

2. Opportunities for Private Sector Participation in Agricultural Water Development and Management

BACKGROUND AND JUSTIFICATION

The volume of public investments in agriculture has been decreasing in many African countries. But the volume of investments by the private sector is probably increasing, and there is scope for a significant further rise if the conditions are right and facilitation is provided.

Our definition of “private sector” includes farmers and micro small and medium enterprises (SMEs) in agriculture: i.e., in crop production, livestock production, fisheries, in marketing these products, post harvest and food processing, and in supply chains for goods uses in the agricultural production process. More specifically, the ‘private sector’ comprises:

- Farmers in rainfed and in irrigated agriculture using their own financial resources, with or without external support;
- Irrigation technology manufacturers, dealers, distributors, and retailers;
- Irrigation development consulting firms, contracting firms;
- Non-governmental organizations, parastatals and private sector entities promoting irrigated agriculture in various ways;
- Emerging/spontaneous market linkage initiatives: e.g., provision of support services, peri-urban agriculture, out-grower schemes, contract farming;
- Private entities that manage irrigation schemes -- irrigation management transfer (IMT) is one such example where individual farmers (or more usually, groups of farmers) take over responsibility for operation and maintenance and management of existing government-built irrigation schemes; private investments and participation in the creation of new agricultural water development facilities and the expansion/upgrading of existing schemes; and
- In general, those providing input and output marketing services.

It is often not recognized that many poor smallholder farmers do have access to funds and are willing to invest in their agricultural enterprises if conditions are promising. Facilitation of this process requires changes in the direction of efforts by public sector actors and donors, and financially only moderate investments.

Another aspect of the primary production process often ignored is that rainfed agriculture (i.e., crop production with little or no supplement of water) accounts for 60% of Africa’s food production and 80% of its employment. But rainfed agriculture generally produces much below its potential, among others because water supply is too irregular. However, with moderate investments in small scale water technologies (i.e., investments in equipment, training, and empowerment together), both stability and productivity of smallholder farming can rise so that commercial production becomes viable. Recent estimates by FAO indicate that 75% of the agricultural growth required in SSA by 2030 will have to come from intensification (in the form of yield increases and higher cropping intensities), with the remaining 25% coming from arable land expansion. As a prerequisite for intensification, agricultural water development will clearly be a major means of poverty reduction for the region. Supplementary irrigation in smallholder rainfed agriculture requires small scale approaches and in principle lends itself well to investments that many of the poor farmers could make. One important issue for governments and donors is to empower poor farmers.

Investments in African irrigation have been largely driven by donors and governments. There is growing awareness and explicit recognition of the variety of roles that the private sector can actually play in agricultural production, often outside the formal, public sector. This has given rise to a number of initiatives to promote private sector participation in irrigation and agriculture, in smallscale irrigated areas as well as for the larger irrigation schemes.

The recent conference that scrutinized African Successes (NEPAD-IFPRI-CTA-INWENT, 2003) recommended as very effective investments by African governments to increase food security and improve livelihoods: (1) the mobilizing and empowering of smallholder farmers and farmer organizations, and (2) the development of agricultural markets.

A World Bank report (World Bank-PSDED 1993) highlights key lessons on the respective roles of the private sector and governments with special emphasis on the development of markets. Despite structural adjustments and efforts to provide the enabling environment for more private investment or private sector participation in irrigation, “markets [just] do not spring magically to life as the public sector downsizes.” The NEPAD Comprehensive Africa Agriculture Development Program (CAADP) recognizes that one of the four critical needs identified for moving from dialogue to action is a “concerted action to promote private sector engagement and interest” (NEPAD, 2003).

Intensification of agriculture needs a wide range of enterprises that supply inputs (seed, fertilizer, water, equipment, information, etc) and a wide range of enterprises that deal with produce (transport, food processing, selling, etc). Many of these are very small (micro-enterprises), many are small, some are medium sized. The very diverse group is here taken under the term of micro SMEs. Intensification of agriculture needs to go hand in hand with intensification of agricultural micro SMEs.

Public sector actors, particularly government agencies and also donors, have a big role to play with respect to private sector investments. On the one hand there is the priming of investments to kick start processes, but mainly there is the facilitation of the investment process such that farmers and micro SMEs are encouraged to proceed. Facilitation includes training, demonstration, information centres, adequate legislation, setting up institutions to empower farmers and micro SMEs, quality control of agricultural inputs and produce, transfer of management of irrigation schemes to empowered farmers, arranging for credit schemes, etc. Facilitation, which requires effort and hence money, is more important than financial investment per se.

We may identify also cases where government investments (read ‘interventions’) in the past were stifling local development by imposing rigid guidelines where flexibility (towards natural conditions) is required and stimulating production when markets cannot absorb the produce, and by guaranteeing fixed but low prices. Disinvestment, rather than investment, is the keyword here. Interesting examples (Office du Niger in Mali, the northern Plateau in Burkina Faso) will be analyzed.

OBJECTIVES AND SCOPE

The goal of this component is to recommend ways to promote private sector participation in agricultural water use for poverty reduction, food security and economic growth in sub-Saharan Africa (SSA).

The specific objectives are:

- To show that the private sector is very large and diverse, as it includes hundreds of millions of small farmers in addition to the many small agricultural enterprises, and particularly that the sector can be a major source of investments;
- To identify the “do’s and don’ts” with respect to facilitation of investments by the private sector; and
- To recommend practical ways by which governments and donors can promote private sector investments or to remove constraints, e.g., by encouraging PPP’s such as water users associations.

The study will consider different types of agricultural water development and water use, including subsistence agriculture, cultivation of profit-oriented high-value crops, smallholder farming, and peri-urban agriculture. It will examine successful examples of private sector involvement in the various functions or processes, including planning, design, construction, operations and maintenance, rehabilitation and modernization, monitoring and evaluation. It will, to the extent possible, seek synergies with the typologies/schemes being used by other components of the overall agricultural water use investment research program. The study will focus on investment decisions that are made in agriculture at the household level, at the community level, in micro SMEs, and on those by governments that do affect significantly the conditions that influence decisions by households, communities and enterprises.

METHODOLOGY

We focus on the decisions about investments by and for the private sector. How can these be guided, promoted?

We distinguish four primary levels of decisions on investments by and for the private sector:

- Decisions by individual farmers. Many of them (1) have few natural and other resources. This may be the largest group, and is difficult to reach. There are also (2) many farmers, sometimes called emerging or new commercial farmers, who are already active participants in the market economy. Thirdly, there are also (3) large commercial farmers who are already real entrepreneurs. (Note that a ‘farmer’ is more often a woman than a man, and increasingly a ‘weak’ person due to age (old or very young), HIV/AIDS and works under severe constraints of available labor).
- Decisions by farmer organizations and communities.
- Decisions by (1) national institutes and (2) government agencies that affect the private sector, such as regarding rules and regulations and investments in infrastructure.
- Decisions by micro, small and medium size agricultural enterprises that affect the use of water, such as regarding supply chains of agricultural products, produce markets.

This study will bring together from formal and informal sources, knowledge about successful investments by and for members of the private sector. This will provide a view of the current types and levels of investment by the private sector itself. It will also show examples of how the public sector can facilitate this process. For a number of gaps in the knowledge about private sector investments, we will carry out fieldwork to find answers to targeted questions. The insights into the ‘what’, ‘why’ and ‘who’ in decision making for investments will lead us to recommendations for governments and investment banks with respect to what they can do with and for the key actors.

This study will consider a range of elements of the enabling environment, including:

- the regulatory policies that determine access to and efficient allocations of resources or inputs (such as labor, capital, land and water);
- the principal determinants of the costs of transactions for the private sector player;
- the factors (e.g., related to institutions, finance, marketing) that contribute to or hinder the acquisition of technological capability and the consequent development and distribution/marketing of “appropriate” technology;
- the operation of support services/agents; and
- private sector responses to deficiencies in management of infrastructure.

ACTIVITIES

A review of the formal and informal literature on agricultural investments in Africa will be carried out with 5 foci: (1) on investments that depend on decisions made by individual farm households (with attention to the role women play in decisions making and including the conditions under which off-farm incomes is invested in agriculture), (2) decisions made by small communities and groups of farmers, (3) decisions made by micro SMEs, (4) and decisions made by governments, major donors and investment banks about the private sector investment opportunities. (5) The Asian experience will be brought in and scrutinized for relevance in the African situation.

For the review, we draw on experiences acquired in the field of small and medium enterprises (SMEs) outside agriculture (e.g., in the field of solar energy and input supply). We will also make use of the findings of a number of recent reviews of private irrigation development conducted by organizations such as the World Bank, Winrock, IPTRID and IWMI, as well as the results of research and case studies published in the Proceedings of the FAO-IWMI-CTA Regional Seminar on Private Sector Participation and Irrigation Expansion in sub-Saharan Africa (Sally and Abernethy 2002).

There will be gaps in the information obtained from literature that can be filled, partially, through rapid surveys, probably at the farm, community and micro SME levels of decision making. Through such targeted surveys in several African countries, we will uncover some of that information. In this phase, the role of African consultants and partners will be important. Recommendations will be formulated for government and for investment banks with respect to each of the four categories of decision making. These will be exposed to seasoned decision makers before the final report is finished.

The results of the previous three tasks (review, new knowledge, recommendations) will be presented in full in reports. The final report will present a brief summary of these and highlight the recommendations. Annexes 2.2 and 2.3 provide information on the tasks, staffing, and milestones.

SYNERGIES

This study has strong synergies with other ongoing IWMI research projects as well as with other components of the Collaborative Program. Insofar as IWMI research is concerned, it will draw on the following projects:

- Multiple Use Water Supply Systems, a Challenge Program on Water and Food research project in 5 major river basins and with 6 lead and 20 local partners to

identify models for self financing by rural communities of water supply systems that satisfy both productive and domestic needs;

- The Small-scale Water System Innovations project, in which 6 Ph.D. studies are being carried out to determine how small scale innovations in water management affect the catchment and basin water flows;
- The ‘Bright Spots’ project in which we analyze why certain communities escape poverty and emerge as bright spots in their environment, and how this process could be repeated elsewhere. A follow up of this work is being prepared, among others with IFPRI and NEPAD;
- Waste water research in peri-urban environments where investments by small farmers and entrepreneurs are doing very well, economically;
- Analysis of the impact of farmer investments in treadle pumps, 10 years after their introduction, in Kenya; and
- A state of the art review of ‘Micro-irrigation’.

The work carried out under these research projects includes documentation and analyses of various smallholder activities and initiatives in water and agriculture, and the associated factors that determine their success or otherwise. These are, in fact, different forms of private sector participation in agricultural water use. The results, findings and lessons learnt will enrich and broaden the private sector component of the Collaborative Program.

In addition, this study will pull together aspects of the other component studies, in particular the ‘poverty’ and ‘planning’ components, which deal with the private sector. The poverty component examines and analyzes the impacts of private sector agricultural water initiatives on poverty reduction. It will identify factors that motivate and facilitate private sector participation and investment and thereby also contribute to the private sector study. The private sector study brings together in a single component the various areas of private sector contribution and performance in agricultural water use. This component will therefore provide a better understanding of the sector, what it does best and under what conditions it can contribute to improving project planning and implementation. Governments, donors and other role-players will thereby obtain clarity on what incentives and policy environment to put into effect in order to promote and sustain even greater private sector participation.