataset do include those with investments in groundwater and conjunctive use, it does not consider the private investments in groundwater development, which have driven the spread of irrigation in the past two decades in South Asia.

In the following sections, we describe the data, trends in performance and the profiles of irrigation projects. These are followed by a discussion of results of a quantitative analysis of performance of irrigation projects. The last section gives the conclusions and recommendations.

## **2. The Data<sup>2</sup>**

This paper uses data obtained from various documents of irrigation projects funded by major international development organizations.<sup>3</sup> The project performance audit reports (PPAR) are the main source of data. In cases where the PPARs are not available, the project completion report (PCR) or the implementation completion report (ICR) are used as the next best source of information. In a few cases the staff appraisal reports (SARs), if available, are used to obtain further detailed information on project design and project sites not cited in PPARs or PCRs.<sup>4</sup>

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<sup>2</sup> This section draws from Inocencio, et al. (2007). See Annex Tables 3 and 4 for the data definition and summary list of classifications.

<sup>3</sup> These development agencies are the World Bank (WB) African Development Bank (AfDB) and the International Fund for Agricultural Development (IFAD).

<sup>4</sup> The PPAR, ICR/PCR, SAR are standard documents prepared by international development agencies such as the WB, AfDB, IFAD, and even the Asian Development Bank at each respective phase of a project. A project cycle may begin with feasibility studies followed by a project appraisal (articulated in a formal document called the SAR) where a proposed project is submitted to the lending agency Board for its approval, implementation (where an ICR/PCR is produced at the end), and evaluation several years after project completion (where a PPAR will then be produced).

The dataset contains a total of 314 projects which are all multilateral agency assisted-projects with counterpart funding from recipient governments. A few projects received contributions from bilateral donors as well and a number had farmers' contributions, but the latter are not quantified in project reports. Of the total, 91 projects are in South Asia and 37 of these are in India. Appendix Table 1 gives the distribution of the sample projects according to purpose (new construction or rehabilitation). The total area irrigated by the 37 projects represents about 24% of the 2001 official figure for net irrigated area in India of 55 million ha (GOI 2004).

The economic internal rate of return (EIRR) of an irrigation project reported at project evaluation or completion is used as a measure of performance.<sup>5</sup> This measure is the sum of the discounted stream of benefits net of capital and O&M costs arising from the project. The EIRR is chosen as a performance indicator for two reasons: first, it is the most commonly used indicator of economic performance; second, in projects where no EIRRs are reported, it is possible to estimate them based on project outcomes described in the PCRs and the PPARs which is not the case for other performance ratings.<sup>6</sup> While this measure does not directly address poverty and livelihood objectives, it captures impact on incomes which should imbed poverty and livelihood considerations. Also, to the extent that appropriate and realistic amounts are allocated for O&M expenditures, this performance measure imbeds sustainability aspects of project.

To examine the profiles of projects, each was classified according to its type, purpose, operation and maintenance, major crops grown, project size, project cost, average system size, year of project start, donor appraisal and supervision inputs, time overrun, cost overrun, sizing error, and the relative complexity of the project.

The purpose of a project ranges from the construction of an entirely new project on land previously not used for agriculture to purely rehabilitation of existing projects, that is "new construction with land opening" and "rehabilitation" respectively. In between these two extremes there are a number of sub-categories including "new construction from rainfed area", "new construction + rehabilitation.", and, where rehabilitation is the major component of the investment, "rehabilitation + new construction".

The type of a project is a classification of the physical infrastructure used to capture and convey water. The six types used to classify this dataset are: (a) river-diversion systems without major storage capacity (river-diversion), (b) systems which use river water with dams and major storage capacity (river-dam-reservoir), (c) tank (i.e., small reservoir) irrigation systems, (d) pump irrigation systems with water from river, pond or lake (river-lift), (e) pump irrigation systems with groundwater (groundwater-lift), and (f) drainage and/or flood control systems. In this last type, excess water is either drained or released from the land area in a controlled manner, with crops being grown on the residual moisture

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<sup>5</sup> Among indicators to measure the performance of irrigation projects, the most convenient, if not the best, measure is the EIRR. Despite its advantages as a single measure readily available in project reports, Tiffen (1987) gives an account of its shortcomings.

<sup>6</sup> Specifically, for the projects that do not report EIRR, we estimate it as the  $r$  that satisfies the following equation:

$$(I + r)^m K = \sum_{j=1}^n (R - c)/(I + r)^j,$$

where  $K$  = unit cost or cost/ha of irrigation construction/rehabilitation,  $R$  = return/ha due to irrigation construction/rehabilitation,  $c$  = O&M cost/ha,  $n$  = life time of the project (assumed 30 years for new construction projects and 15 years for rehabilitation projects), and  $m$  = average gestation period of investment.

For operation and maintenance, the classification is divided into three categories, which are: (a) entirely by government agency (government agency), (b) partly (usually the headworks and the main/primary canals) by government agency and partly (usually the distribution canals and below) by farmers' groups (government + farmers), and (c) by farmers alone (farmer-managed systems).

The categories for the major crops grown are: (a) paddy (paddy), (b) other cereals such as wheat and maize (cereals), (c) cash crops such as sugarcane and cotton (sugar/cotton), (d) perennial tree crops (tree crops), (e) vegetables (vegetables), and (f) fodder (fodder). This classification is based on the cropping system used in all regions represented in the data set.

Project size is the total area irrigated by the project, and is the sum of newly constructed and rehabilitated areas, where relevant. An irrigation project is often an aggregate of several systems or schemes. About 20% of the global sample irrigation projects in the dataset are 'single system projects,' i.e., including only one irrigation system.<sup>7</sup> "Total project cost" is defined as the total irrigation-related investment cost, including investment in both the physical irrigation infrastructure (e.g., dams, canals, irrigation road, sluice and measuring devices) and software components (e.g., project management, engineering design, agriculture support and institution building).<sup>8</sup> "Unit cost" is simply the cost of the investments divided by the project size.

The average size of a system is the area in a given project divided by the number of systems therein. The year the project started needs no explanation. Donor inputs for appraisal and supervision are the relevant personnel staffing effort in terms of weeks, which is not always available. The time and cost overruns are the differences between the actual construction period and costs, and those estimated at the time of project appraisal. The sizing error is the ratio of the difference between the planned and actual irrigated area benefited by the project, to the planned irrigated area, which is taken as a measure of the relative accuracy of the planning and appraisal stages. The number of project components listed in the SAR of a project is taken as a proxy to measure the complexity of the project.

Although our sample projects are all donor-funded projects, without exception the governments of recipient countries mobilize local funds for the projects. The share of government funds is the ratio of the local contribution to the total investment fund. While it would be more accurate to account for the farmer contribution as well, most project documents do not quantify this, and is accounted for in the data set as a yes/no binary variable. The share of software components is the ratio of the software costs, such as engineering management, technical assistance, agriculture support, research, training, and institutional development, to the total project cost. Conjunctive use of surface and groundwater is included as a yes/no binary variable. Data on the annual rainfall in the project area are usually provided in the SARs. Where no data are available in project reports, we obtained them from FAO AQUASTAT.

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<sup>7</sup> The rest have more than one irrigation system per project. The number of irrigation systems per project varies significantly across projects: its mean, median and mode are 1346, 6, and 1, respectively.

<sup>8</sup> Non-irrigation investment costs such as power generation and non-irrigation components in multi-sector projects are excluded.<sup>8</sup> To make the cost data comparable across projects and over time, we measure the costs in US dollars at constant 2000 prices. When the costs are given only in local currency, we first convert them to current US dollars using the country's official exchange rate for the relevant years. The costs in current US dollars are deflated by the International Monetary Fund's implicit price index for world exports with year 2000 as the base.

Conjunctive use of surface water and groundwater can mean greater water availability and reliability to farmers. A typical case of conjunctive use in irrigation projects is found in many gravity irrigation projects where farmers subsequently invest in pumps to supplement surface water from the systems. In our study, however, projects with conjunctive water use are defined as those that include it as a part of the project design. These projects account for over one-third of the global sample.

Two variables are introduced to capture the macroeconomic environments under which the sample projects are designed and implemented: the real gross domestic product (GDP) per capita and the purchasing power parity (PPP) ratio. For both variables, the averages over the project duration are used. The source of data for both variables is the World Bank Database (WDI Online). In the same manner as for the project costs, the real GDP per capita is expressed in terms of US\$ at 2000 constant prices.

Using this dataset and the classifications described about, we examine trends in performance and changing project characteristics over time in India and contrast this to the Asia and global samples.

### **3. Trends in Performance and Characteristics of Irrigation Projects**

Figure 1 shows the plot of appraisal, that is prior implementing, and actual economic returns for each of the 37 India projects. This figure demonstrates that project appraisals have generally been over optimistic. Less than one fourth of the projects achieved or exceeded target performance. If we looked at the time trend of performance (Table 1), we see that the actual economic returns for the project in India have been trending significantly downwards the more recently the project was implemented. EIRR averaged 19% in the early 1970s and only 14% in the late 1990s. For rehabilitation projects, the economic returns started high in the 1970s and remained so in the early 1980s. The average however, declined substantially in the second half of the 1990s, noting however that during that five year period there is only one project in the data set. The data show a less significant decline for South Asia as a whole, and in the case of rehabilitation projects the trend is actually positive, although like India, the projects completed in the latter half of the 1990s performed poorly. In this case, there were only two projects, and both were rehabilitation. For all of Asia there is no significant trend with returns in investments for all projects remaining relatively high over time. In the case of India, the overestimation of economic returns at appraisal or lower completion/audit performance estimates is made worse by the decreasing EIRR trend. This observation is a cause for concern if we see it in the context of the global project sample where performance is significantly improving over time both for new construction and rehabilitation projects.

To help understand this observation, we look at project profiles and see what could have contributed to this trend.

#### **Irrigation Project Profile**

Table 2 shows the distribution of the 37 sample projects from India and the changes in profile of projects over time. Classifying according to type of project shows that the entire sample for India is made up of single purpose, irrigation projects while those from other countries include a few dual (with power) and multi purpose projects with irrigation components. As for purpose, the data show that new construction projects in India have been on the decline while the number of rehabilitation projects is significantly increasing. The trends in the type

of system show that both tank and groundwater-lift systems are on the rise while drainage/flood control projects have significantly decreased. Consistent with the government's adopted policy of giving farmers increased roles in managing irrigation systems, the share of solely government-managed systems show a negative trend while joint management by government and farmers is becoming the preferred mode of operation and maintenance (O&M). In terms of crops irrigated, while India is still predominantly irrigating paddy, in terms of number of projects, there is a rising trend for other cereals with paddy on the decline. There was some diversification into other crops in 1980-84, primarily sugarcane, cotton and tree crops, but no similar projects have been implemented since.

Table 3 gives the key characteristics of irrigation projects in India from the compiled project data. This table shows size of projects in terms of total area irrigated, average size of systems within projects, project financing, design-related and implementation factors. The trend in project size shows that irrigation projects in India have become significantly larger in the last three decades. Average system sizes on the other hand have remained relatively constant. Figure 2 clearly shows these trends. Projects do not appear to be getting more complicated with project components not significantly changing as shown by the statistically insignificant time trend.

It is interesting to observe that over time, the contribution of the government to total project cost has steadily declined from a high average of 71% in 1970-74 to an average of about 45% in the 1990s. The decline in government counterpart funding in irrigation projects is consistent with the decline in the budget allocation for irrigation of the central government and irrigation expenditures of the states, especially since the 1980s. Gulati and Narayanan (2003) and Pitman (2002) also show the same pattern. For the same period, and rather surprisingly, projects with farmer contributing to development are declining as indicated by the statistically significant negative time trend. This is an unexpected trend given that elsewhere development agencies and governments are in agreement that farmers should be encouraged to share in the development cost to increase their sense of ownership of the project.

Among the planning and implementation parameters on which we obtained data, the donors staff inputs for appraisal and supervision have been significantly increased over time. More staff time was spent on projects in the 1990s than in the 1970s or 1980s with an average of about 60 staff weeks in the early 1970s to over 230 staff weeks in the late 1990s. In fact, not only are appraisal and supervision inputs increasing, they are substantially higher in India than in the rest of the sample irrigation projects. The pattern for appraisal staff inputs could be a reflection of the desire of the lending agency to ensure better quality projects, including more stringent environmental requirements, at entry while the increased supervision could mean more trouble shooting or hurdles to overcome in the implementation stages.

Cost and time overruns are often cited as key factors affecting project costs and expected economic returns (Pitman 2002, Jones 1995). The data show that for India, cost overruns have been significantly declining over time from a high average of 80% in 1970-74 to an average of 12% in the 1990s. This observation implies that projects are completed within the originally approved or agreed budgets and yet we see the EIRR declining. No significant pattern is observed for time overrun although World Bank's (WB) sector evaluations surmise that it is an important factor in overall project performance (Pitman 2002, Jones 1995).



For the Indian data there is no significant trend in the unit costs of the projects over time, while in the case of the rehabilitation projects in Asia and both rehabilitation and new projects in the global samples the unit costs have been declining (Table 4), which may in part explain the relatively lower performance of the investments in India. Interestingly, Gulati, et al. (2005) using data on capital costs for irrigation development projects in India from 1964-65 to 1995-96, show unit costs to have been increasing. The authors explain the rise in capital cost as due to exhaustion of easier or favorable sites and the shift to relatively more difficult ones, increased expenditures on rehabilitation and environmental protection, and leakage in capital funds (Gulati, et al. 2005). The difference in trends between this study and that presented by Gulati et al (2005) may in part be explained by the larger data set used by the previous study.

### **Project Performance by Size of System**

The sizes of projects and systems have been closely linked to performance. A number of reports strongly associated performance with scale of either project or system (Inocencio, et al. 2007, Pitman 2002, Jones 1995). Some of these studies cited many failed large public irrigation projects and associated poor performance with large scale systems (e.g. Peacock et al. 2007, Pitman 2002).

Focusing on the average size systems within irrigation projects, the data do not support the above association of scale and performance. Table 5 shows that the differences in economic performance between major and minor systems or between medium and minor systems are not statistically significant for India.<sup>9</sup> It is interesting to note that for Asia as a whole, minor systems are shown to have consistently done better than medium scale systems. Quite in contrast, for South Asia's new construction projects, and for the global sample (except for new construction projects), major systems are shown to have significantly higher economic returns.<sup>10</sup>

On project size, Figure 3 shows that while a number of large projects have less than 10% EIRR, more large projects obtained higher than 10% EIRR. This pattern clearly holds for India's irrigation projects. So, to assert that large projects are bound to fail cannot be supported by these data because small projects are more likely to perform poorly than large irrigation projects.

### **Project Performance by mode of Operation and Maintenance for Irrigation Systems**

With governments devolving responsibilities for O&M to farmers' groups to reduce their fiscal burden, increase the sense of ownership among farmers and improve viability and sustainability of projects, water user associations have been aggressively organized for the past three decades. While many studies (e.g. Shah et al. 2002, Barker and Molle 2005) offer bleak pictures of the status and performance of these water user associations, Table 6 shows that for the India sample, no significant difference in economic performance is observed between jointly managed and solely government-managed irrigation systems. The same is true for South Asia. For Asia and the global sample of projects, the analysis shows that irrigation systems jointly managed by government and farmers' organizations have done

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<sup>9</sup> We use the following definitions for scale for irrigation systems (as opposed to project scale): major scheme is above 10,000 ha; medium is 2,000-10,000 ha; minor is below 2,000 ha (IMT AP, Raymond Peter).

<sup>10</sup> As will be discussed in section 4 on the regression results, the higher economic returns for major systems are largely due to the fact that most large projects have large average system sizes which must be pulling up the average EIRR for major systems. When the impact of large "projects" is isolated from the effect of "average system size," minor systems are shown to do better than major systems.

better than solely government-managed systems. Also, solely farmer-managed systems are shown to have done better than jointly managed systems, although there are no such systems in the India data set.

#### 4. Determinants of Performance of the Global Irrigation Project Sample<sup>11</sup>

The observations in Section 3 provide adequate motivation to do further analysis on performance of irrigation projects. Section 3 uses trend analysis and comparison of mean values to show changes over time and similarities among sets of projects. A more systematic and robust analysis is required to properly establish the factors determining performance. An analysis of the global sample of 314 projects should help us gain broader insights on the performance factors. By making use of the full sample, India benefits from the experience and knowledge gained in irrigation investments in other countries and regions. The insights from such an analysis should be more retrospective while also forward looking and can guide policymakers, implementors and development agencies in India in formulating a new generation of better performing and more viable irrigation projects.

##### (a) The regression model

To explain the variations in the performance of irrigation projects, we apply regression analysis to determine the factors that influence economic internal rates of return (EIRR) of irrigation projects. The EIRR of the projects is the dependent variable regressed over a set of all the other variables in the dataset. To let our data 'speak for itself,' a Box-Cox model which is the most flexible among linear regression models, is used. A general Box-Cox model for the EIRR analysis can be written as (Box and Cox 1964; Greene 2003: Ch.9):

$$Y_j^{(\theta_1)} = \alpha_0 + \sum_{k=1}^K \alpha_k X_{kj}^{(\lambda_k)} + \sum_{\ell=1}^L \beta_\ell Z_{\ell j} + \varepsilon_j \quad [1]$$

where Y is the dependent variable (EIRR) subject to a Box-Cox transformation with parameter,  $\theta_1$ , i.e.,  $Y^{(\theta_1)} = (Y^{\theta_1} - 1) / \theta_1$ ;  $X_k$  ( $k = 1, 2, \dots, K$ ) are the transformed explanatory variables using a Box-Cox transformation with parameter  $\lambda_1$ , i.e.,  $X_k^{(\lambda_1)} = (X_k^{\lambda_1} - 1) / \lambda_1$ ;  $Z_\ell$  ( $\ell = 1, 2, \dots, L$ ) are the untransformed explanatory variables; and  $\varepsilon \sim N(0, \sigma^2)$ .<sup>11</sup> Since the EIRR takes a non-positive value, the Box-Cox parameter for the dependent variable is assumed to be unity (i.e.,  $\theta = 1$ ).

The variables that are continuous and without non-positive values are selected for X's, i.e., explanatory variables subject to the Box-Cox transformation. The rest of the explanatory variables are Z's, which are further divided into two groups. The variables in the first group, time overrun, cost overrun, and sizing error, are continuous variables with non-positive values, for which we assume  $\lambda = 1$ , i.e., the original linear form. The variables in the second group consist of binary dummy variables; 1 if applicable and 0 if not. For category variables from various typologies of projects, the variables which serve as the base or reference are omitted in the regression. These are: "irrigation," "rehabilitation," "river diversion," "government-managed system," "paddy," "South Asia" for the regional dummies, and "WB" for donor dummies, respectively.

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<sup>11</sup> This section draws from Inocencio, et al. (2007).

From the Box-Cox equation, the elasticity of the EIRR with respect to a transformed variable is given as:

$$\frac{\partial(Y)}{\partial X_k} \frac{X_k}{(Y)} = \alpha_k \left( \frac{X_k^{\lambda_k}}{Y^{\theta_k}} \right) \quad [2]$$

where  $X_k$  ( $k = 1, 2, 3, \dots, K$ ) is a transformed explanatory variable. Similarly, the elasticity with respect to untransformed variables is given as:

$$\frac{\partial(Y)}{\partial Z_\ell} \frac{Z_\ell}{(Y)} = \beta_\ell \left( \frac{Z_\ell}{Y^{\theta_\ell}} \right) \quad [3]$$

where  $Z_\ell$  ( $\ell = 1, 2, \dots, L$ ) is an untransformed explanatory variable. The elasticities are evaluated at the mean for continuous variables and at unity for binary variables.

### (b) Estimation results

Table 7 reports the EIRR regression results. Note that elasticities are computed only for variables which have statistically significant coefficients. The regression shows that the following factors are significant determinants of performance of irrigation projects: project size and average size of systems, number of project components which is a proxy for complexity of projects, annual rainfall and conjunctive use of surface and groundwater which are proxies for water availability, real GDP per capita which proxies a countries' level of development, farmers' contribution to investment cost, and some design and technology factors.

***Project size and average size of system.*** The EIRR regression analysis reveals that project size, as measured by the total area irrigated by an investment project, is the most important factor determining performance of irrigation projects. The larger the project size, the higher the economic returns. This result confirms an earlier finding of Jones (1995) that “big projects just do better than small projects.” From Inocencio, et al. (2007), project size is shown as a critical determinant of cost. The significant impact of project size on economic returns could be through impact on project cost and economies of scale effect.

The significant economy of scale of project size could be attributed primarily to engineering economies of scale in formulating and implementing irrigation projects (Inocencio, et al. 2007, Jones 1995). Larger projects are supposed to attract better managers, and implementing agencies may have more incentive to be cost-efficient given the relatively higher profile and greater public attention (Jones 1995). In production processes, a scale economy arises when there are indivisible inputs. Huge excavation machinery and dump vehicles for constructing dams and other physical irrigation structures are indivisible. More importantly, capable human resources, such as planners, design engineers, construction engineers, administrators, managers, contractors, consultants, government agency officials, foremen, and farmers' organizations are all indivisible scarce resources that are indispensable in irrigation projects. The strong economies of scale in irrigation projects suggest the importance of the scarce inputs.

“Average size of systems” within irrigation projects has a significant performance-reducing impact. This result implies that the smaller the size of irrigation systems, the better

the expected economic returns. One possible explanation for this seemingly contradictory result with the positive impact of project size could be the management advantage in smaller systems over larger ones. With potentially fewer farmers to coordinate within each system compared with large systems, smaller systems would be relatively easier to manage. That is, while economies of scale is very important at the project level, at the system (within each project) level better economic performance can be attributed to better management which may characterize small irrigation systems (ADB-PEO 1995).

Some reports have argued that poor performance and success cases have been observed for both large and small irrigation projects (e.g., Rosegrant and Perez 1995; Brown and Nooter 1992; Adams 1990). They argue that scale appears to be less important in determining the success of the project than how it is managed. Our analysis indicates that, as far as the scale of irrigation projects is concerned, it is definitely the case that “big is beautiful.” However, it also suggests that at the system or scheme level, how projects are managed appears to be more important than scale.<sup>12</sup>

As shown in Table 3, India’s project size is significantly increasing over time while no pattern is established for average system size. The increasing project size appears to be in the right direction based on the regression result while the average system size, which is not significantly declining, is at least not going in the opposite direction.

***Number of project components.*** The number of project components is intended to capture the degree of project complexity. The result showing a significant negative impact on EIRR is quite intuitive. The more complex a project becomes, the more likely that it will have lower economic returns. For India, the five-year averages in Table 3 show projects to have fewer components over time, however, no statistically significant trend is established.

***Bank staff input for supervision.*** Bank staff input for supervision has a negative impact on project performance: the larger the bank staff input for supervision, the lower the economic returns. A caution on this variable is that it may be introducing a simultaneity problem in the regression equation, i.e., the bank input for supervising a project may be larger because the performance of the project is poor, or the performance of a project may be better because the donor agency spends more staff time on the project. The data reveal that the former is the case.<sup>13</sup> That is, the data apparently capture the higher supervision inputs required for troubled projects which are likely to perform poorly.

This variable is of interest given the fact that in India, bank staff supervision is shown to be significantly increasing over time and substantially higher than projects in other countries or regions. Supervision inputs appear to proxy for implementation difficulties which maybe pulling down economic returns. The regression result points to the need to carefully

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<sup>12</sup> If we take projects in the global sample with over 50,000 ha (an arbitrary ‘large’ project cut-off size) with a minimum of 100 systems (a relatively large number of systems) within each project and a maximum irrigation system size of 50 ha (an arbitrary ‘small’ system cut-off size), at least six projects in South Asia qualify for the “large project yet small systems” category: four projects in Bangladesh (the Shallow Tubewell and Low-lift Pump Irrigation, the Deep Tubewell II project, Northwest Tubewell, and Shallow Tubewell project); and two in India (the West Bengal Agricultural Development Project and Minor Irrigation Project). Using this definition, other examples in South Asia and Latin America are a mixture of village irrigation, low-lift pump irrigation, rural development, national irrigation rehabilitation, natural resources management and irrigation development, and land-water conservation. Project sizes range from 11,000 to 46,000 ha while the corresponding system sizes range from an average of 8 to 35 ha.

<sup>13</sup> The exclusion of this variable alters a little the results of the regression analysis. This observation suggests that the bias due to simultaneity, if any, is not large.

understand the underlying reasons for the high supervision inputs in India. Pitman (2002) identifies the sources of difficulties in implementation to include institutional and political factors. Specifically, he cites that in India, projects suffer from inadequate advanced preparation, incomplete engineering designs, insufficient staffing, land acquisition and resettlement, and procurement.

***Annual rainfall and conjunctive use of surface and groundwater.*** We take annual rainfall in the area where an irrigation project is located as a proxy measure for water availability. This variable has a positive impact on economic performance, i.e., the higher the annual rainfall, the better the project performance. This result suggests that there is a causal link between the amount of rainfall and project performance. Increased water availability and easier access to water translate to higher yields and higher economic returns.

The result of our analysis shows that conjunctive water use improves project performance significantly. Irrigation projects that use surface and groundwater conjunctively perform better than those which use single sources, even without considering the private development of groundwater which is not captured in this analysis.

In sample projects in India, no significant trend is observed for annual rainfall and projects with conjunctive water use. If the national river linking project (NRLP) results in the re-distribution of water from abundant to water-scarce areas, it may stimulate the effect of increased water for irrigation projects on their performance. This project will take advantage of the performance-enhancing effects of greater water supplies and easier water access otherwise obtained from higher rainfall and conjunctive water use. A relatively more reliable water supply is imperative for irrigation projects to succeed.

***Real Gross Domestic Product (GDP) per capita.*** An increase in the real national per capita income is shown to significantly reduce economic performance of irrigation projects. This result says that higher income countries tend to have poorly performing projects. Interestingly, the elasticity of economic performance for this variable is largest among the continuous variables used in the analysis. These findings are important because they suggest that targeting poorer countries makes better investment sense as projects will be more effective.

As economies develop, the agriculture sector's contribution to the economy declines. This process usually accompanies increasing income as well as productivity disparity between the agriculture sector and the non-agriculture sector, the former being left behind. Such a situation leads to agricultural protectionism policies where farmers in high-income countries get more support and subsidies. Implementation of high-cost and low-performance projects is justified on the ground of protecting disadvantaged farmers and economic merits are overshadowed.

India's increasing real GDP per capita and its declining economic returns over time appear consistent with this result. The explanation above seems not intuitive for India considering that it is not exactly a high-income country. However, if we take into account that its relatively heavy subsidy for the agriculture sector which simulates this characteristics of high-subsidy in high income countries, the result becomes logical.<sup>14</sup>

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<sup>14</sup> See for instance Raju and Gulati (2005) and Gulati and Narayanan (2003) on subsidies in Indian agriculture and irrigation.

***Farmers' contribution to investment cost.*** Where farmers contribute to project development, projects perform better than those without farmer contribution. The promotion of farmers' contribution to irrigation projects has been pursued more eagerly since the 1980s as a part of a strategy to adopt more participatory approaches. This policy is believed to lead to greater sense of ownership among the beneficiaries of irrigation systems constructed/rehabilitated by the project, and results in more sustainable projects while reducing the financial burden of the implementing agencies. Evaluations of this policy have shown that farmer contribution leads to more successful participatory processes and greater successes of irrigation projects (Bruns 1997). The result in this study confirms these earlier findings, and supports a policy that encourages farmers to contribute to the project cost, on the grounds that it serves as an incentive to using the investment funds more effectively for farmers' needs and priorities.

Contrary to expectation, India shows a declining pattern for projects with farmers' contribution to investment cost. This trend may be reflecting either of two things: that the government was reluctant to fully implement such a policy for fear of burdening the farmers beyond their means or there were attempts to implement but farmers' succeeded in resisting and more projects ended up with just the government and an international development agency covering the investment cost.

***New construction from rainfed.*** Among the projects by purpose, new construction from rainfed areas shows a significant negative impact on economic returns, i.e., it has lower economic performance than pure rehabilitation projects. India is not shown to be doing more of this type of project.

***Mode of O&M for systems.*** Another important variable which has a significant impact on performance is the mode of O&M of irrigation systems after completion of the project. A clear shift in the mode of O&M in irrigation systems from "government-managed" to "government+farmer-managed" and "farmer-managed system" is observed from the global data. The participation of farmers in irrigation projects and system management through the establishment of water users' associations (WUAs), has been central to the efforts to improve project performance and sustainability of irrigation systems in the last two decades (Merrey 1997; Vermillion 1995, 1991; Vermillion and Johnson 1995). The regression results show that projects with farmer-managed systems perform better than solely government-managed. Also, projects with O&M shared by the government irrigation agency and farmer-beneficiaries through WUAs, perform better than solely government-managed. The poor irrigation management by a government monopoly reflects the lack of accountability and incentive to deliver quality service and water supply. This is exacerbated by the absence of link between irrigation quality, revenues generated from irrigation service fees and staff incentives (Gulati and Narayanan 2003, Gulati, et al. 2005). The existence of well established and operational WUAs has been associated with better maintenance of systems and more efficient water deliveries which in turn led to higher yields and better economic performance of irrigation projects (Raju and Gulati 2005, Gulati, et al. 2005, Gulati and Narayanan 2003).

From Table 2, India appears to be heading in the right direction with solely government-managed systems declining and joint management by government and farmers increasing. The government of India has fully embraced this institutional reform of shifting more responsibilities to farmers by establishing WUAs. In fact, efforts in this direction began as early as the 1970s and were accelerated significantly in the mid-1980s. From the Sixth to the Ninth Five-Year Plans, participation of farmers in various aspects of management of the

irrigation system has been recognized as important, endorsed and promoted as a central strategy in irrigation development and management. In the 1999-2000 central government budget, a one-time management subsidy was given to states to form WUAs. However, many studies have pointed out how the process has been slow in taking off and the difficulties in making WUAs work which range from institutional to technical and social (Gulati, et al. 2005, Raju and Gulati 2005, Barker and Molle 2005, Gulati and Narayanan 2003, Shah et al. 2002, Vermillion 1991, 1995, Vermillion and Johnson 1995). The results in this paper do not claim that these difficulties and problems are non-existent but looking at the projects' economic performance, systems with farmers involved in O&M have done better than those which were solely government-managed. These results reinforce the recommendation of Gulati, et al. (2005) that farmers should be treated as clients, shareholders or as co-managers of irrigation systems rather than just beneficiaries. Farmers' organizations take on increased roles in O&M of systems if treated as co-managers.

A better understanding of the factors that influence participation of farmers in WUAs and their viability should help turn around this slow progress. Gulati, et al. (2005) identified the factors that can positively influence farmer participation as follows: (a) where a minor serves mostly one village rather than multiple villages, (b) sites with temples or religious centers, (c) large command areas which are closer to markets, and (d) presence of community organizers or potential leaders.

***Irrigated crops.*** In terms of type of crops irrigated, systems irrigating vegetables, tree crops, and fodder are shown to perform better than those irrigating paddy. As a result of irrigation development since the 1960s and the subsequent success of the green revolution since the 1970s, the price of rice has been declining sharply in real terms beginning in the early 1980s. This trend in turn resulted in the historic low profitability of rice production in the last two decades. In contrast, price prospects are much better for fruits, vegetables and livestock products, the demand for which increases as the economy develops. Better price prospects for fruits, vegetables, and livestock products that use fodder contribute to higher project performance of these systems as compared to rice systems. Systems that irrigate high-value crops enjoy higher economic returns because of higher profitability of crops irrigated.

Diversification in India began in the 1980s but gathered steam in the 1990s (Joshi, et al. 2007, 2005). The rising income, changing relative prices between cereals and high-value agriculture, increasing urbanization and infrastructure and more open trade policies are among the factors identified to have driven this change (Joshi, et al. 2007).

From our data, the trends in India's irrigated crops (Table 2) show that paddy irrigation is declining while irrigation for other cereals is rising. Despite policy pronouncements encouraging the shift to high value crops, it appears that the country has still a long way to go to realizing significant diversification levels. While not discounting the associated risks and difficulties in irrigating high value crops such as vegetables and even tree crops and fodder, our results show that systems irrigating these crops have significantly done better than those irrigating paddy. This is an opportunity which the country can seriously consider and take advantage of.

Joshi, et al. (2007) have established the determinants of crop diversification. Among the factors identified are infrastructure development as captured by markets and roads, technology as captured by irrigated area, relative profitability of horticultural commodities, proportion of smallholders, climate as captured by amount of rainfall, and demand-side

factors like urbanization and per capita income. The paper suggests that assured markets and good road network, as the key determinants, could stimulate agricultural diversification in favor of high-value crops as they maximize profits and minimize uncertainty in output prices. Interestingly, the higher the technology adoption of cereals as proxied by irrigation, the less was the diversification in favor of high-value commodities. This particular result points to the potential of diversification in areas with much less water available. Also, another important result is that high-value commodities are usually produced by small farmers.

To promote agricultural diversification and meet the demand for high-value commodities, Gulati, et al. (2007) recommend improvement of incentives, institutional reforms and increased investment. Specifically, improving incentives basically means “getting the prices” right by adjusting the high and guaranteed prices for staple grains and reducing subsidies on power, irrigation and fertilizers and reallocating the funding to infrastructure development. Reforming institutions include “getting the markets right” by leveling the playing field, improving land-use and credit access, reinvigorating technology development and dissemination, and promoting improved food-safety and quality. As for the required investment, the authors suggest more investment in roads and markets, electric supply, information and communication technologies (ICT), and improving the climate for private investment.

**Regional effects.** South Asia has the lowest EIRR among all regions with the exception of Southeast Asia. This means that, once the factors with significant impacts on performance are accounted for, irrigation projects in South Asia have generally lower economic returns than those in SSA, MENA, LAC and East Asia. This is another indicator of concern especially if we consider that India’s EIRR is significantly decreasing over time. There is a potentially significant opportunity in addressing and reversing the trends of the relatively low and declining EIRR.

## **5. Lessons from the Global experience and way forward for India’s irrigation sector**

### **Summary and Conclusions**

This paper offers some insights on irrigation projects in India based on a consistent set of data for 314 irrigation projects implemented in developing countries worldwide in the last four decades. The database includes 37 projects for India which accounts for 24% of the official irrigated area for 2001, a significant sub-set. We examine trends in the economic performance of irrigation investments in India, determined the factors that influence performance of the global sample and drew lessons for future irrigation projects in India.

Our analysis indicates that the performance of irrigation investments in India by the Government and multi-lateral funding agencies have been declining with time, whereas in Asia they have remained relatively stable and at a global level they have in fact been trending upwards. No significant trend is established for unit cost of irrigation projects in India implying that cost may have little to do with the decline in project performance. That said, another recent study, which used a unit cost dataset that included projects solely funded by Government entities, found unit costs in India to be increasing. While this requires further investigation, the difference may be in part due to the increasing level of multi-lateral resources in supervising project implementation.



The share of the Indian Government in total investment cost has declined relative to that of the external funding agencies and projects with farmer contributing to development is declining. The decline in government counterpart funding in irrigation projects is consistent with the decline in the budget allocation for irrigation of the central government and irrigation expenditures of the states, especially since the 1980s (Gulati and Narayanan 2003). The declining pattern for projects with farmers' contribution to investment cost may be reflecting either of two things: that the Government was reluctant to fully implement such a policy for fear of burdening the farmers beyond their means or there were attempts to implement but farmers' succeeded in resisting and more projects ended up with just the Government and international development agency covering the investment cost.

This paper finds that as far as irrigation project size (in terms of total irrigated area) is concerned, "big is (certainly) beautiful," underlying significant economies of scale. To assert that large scale projects are bound to fail cannot be supported by the data because small projects are more likely to perform poorly than large irrigation projects. Furthermore, most recently rehabilitation projects perform better than projects developed on previously rainfed areas, which perform quite poorly.

However, our results also suggest that at the system or scheme level, how projects are managed appears to be more important than scale. If we go by the regression results, the increasing project size or total irrigated area appears to be in the right direction while the average system size, which is not significantly declining, is at least not going in the opposite direction. Also, the differences in economic performance by size of systems, i.e., between major and minor systems or between medium and minor systems, are not significant for India.

Bank staff supervision shown to be significantly increasing over time and substantially higher in India's projects than those in other countries or regions, must be capturing serious implementation constraints that have to be properly understood and addressed if projects are to succeed. Among the sources of difficulties in implementation cited are inadequate advanced preparation, incomplete engineering designs, insufficient staffing, land acquisition and resettlement, and procurement. The declining cost overruns, while not directly affecting economic performance, is a good indication that there efforts toward improving implementation are succeeding.

Systems in India are trending in the same direction as global systems in that wholly government-managed systems are declining and those jointly management by government and farmers are increasing. While there are no systems solely managed by farmers in the India sample, those systems that do not have a management agency involved with the management do perform best. The Government of India has embraced this policy of shifting more responsibilities to farmers by establishing WUAs but many reports have pointed out how the process has been very slow in taking off and the difficulties in making WUAs work.

The trends in India's irrigated crops show that paddy irrigation is declining while irrigation for other cereals is rising. Despite policy pronouncements encouraging the shift to high value crops, it appears that the country is yet to realize this. While not discounting the associated risks and difficulties in irrigating high value crops, systems irrigating these crops have significantly done better than those irrigating paddy. This is an opportunity which the country can seriously consider and take advantage of.

In terms of type of project by purpose, the trend in India appears to be in the right direction with declining investments in new construction projects from rainfed areas and increase in rehabilitation projects, which have higher economic returns. The trends in the type of system show that both tank and groundwater-lift systems are on the rise while drainage/flood control projects have significantly decreased. While without direct impacts on economic returns, investments in these types of system may have adverse environmental impacts which would in turn impact on water quantities and eventually irrigation performance.

## **Recommendations**

What are the lessons from the global sample for India? While the analysis above shows that, for major investments, the economies of scale mean that the larger the project the better the economic performance, the availability of water supplies is a serious constrain in many of the Indian rivers. Also, while some of these projects perform poorly, many perform reasonably well, and therefore could be a positive component of particular links proposed under the NRLP. However, the additional capital costs of such links are likely to detract from the economic performance of specific investments, and therefore require careful scrutiny. Given that the global analysis also demonstrated that new developments on previously rainfed lands perform poorly, developing links for major new irrigation developments are likely to be unattractive from an economic perspective.

The experiences in giving farmers increased roles in operation and management of irrigation systems have been mixed. Most of the available evidence are at the micro level or scheme specific and there is no sense of whether this policy decision is on the right track. More studies have reported the problems and why programs such as irrigation management transfers cannot or do not work. The result in this paper is in line with more recent evidence of promising positive impacts of greater farmer participation in irrigation O&M in terms of enhancing project performance. The direction of the Government and donors of encouraging more farmer participation with the former providing supporting roles should be continued. However, while the results provide support for such a policy, the inherent difficulties and challenges in making participatory initiatives should not be underestimated. Building capacities and stronger farmers' groups require a lot of time and resources which the Government and donors should invest in for projects to be sustainable.

The idea of shifting from largely food cereal production to higher value crops has been initially met with less interest. Farmers are believed to be inflexible in shifting from one crop to another and such a move entails higher risks which farmers cannot afford and requires greater technical skills which most farmers are said not to have. However, this paper provides empirical support to the policy of crop diversification in irrigation projects and indicates that this is in the direction of achieving better project economic performance. Yet, this argument is not implying that the Government can encourage diversification without taking into account various factors. Complementary public investments in basic infrastructure such as roads and access to information, input and output markets, and access to financial capital, should reduce the attendant risks for farmers and serve as incentives to take advantage of the opportunity and benefit from investments in irrigation for higher value crops.

While this paper offers some key investment areas which can be pursued by the Government of India and the international development community, it has not addressed the role of private sector in agricultural water development and management. This knowledge should complement the recommendations espoused in this paper. From the above, it is clear that there are areas that would need further and careful study, particularly with regards to

ensuring performance of major investments in irrigation in the context of inter-basin transfers, and increasing water scarcity.

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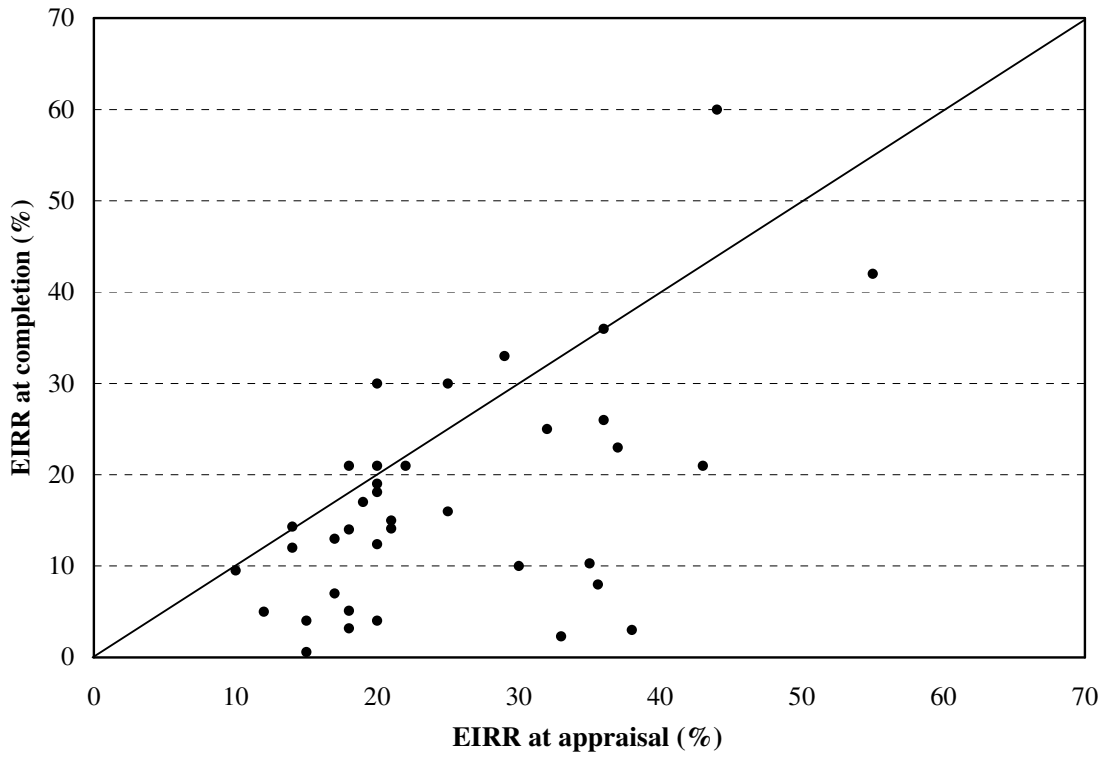


Figure 1. Economic returns at appraisal and completion, India (n=37)

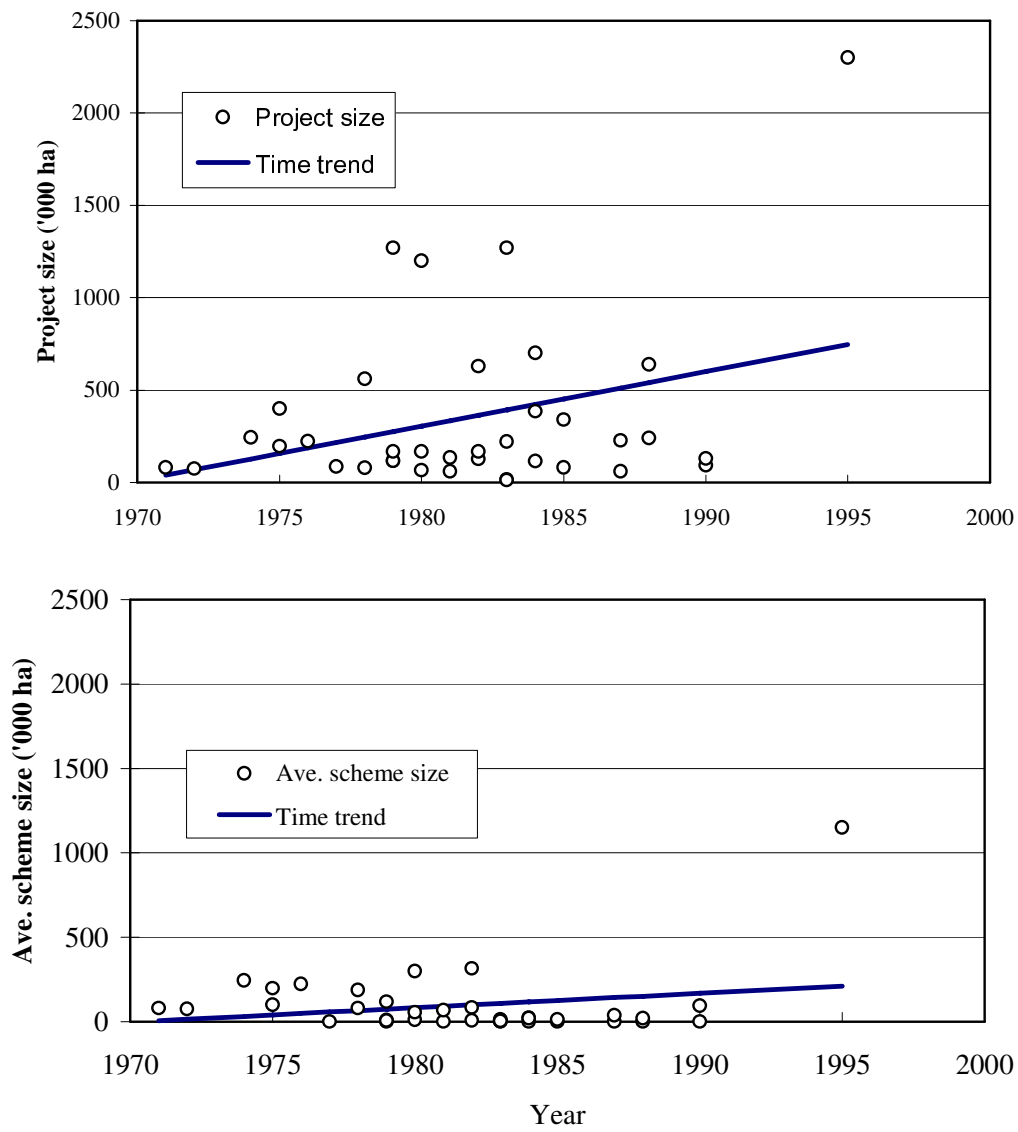


Figure 2. Trends in project size and average scheme size, India (n=37)



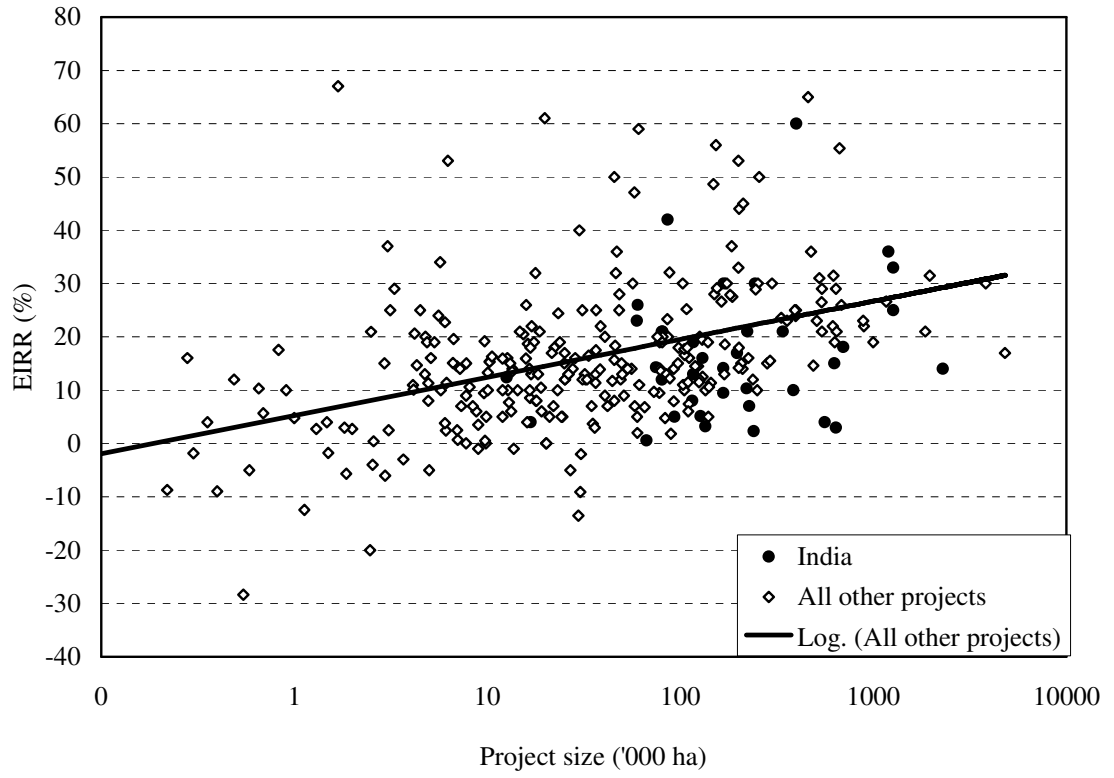


Figure 3. Project size and EIRR of irrigation projects, Global sample (n=314)

Table 1. Five-year averages (%) and trends in economic performance (EIRR) of irrigation projects by purpose of project, 1965-1999<sup>a</sup>

	Total no. of observations	1965-69	1970-74	1975-79	1980-84	1985-89	1990-94	1994-99	Time Trend (1965-99) <sup>b</sup>
<b>Asia</b>									
All projects		14	23	15	14	18	25	18	<i>ns</i>
	(177)	(6)	(15)	(49)	(49)	(28)	(27)	(3)	
New construction projects		14	18	16	11	11	19		<i>ns</i>
	(63)	(4)	(7)	(15)	(23)	(7)	(7)		
Rehabilitation projects		15	28	14	16	21	27	18	<i>ns</i>
	(114)	(2)	(8)	(34)	(26)	(21)	(20)	(3)	
<b>South Asia</b>									
All projects		0	18	19	16	17	26	14	<i>ns</i>
	(91)	(1)	(9)	(21)	(30)	(17)	(11)	(2)	
New construction projects			20	18	10	14	12		- *
	(32)		(5)	(7)	(14)	(4)	(2)		
Rehabilitation projects		0	14	19	21	17	29	14	<i>ns</i>
	(59)	(1)	(4)	(14)	(16)	(13)	(9)	(2)	
<b>India</b>									
<i>All projects</i>			<b>19</b>	<b>25</b>	<b>14</b>	<b>13</b>	<b>11</b>	<b>14</b>	- **
	(37)		(3)	(10)	(15)	(6)	(2)	(1)	
<i>New construction projects</i>			<b>19</b>	<b>26</b>	<b>10</b>	<b>17</b>	<b>5</b>		<i>ns</i>
	(20)		(3)	(4)	(9)	(3)	(1)		
<i>Rehabilitation projects</i>				<b>25</b>	<b>20</b>	<b>9</b>	<b>16</b>	<b>14</b>	- *
	(17)			(6)	(6)	(3)	(1)	(1)	
<b>ALL REGIONS</b>									
All projects		13	18	13	14	18	21	21	+ ***
	(314)	(11)	(24)	(75)	(86)	(56)	(53)	(9)	
New construction projects		13	14	12	12	12	18	24	+ *
	(126)	(7)	(14)	(31)	(37)	(18)	(14)	(5)	
Rehabilitation projects		13	24	14	15	20	22	18	+ *
	(188)	(4)	(10)	(44)	(49)	(38)	(39)	(4)	

a The years indicate "year of project start" rather than year of project completion. Note that projects began in early or mid 1990s were completed only in early 2000. The latest project completion date was 2004.

b The time trend is a regression of EIRR over year of project start. '+' means the variable is increasing over time while '-' means a decreasing trend. \*\*\*, \*\*, and \* indicate statistical significance of time trends at 1%, 5%, and 10% levels, respectively. *ns* stands for not significant. Figures in parenthesis are number of observations.

Sources of basic data: Various project documents of the World Bank, African Development Bank and International Fund for Agricultural Development, various years.

Table 2. Five-year averages and trends in types of irrigation projects, India, 1970 -1999.<sup>a</sup>

Characteristics	70-74	75-79	80-84	85-89	90-94	95-99	Time Trend (1970-99) <sup>b</sup>
<i>Type of project</i>							
* Irrigation (%)	100	100	100	100	100	100	
Irrigation and power project (%)							
Multi-sector project (%)							
<i>Purpose of project</i>							
New construction with land opening (%)							
New construction from rainfed farm (%)	67	10	40	33	50		ns
New + Rehabilitation (minor) (%)	33	30	20	17			- ***
Rehabilitation + New (minor) (%)		10		17	50		+ ***
* Rehabilitation (%)		50	40	33		100	ns
<i>Type of system within a project</i>							
* River diversion (%)		40	40	17		100	ns
River-dam-reservoir (%)	67	30	33	33	100		ns
River-lift system (%)							
Tank (%)			7	17			+ ***
Groundwater-lift system (%)		10	20	33			+ **
Drainage / flood control (%)	33	20					- ***
<i>Type of O&amp;M</i>							
* Government-managed (%)	100	100	93				- ***
Jointly managed by government & farmers (%)			7	17	100	100	+ ***
Farmer-managed system (%)							
<i>Major crop irrigated</i>							
* Paddy (%)	67	70	20	33	50	100	- *
Other cereals (%)	33	30	60	67	50		+ **
Sugar/cotton (%)			13				ns
Tree crops			7				ns
Vegetables							
Fodders							
<b>Number of observations</b>	<b>3</b>	<b>10</b>	<b>15</b>	<b>6</b>	<b>2</b>	<b>1</b>	<b>37</b>

**Notes:**

a Projects are grouped according to the year the project started.

b Linear time trend estimated by regressing each variable over time (year of project start); '+' indicates a positive or increasing trend, '-' indicates a negative or decreasing trend; \*\*\*, \*\*, and \* indicate that the trend is statistically significant at the 1, 5, and 10 percent level, respectively. 'ns' stands for not significant. The observation unit for trend estimation is the individual project for continuous variables and the 5-year average for dummy variables.

Sources of basic data: Various project documents of the World Bank, various years.

Table 3. Five-year averages and trends in key project characteristics, India, 1970 -1999.<sup>a</sup>

Characteristics	70-74	75-79	80-84	85-89	90-94	95-99	Time Trend (1970-99) <sup>b</sup>
<b>Size/scale</b>							
Project size (in terms of total irrigated area, '000 ha)	133	322	352	265	112	2,300	+ **
Average size of systems within projects ('000 ha)	133	92	60	12	47	1,150	ns
Number of project components	8	7	7	7	4	4	ns
<b>Project financing</b>							
Share of government fund in total investment cost (%)	71	51	44	50	39	56	- *
Farmers' contribution (% of projects with farmer contribution)	67	10			50		- **
<b>Identification, formulation, planning factors</b>							
Bank input for appraisal (staff weeks)	61	44	102	144	240	231	+ ***
Gestation period (months)	22	31	20	38	38	29	ns
Planned/actual irrig. area shortfall (%)	17	-70	6	-60	18		ns
Share of software component in total investment cost (%)	10	13	13	17	1	45	ns
<b>Water availability/supply</b>							
Annual rainfall (mm)	682	970	1,062	1,052	700	700	ns
Conjunctive use of water (% of projects)		60	33	50	50		ns
<b>Implementation factors</b>							
Bank input for supervision (staff weeks)	70	53	148	260	269	308	+ ***
Cost overrun (% to total investment cost)	80	12	2	15	19	-2	- *
Time overrun (years)	0.3	0.4	1.7	0.7	-3.0	-2.0	ns
<b>Number of observations</b>	<b>3</b>	<b>10</b>	<b>15</b>	<b>6</b>	<b>2</b>	<b>1</b>	<b>37</b>

**Notes:**

a Projects are grouped according to the year the project started.

b Linear time trend estimated by regressing each variable over time (year of project start); '+' indicates a positive or increasing trend, '-' indicates a negative or decreasing trend; \*\*\*, \*\*, and \* indicate that the trend is statistically significant at the 1, 5, and 10 percent level, respectively. 'ns' stands for not significant. The observation unit for trend estimation is the individual project for continuous variables and the 5-year average for dummy variables.

Sources of basic data: Various project documents of the World Bank, various years.

Table 4. Five-year averages and trends in unit irrigation investment costs of projects by project purpose, (US \$/ha at 2000 prices), 1965-1999<sup>a</sup>

	1965-69	1970-74	1975-79	1980-84	1985-89	1990-94	1994-99	Time Trend (1965-99) <sup>b</sup>
<b>Asia</b>								
All projects	3,278	3,159	3,398	5,037	1,350	1,168	2,822	<i>ns</i>
New construction projects	3,446	5,240	6,211	9,118	3,353	2,763		<i>ns</i>
Rehabilitation projects	2,942	1,338	2,158	1,427	682	609	2,822	- ***
<b>South Asia</b>								
All projects	5,096	2,474	1,695	2,338	832	1,179	3,929	<i>ns</i>
New construction projects		3,019	2,782	4,283	1,357	4,310		<i>ns</i>
Rehabilitation projects	5,096	1,792	1,151	635	671	483	3,929	<i>ns</i>
<b>India</b>								
<i>All projects</i>		<i>4,434</i>	<i>923</i>	<i>2,432</i>	<i>1,005</i>	<i>4,558</i>	<i>193</i>	<i>ns</i>
<i>  New construction projects</i>		<i>4,434</i>	<i>1,649</i>	<i>3,775</i>	<i>1,486</i>	<i>7,421</i>		<i>ns</i>
<i>  Rehabilitation projects</i>			<i>439</i>	<i>418</i>	<i>524</i>	<i>1,695</i>	<i>193</i>	<i>ns</i>
<b>ALL REGIONS</b>								
All projects	3,527	3,589	6,593	5,960	3,703	3,605	5,120	- ***
New construction projects	3,976	5,099	11,449	9,803	4,836	6,671	7,504	<i>ns</i>
Rehabilitation projects	2,742	1,476	3,172	3,058	3,167	2,504	2,139	- **

a The years indicate "year of project start" rather than year of project completion.

b The time trend is a regression of log of unit cost over year of project start. '+' means the variable is increasing over time while '-' means a decreasing trend. \*\*\*, \*\*, and \* indicate statistical significance of time trends at the 1%, 5%, and 10% levels, respectively. *ns* stands for not significant.

Sources of basic data: Various project documents of the World Bank, African Development Bank and International Fund for Agricultural Development, various years.

Table 5. Economic performance of irrigation projects by scale (%), 1965-1999<sup>a</sup>

	Major	Medium	Minor	Major vs. Minor <sup>b</sup>	Medium vs. Minor <sup>b</sup>
<b>Asia</b>					
All projects	18 (110)	12 (14)	18 (53)	<i>ns</i>	< (*)
New construction projects	14 (40)	3 (2)	14 (21)	<i>ns</i>	< (*)
Rehabilitation projects	20 (70)	14 (12)	20 (32)	<i>ns</i>	< (*)
<b>South Asia</b>					
All projects	17 (49)	16 (6)	19 (36)	<i>ns</i>	<i>ns</i>
New construction projects	13 (17)	-1 (1)	17 (14)	> (*)	-
Rehabilitation projects	20 (32)	20 (5)	20 (22)	<i>ns</i>	<i>ns</i>
<b>India</b>					
<i>All projects</i>	<i>16</i> (26)	<i>22</i> (2)	<i>18</i> (9)	<i>ns</i>	<i>ns</i>
<i>New construction projects</i>	<i>13</i> (15)	<i>-</i> (1)	<i>21</i> (5)	<i>ns</i>	<i>-</i>
<i>Rehabilitation projects</i>	<i>20</i> (11)	<i>22</i> (2)	<i>16</i> (4)	<i>ns</i>	<i>ns</i>
<b>ALL REGIONS</b>					
All projects	17 (166)	14 (41)	15 (107)	> (**)	<i>ns</i>
New construction projects	14 (59)	13 (20)	13 (47)	<i>ns</i>	<i>ns</i>
Rehabilitation projects	19 (107)	15 (21)	16 (60)	> (***)	<i>ns</i>

a The years indicate "year of project start" rather than year of project completion.

b '>' indicates that on average, the first group has performed better than the second group; '<' indicates that on average, the second group showed better performance than the first group; whether the differences in means between two groups are statistically significant is examined using the t-test for mean difference; statistical significance of the results is indicated by asterisks in parenthesis; \*\*\*, \*\*, and \* indicate that the difference is statistically significant at the 1%, 5%, and 10% level, respectively. 'ns' stands for not significant.

Sources of basic data: Various project documents of the World Bank, African Development Bank and International Fund for Agricultural Development, various years.

Table 6. Economic performance of irrigation projects by type of O&M (%), 1965-1999<sup>a</sup>

	Government-managed systems	Gov't and Farmer-managed systems	Farmer-managed systems	Government vs. Gov't +Farmer managed systems <sup>b</sup>	Gov't+Farmer vs. Farmer managed systems <sup>b</sup>
<b>Asia</b>					
All projects	14 (79)	18 (73)	25 (25)	< (*)	< (*)
New construction projects	14 (31)	13 (24)	18 (8)	<i>ns</i>	<i>ns</i>
Rehabilitation projects	15 (48)	21 (49)	28 (17)	< (**)	< (*)
<b>South Asia</b>					
All projects	17 (52)	17 (29)	25 (10)	<i>ns</i>	<i>ns</i>
New construction projects	15 (21)	13 (9)	10 (2)	<i>ns</i>	<i>ns</i>
Rehabilitation projects	18 (31)	19 (20)	29 (8)	<i>ns</i>	< (*)
<b>India</b>					
<i>All projects</i>	<i>17</i> <i>(32)</i>	<i>14</i> <i>(5)</i>		<i>ns</i>	
<i>  New construction projects</i>	<i>16</i> <i>(19)</i>	<i>5</i> <i>(1)</i>			
<i>  Rehabilitation projects</i>	<i>20</i> <i>(13)</i>	<i>17</i> <i>(4)</i>		<i>ns</i>	
<b>ALL REGIONS</b>					
All projects	13 (161)	18 (115)	22 (38)	< (***)	< (*)
New construction projects	12 (72)	15 (42)	17 (12)	<i>ns</i>	<i>ns</i>
Rehabilitation projects	15 (89)	19 (73)	24 (26)	< (***)	<i>ns</i>

a The years indicate "year of project start" rather than year of project completion.

b '>' indicates that on average, the first groups has performed better than the second group; '<' indicates that on average, the second group showed better performance than the first group; whether the differences in means between two groups are statistically significant is examined using the t-test for mean difference; statistical significance of the results is indicated by asterisks in parenthesis; \*\*\*, \*\*, and \* indicate that the difference is statistically significant at the 1%, 5%, and 10% level, respectively. 'ns' stands for not significant.

Sources of basic data: Various project documents of the World Bank, African Development Bank and International Fund for Agricultural Development, various years.

Table 7. Box-Cox regression and elasticities of determinants of economic performance of global irrigation projects, (n =314)

Explanatory variables	Regression coefficients		Elasticities
	Coefficients	Test values	
<b>Transformed:</b>			
Project size	5.113 ***	35.97	0.319
Average size of systems	-0.696 **	3.784	-0.043
Year project started	-2.009	0.792	
Bank input for supervision	-2.361 **	4.276	-0.147
Number of project components	-4.324 ***	8.889	-0.270
Share of government fund	0.680	0.192	
Share of soft components	0.656	0.831	
Annual rainfall	2.566 **	4.045	0.160
GDP per capita	-6.530 ***	10.20	-0.407
PPP	-0.537	0.756	
<b>Untransformed:</b>			
Time overrun	-0.218	0.406	
Cost overrun	0.237	0.028	
Sizing error	0.009	0.777	
Farmers' contribution	2.968 *	2.686	0.185
Conjunctive use of water	2.900 *	2.811	0.181
Irrigation and power	1.776	0.307	
Multi-sector project	2.428	0.699	
New construction w/ land opening	-0.994	0.102	
New construction from rainfed	-3.522 *	3.261	-0.220
New + Rehabilitation	-0.108	0.003	
Rehabilitation + New	-0.757	0.184	
River-dam-reservoir	2.344	1.875	
Tank	2.670	0.417	
River-lift	-2.702	1.437	
Groundwater-lift	1.258	0.259	
Drainage / flood control	0.254	0.011	
Government + farmers group	4.081 ***	7.523	0.255
Farmer-managed system	5.253 **	5.061	0.328
Cereals	1.019	0.306	
Sugar/Cotton	-1.797	0.480	
Tree crops	6.135 *	3.480	0.383
Vegetables	7.572 ***	6.120	0.472
Fodders	19.988 ***	9.603	1.247
AfDB	-4.051	0.980	
IFAD	-13.830 **	5.146	-0.863
East Asia	8.264 **	4.799	0.516
Southeast Asia	1.800	0.536	
Latin America & Caribbean	6.752 **	4.535	0.421
Middle East & North Africa	6.595 **	5.541	0.411
Sub-Saharan Africa	9.222 ***	10.16	0.575
Constant	17.192		
$\lambda$	-0.088	-1.350	
$\theta$			
$\sigma$	10.314		
Log likelihood	-1178		
Number of sample	314		

a Test statistics for regression coefficient follow the  $\chi^2$  distribution with the degree of freedom of 1, while those for the Box-Cox parameters follow the standard normal distribution. \*\*\*, \*\*, and \* indicate that the coefficients are statistically significant at the 1%, 5%, and 10% level, respectively.

b For continuous variables, elasticities are estimated at their means, and for binary variables, setting the variable unity. Elasticities are shown only for the variables that have significant coefficients.



Annex Table 1. Total area irrigated by projects in sample, 1965-1999<sup>a</sup>

	Total number of irrigation projects	Total area irrigated ('000 ha)
<b>Asia</b>		
All projects	177	42,960
New construction projects	63	5,016
Rehabilitation projects	114	37,944
<b>South Asia</b>		
All projects	91	29,065
New construction projects	32	3,467
Rehabilitation projects	59	25,598
<b>India</b>		
<i>All projects</i>	37	13,006
<i>New construction projects</i>	20	2,527
<i>Rehabilitation projects</i>	17	10,479
<b>ALL REGIONS</b>		
All projects	314	53,684
New construction projects	126	7,105
Rehabilitation projects	188	46,578

a The years indicate "year of project start" rather than year of project completion.

Sources of basic data: Various project documents of the World Bank, African Development Bank and International Fund for Agricultural Development, various years.

Annex Table 2. List of sample projects, India (n = 37)

Project title	Year project started	Total project area under new construction (ha)	Total project area under rehabilitation (ha)	Total irrigation cost in 2000 prices (million US\$)
Kadana Irrigation Project	1971	80,540		421.1
Pochampad Irrigation Project	1972	75,000		530.5
Chambal Command Area Development Project (Rajasthan)	1975		197,000	136.7
Chambal Command Area Development Project (Madhya Pradesh)	1976		222,635	59.8
Rajasthan Canal Command Area Development Project	1974	136,000	108,000	243.7
Goodavari Barrage Project	1975		400,000	112.4
West Bengal Agricultural Development Project	1977	86,100		77.7
Andhra Pradesh Irrigation and CAD composite Project	1978		560,764	240.0
Periyar Vaigai Irrigation Project	1978	17,100	63,200	62.2
First Maharashtra Composite Irrigation Project	1979	87,000	30,000	246.4
Karnataka Irrigation Project	1980	97,330	69,900	553.4
Orissa Irrigation	1979	60,000	57,000	136.9
Gujarat Medium Irrigation Project	1979	134,400	33,600	406.2
Punjab Irrigation Project	1980		1,200,000	371.7
Haryana Irrigation Project	1979		1,270,000	237.5
Uttar Pradesh Public Tubewells Project	1981	60,225		44.4
Gujarat Irrigation II Project	1981	41,766	93,173	271.6
Maharashtra Irrigation II Project	1980	66,800		582.3
Karnataka Tanks Irrigation Project	1983	16,800		69.8
Mahanadi Barraages Project	1982		167,000	143.1
Madhya Pradesh Medium Irrigation Project	1982	127,617		222.7
Kallada Irrigation and Tree crop development project	1983	12,600		149.7
Madhya Pradesh Major Irrigation Project	1982	360,000	269,000	495.3
Haryana Irrigation II Project	1983		1,270,000	242.6
Second Uttar Pradesh Public Tubewells Project	1984	385,000		241.2
Chambal(Madhya Pradesh) Irrigation II project	1983		221,000	49.4
Maharashtra Water Utilization Project	1984		115,203	61.8
Upper Ganga Irrigation Modernization Project	1984		701,000	275.1
Periyar Vaigai Irrigation II Project	1985	7,500	73,600	69.5
Gujarat Medium Irrigation II Project	1985	279,696	60,804	471.3
West Bengal Minor Irrigation Project	1987	59,500		93.0
National Water Management Project	1988		640,000	164.3
Bihar Public Tubewell Project	1988		240,320	110.4
Maharashtra Composite Irrigation III Project	1987	227,800		344.4
Upper Krishna Irrigation Project (phase II)	1990	93,513		694.0
Haryana Water Resources consolidation Project	1995		2,300,000	442.8
Punjab Irrigation and Drainage Project	1990	15,000	115,719	221.5
<b>Total</b>		<b>2,527,287</b>	<b>10,478,918</b>	<b>9,296.6</b>

Annex Table 3. Definition of variables used in the regression analysis of the global irrigation project sample,

<b>Variables</b>	<b>Definition</b>
Total project cost	Total irrigation-related investment which includes both physical irrigation infrastructure and software components (e.g., agriculture supports and institution building); excludes non-irrigation costs (e.g., power generation and non-irrigation components in sector-wide projects), in US\$ million at 2000 prices (Deflator; IMF world export price index)
Unit cost	Total project cost divided by project size (US\$ 000/ha)
EIRR	Economic internal rate of return at project completion or audit (%)
Project size	Total project area = total irrigated area benefited by a project (000 ha)
Average size of systems	Average command area of irrigation systems involved in a project (Project size/number of irrigation schemes involved in the project) (000 ha)
Year project started	The year the implementation of the project started
Bank input for supervision	Staff weeks spent for project monitoring and supervision
Time overrun	The number of years between the project completion and the planned completion year in appraisal
Cost overrun	The ratio of the actual investment to the planned one in appraisal (%)
Sizing error	The ratio of the difference between planned and actual irrigated area benefited by the project to the planned irrigated area (%)
No. of project components	Number of project components listed in appraisal report, taken as a proxy to measure the complexity of the project
Share of government fund	Share of government fund in total investment (%)
Share of soft components	Share of such soft-ware cost components as engineering management, technical assistance, agriculture support and institution building in total investment (%)
Farmers' contribution <sup>a</sup>	Whether or not farmers contribute to the project investment
Conjunctive use of water <sup>a</sup>	Whether or not using surface water and groundwater conjunctively
Annual rainfall	Annual rainfall in the project area (mm), obtained from SAR, or from the FAO Aquastat
GDP per capita	GDP per capita during the project period (US\$ in 2000 prices)
PPP	Purchasing power parity conversion factor to official exchange rate ratio during the project period

<sup>a</sup> A binary variable with value of "1" if the characteristic is present and "0" if absent.

Annex Table 4. Classifications of the global sample of irrigation projects

<b>Classification<sup>a</sup></b>	<b>Description</b>
<b>Type of project:</b>	
<u>Irrigation</u>	Project for irrigation alone
Irrigation and power	Project for irrigation and electric power generation
Multi-sector	Multi-sector projects including irrigation components
<b>Purpose of project :</b>	
New construction with land opening	New irrigation construction projects converting unused land into irrigated fields
New construction from rainfed area	New irrigation construction projects converting rainfed fields into irrigated ones
New construction + Rehabilitation	Newly constructed area > rehabilitated area
Rehabilitation + New construction	Rehabilitated area > newly constructed area
<u>Rehabilitation</u>	Irrigation rehabilitation / modernization projects without newly created area
<b>Type of irrigation system:</b>	
<u>River-diversion</u>	Without major storage capacity
River-dam-reservoir	With a major storage capacity
Tank	With tank as the major source of irrigation water
River-lift	Pump system with water from river, pond or lake
Groundwater-lift	Pump system with groundwater
Drainage / flood control	Systems where water is used by draining excess water out of the system area
<b>Mode of O&amp;M after project:</b>	
<u>Government agency alone</u>	O&M by government agency alone
Government + farmer	O&M with government agency and farmers' organizations (water users' groups)
Farmer-managed system	Systems managed by farmers with minimal intervention by government agencies
<b>Major crops irrigated:</b>	
<u>Paddy</u>	
Cereals	Wheat, maize and other cereals
Sugar/Cotton	
Tree crops	
Vegetables	
Fodder	
<b>Region:</b>	
SSA	Sub-Saharan Africa including 19 countries
MENA	Middle East and North Africa including 8 countries
<u>SA</u>	South Asia including 5 countries
SEA	South-East Asia including 7 countries
EA	East Asia including 2 countries
LAC	Latin America and Caribbean including 9 countries
<b>Donor<sup>b</sup>:</b>	
<u>WB</u>	World Bank
AfDB	African Development Bank
IFAD	International Fund for Agricultural Development

<sup>a</sup> Underlined items are used as the base variable in each variable group when these binary variables are used as dummy variables in regression analysis.

<sup>b</sup> Major donor agency; co-financing project is listed under the major donor.