

## Privatisation in irrigation agriculture<sup>1</sup> PIM, IMT and PPP

In most countries, construction, water supply and maintenance of large and medium scale irrigation systems are publicly managed or administered. In some cases the state authorities even decide what products the farmers are to cultivate, like for instance wheat for the national food security. Usually farmers don't pay for the water but for the public service, even if the fee is rather nominal in most cases. In case of scarcity different regulations apply, for instance with the rotation principle farmers receive water in turn; whereas in other cases farmers whose fields are located at the head end, that is e.g. immediately at the dam, receive priority treatment compared to the farmers at the tail end, at the lower end of the canal system, who are often insufficiently supplied.

### *Participatory Irrigation Management (PIM)*

In view of empty treasuries, management problems and stagnating productivity of many irrigation systems there have been reform attempts for years, frequently advanced by international finance organizations like the World Bank that plays a key role as donor for irrigation. Under the key word Participatory Irrigation Management (PIM) water user associations (WUA) have been more and more involved in water allocation, maintenance and collecting charges since the 1980s, for instance in Argentina, Columbia, Mexico, the Philippines and Turkey. Repeatedly an increased cost sharing of the farmers for operation & maintenance, O&M, is a further objective.

Many of these projects failed. "We have oversold WUAs as **the** solution", Salah Darghouth, water expert of the World Bank's Agriculture and Rural Development department (ARD), explains. Often it was only a matter of small user organizations on local or village level. Frequently they merely existed on paper to satisfy the donors' demand for "participation". In most cases the authorities only assigned them limited and cumbersome tasks like the cleaning of the canals or charge collecting. The World Bank regards insufficient creation of supporting framework, weak backing of the concept in politics or civil society as well as a too early assignment of tasks to the user associations without corresponding capacity building as the most frequent reasons for the failures.

### *Irrigation Management Transfer (IMT)*

With the Irrigation Management Transfer concept the PIM approach was expanded: it caters stronger for major units; authorities and public institutions are to hand over considerably more responsibility for operation, maintenance and management (OMM) to the user organizations, which are to shoulder the whole costs and professionalize management. In some cases even irrigation infrastructure was assigned to the user organisations. The expectation here: Users would operate the systems more efficiently and better adapted to their own requirements. Moreover, as "proprietors" they'd more likely bear the costs themselves.

Yet a shift from an administrative system to a more or less self-governing one is an extremely complex and complicated process. In most of the cases it was executed abruptly, chaotically and top-down, without sufficient coordination with the farmers, without preparation for their new tasks and often also without rehabilitating the infrastructure. Furthermore adjustment measures for disparate economic and political

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<sup>1</sup> Briefing Paper No. 1 to the Background Paper "Water for Food – Water for Profit. The World Bank's policy in the agricultural water sector"

power structures remained widely ignored, leading, for example, in Indian projects to rich farmers becoming the decision makers, and the poorer ones doing the repair work. Hence payment reserves or rather solvency remained low, especially in small, less commercial systems and by small farmers. Thus the assignment of tasks often caused the converse effect of what had been intended:

“There is increasing evidence that Irrigation Management Transfer (IMT) can actually negatively impact the situation of poor farmers – and, in extreme cases, can even cause the collapse of irrigation schemes.”

(Water Policy Briefing, 1).

### *Public-Private Partnership (PPP)*

Since despite some progress the “overall performance of irrigation continued to decline, at best to stagnate” (Background Paper 20), the World Bank suggests as “logical advancement” an increased participation of private companies through public private partnerships. The Bank demands a „shift toward a new public-private paradigm for irrigation, in which government progressively becomes more the facilitator and regulator and users and markets play a growing role in management and finance“ (World Bank 2005, 5).

The background paper “Public Private Partnership in Irrigation and Drainage” ought to “to clarify the possible role and opportunities for the private sector – from the local irrigation manufacturer to the multinational company“ (1). PPP advocates usually choose here to refer to private companies rather unspecifically as “irrigation service providers”<sup>2</sup>, as a “professional third party” between the government on one hand, which is to resign more and more to regulation and resource management, and farmers or rather water user associations on the other one. As a model serve the allegedly “good experiences” with PPP in urban water supply, even if issues like monetary risks and political opposition that have diminished the enthusiasm of global provider companies for a participation in urban supply are acknowledged. Pilot projects like in Morocco (see box Guerdane) and Egypt act as trials, to develop appropriate models, which could be attractive for investors.

The background paper is based upon the evaluation of just under two dozen PPP projects in the irrigation sector, including for example Northern Africa, India, China, and France. The study emphasizes that most of them were “demand driven”: on the one hand they had been initiated by governments, expecting financial relief from that, and on the other by farmers, who expected a better supply and/or better management from the participation of private companies, it claims.

Similar as in the urban sector, a variety of cooperation forms of the public and the private sector is distinguished for PPP projects in the rural sector – from a service contract with user organizations over contracts with agencies regarding OMM tasks (Public Service Delegation, PSD) up to concessions, where companies are in charge for investments, construction and operation of irrigation projects.

### *Risk management for private profit*

Here cost recovery is regarded as a key element for success or failure: on the one hand it is regarded as a “main obstacle” (Background Paper), since higher costs are a political and economic issue. On the other one it is essential to fulfil the demands of governments

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<sup>2</sup> Irrigation and Drainage Service Provider, IDSP, which can be both, private companies as well as professionalized user organizations, NGOs or autonomous operating agencies.

for financial relief by cutting back subsidies as well as making PPP projects economically attractive for private service providers and investors. An increasing cost recovery increases the pressure on the farmers to invest into higher productivity and/or to cultivate high-value products, for instance for exportation, to absorb higher costs.

The paper mentions a series of risks for private investors; in reducing them the World Bank and other international financial institutions are to play a major role:

- *Commercial risks*, interfering for instance with the proceeds and hence amortisation of investments of “irrigation service providers”, like the solvency of farmers or monetary fluctuations;
- *Country risks*, like the political situation, low competence of politics and regulation agencies, the economic situation, like a devaluation or foreign trade risks;
- *Water related risks*, like a decline in rural water demand, for instance due to the farmers’ resorting to groundwater, or supply bottlenecks, due e.g. to the competition with urban and industrial use, which often gets priority over agricultural use in shortage situations (see Briefing Paper Manila).

By using a variety of tools governments and institutions like the World Bank ought to reduce such risks, including flexible tariff adjustments, government guarantees, equity participation of the World Bank group via the IFC or guarantees by the MIGA. Moreover, by financing new investments in water resource security and the development of new distributional mechanisms (see Briefing Paper Water Rights) the World Bank could create “water security”. (42)

**Box: Corporate Groups in Irrigation Agriculture**

In the opinion of Pierre-Alexandre Lacarelle, PPP is a “preferred approach in the developing countries” to facilitate a private participation in investments, construction, management and consultancy. For the manager of the Water Resource Division of the French industrial and service group Suez, lucrative dedication covers the whole supply chain, starting with “resource mobilization”, for instance via dams; over the water transfer up to irrigation infrastructure and management. Suez as such manages an irrigation PPP in Lyon, France.

**Box: Guerdane**

In 2004 an international consortium led by the Moroccan industrial conglomerate, Omnium Nord-Africain (ONA) won the bid for a Build-Transfer-Operate project, BTO, with a 30-year concession for the construction and management of an irrigation network in the citrus-farming region of Guerdane. Water supply is carried out with a new dam. Investments will cost an estimated US\$85 million to build, of which the Moroccan government will provide around US\$50 million - half as a loan and half in grant form. In addition to the subsidized investment costs, the water tariffs will also be subsidized, because commercial tariffs covering the total cost of provision would be too expensive for the citrus farmers. That is to say, public funds will guarantee the profitability of private investments.

Source: World Bank Group, DevNews Media Center, August 19, 2004

### *Having all the jam*

Reforms in irrigation are without doubt necessary. At the same time, institutional reorganisation and the capability of user organisation of taking the operation in their own hands is a rather complex and difficult process, in which manifold political, economical, social and ecological aspects, claims and interests have to be considered. Measured by these requirements the promotion of PPP in agriculture seems like the remoulded panacea of the privatisation policy in the urban supply sector. The World Bank's new enthusiasm for public private partnerships resembles the enthusiasm and promises that announced and advanced in the early 1990s privatisation and commercialisation in the urban sector, in part against the will of governments and public utilities: one announced full-bodied that mobilised by additional private investments and with private management the efficiency of supply could be improved.

In the meantime expectations for a substantial commitment of private and above all foreign investors in the urban utility sector have been scaled down. Owing to these experiences the hopes for major private investment in the irrigation sector are low from the beginning, while the necessity to consider and absorb risks for potential investors is rated considerably higher.

PPP de facto boils down – just as in the urban supply sector – to furbish up potentially attractive sectors with public funds and guarantees in a way that investors actually snatch at the offer. The most attractive parts become privatised, the sector divided in two, that is a small, profitable sector funded by governments and the World Bank, and the huge remainder, involving mainly small-farming agriculture. That means: rather wealthy farmers, exportation agriculture and commercial undertakings are the most likely to benefit from that – whereas the poorer countries, small-farming operations and smaller irrigation system will hardly benefit at all. What is more, food security is jeopardized, since privately operated irrigations systems only have prospects of profitability, when they shift from the cultivation of staple crops to export products.

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