



Can irrigation management transfer stop the chain of rent-seeking in the water sector?

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Water Integrity Brief

BACKGROUND

This joint WIN-IWMI brief discusses the localized dynamics in rent-seeking practices in the Indonesian irrigation sector. It is based on a journal article by Diana Suhardiman entitled: 'Irrigation management transfer and the shaping of irrigation realities in Indonesia: 'From means to empower farmers to a tool to transfer rent-seeking?', published in *Human Organization* in 2016. The research is part of a larger project that looks at irrigation sector reform in Indonesia, in which earlier WIN-IWMI brief on how to tackle institutionalized corruption in the water sector (July 2017) was also based upon. Diana Suhardiman is currently a Senior Researcher and Leader of the Governance and Gender Research Group at IWMI.

The content is derived from the author's PhD research in Indonesia, funded by Wageningen University and IWMI. Diana Suhardiman conducted in-depth semi-structured interviews with 31 farmers, 18 Federation of Water Users Association leaders, 28 Water Users Association leaders, 11 village government staff, and 11 field-level irrigation staff.

1. INTRODUCTION

Rent-seeking is the practice of obtaining economic rent – money/other gains on top of the expected or necessary earnings from products or services – by manipulating the social and political environment in which economic activities occur. This is done without creating any new wealth or benefits – value – for other parties. On the contrary, rent-seeking usually results in economic and social losses. Rent-seeking is not always illegal, such as when lobbying influences decision-making. Soliciting bribes is one example of illegal rent-seeking.

Throughout the last five decades, various policy reform efforts have been formulated and implemented to address the problem of persistent poor performance in government-managed irrigation systems globally (Turral, 1995).

Many have attempted to address this problem through the incorporation of community-based development perspectives, and the inclusion of farmers in irrigation development (Chambers, 1997). This manifested in

the widespread formation of Water Users Associations (WUAs) in developing countries, followed by the introduction of irrigation management transfer to give farmers greater involvement, control, and responsibility in system management (Groenfeldt and Svendsen, 2000).

These approaches assume that the problem of poor system performance will be solved by transferring irrigation management responsibility from the irrigation agency to farmers within the WUAs or the Federation of WUAs (FWUAs), the latter serves as umbrella organization of various WUAs taking water from the same secondary canal of the irrigation system.

This case study contests this assumption (Suhardiman, 2016). It argues that persistent poor performance in government-managed irrigation systems is merely a symptom of a much larger problem rooted in institutionalized corruption within the irrigation agency (Wade, 1982), centered on the agency's interest to sustain the vicious cycle of build-neglect-rebuild (Suhardiman and Mollinga, 2012).

Transferring responsibility in system management from the irrigation agency to WUAs will hardly solve the problem if WUAs' organizational development is continued to be rooted in infrastructure development, indirectly mimicking the irrigation agency's organizational development and its bureaucratic identity.

This case study shows how irrigation management transfer simply serves as a tool to reassign rent-seeking practices from the irrigation agency to the Federation of WUAs. It highlights how the most progressive policy reform efforts have backfired, partly due to lack of understanding of the general complexities of irrigation realities, and how rent-seeking practices form an integral part of irrigation system management. This is most apparent from how the majority of FWUAs mismanaged funds for irrigation systems operations and maintenance (O&M), while using it as their means to gain personal profit. FWUA staff managed the O&M fund without any consultation with farmers. This is possible because FWUA organizational development was directed in such a way to replace the irrigation agency's tasks and responsibilities in infrastructure development, and less on its development towards an autonomous organization accountable to farmers. Addressing the problem of poor system performance requires a better understanding of project management and development approaches surrounding irrigation infrastructure development, and its financing.



Credit: Diana Suhardiman

2. IRRIGATION MANAGEMENT TRANSFER AS A MEANS TO TACKLE THE INSTITUTIONALIZED CORRUPTION IN IRRIGATION

2.1. Irrigation management transfer in Indonesia

Irrigation management transfer became an international policy trend in irrigation development in the early 1990s. In Indonesia, irrigation management transfer was first adopted in 1987, under the Irrigation Operation and Maintenance Project (IOMP) statement. In 1999, however,

the modalities of irrigation management transfer under the IOMP were renewed and reformulated under the World Bank funded Water Sector Adjustment Loan (WATSAL). Conditioned by the country's political reform at that time, the WATSAL program positioned irrigation management transfer not only as a means to improve irrigation system performance, but also as a tool to eradicate rent-seeking practices, centered on the transfer of O&M funds management from the irrigation agency to the FWUAs (Suhardiman, 2016).

WATSAL policymakers extrapolated the idea of cost recovery in irrigation management transfer – when farmers and WUAs are supposed to pay certain contribution for the system O&M – into the creation of a new funding mechanism, the Kabupaten Irrigation Improvement Fund (KIIF). With KIIF, some part of development funds for the irrigation sector – mainly those pertaining to system O&M – were disbursed directly to the district level with FWUA as the authorized funds manager.

WATSAL policymakers also positioned FWUA empowerment as a means to counteract institutionalized corruption within the irrigation agency. It is based on the proposition that corruption within the agency can only be eliminated if the agency's access to development funds is withdrawn. Here, the decision to transfer the responsibility to manage O&M funds from the irrigation agency to FWUAs was based on the assumption that FWUA, a newly formed farmer organization, would automatically be accountable to farmers' development needs and aspirations. WATSAL policymakers assumed that unlike the irrigation agency, farmers in the FWUAs would never get involved in rent-seeking practices with regard to the management of the O&M funds or that local level management of the funds would provide more checks and balances.

2.2. The actual management of O&M fund and the practice of rent-seeking

In practice, however, the majority of FWUAs used the O&M funds management as their means to gain personal profits. Rent-seeking examples include: an FWUA staff transferring almost all of the allocated funds from FWUA bank account to his personal bank account; manipulation of financial report with regard to the funds management; to manipulation of the standard mixture of construction materials.

Farmers were never informed about the actual management of the funds. Though project procedure and mechanisms require FWUA to prepare proposal to ensure O&M funds disbursement, once the funds

are allocated, there is no other formal requirement FWUA has to follow in relation to its accountability to farmers. On the contrary, decision-making processes for the actual use of the fund was often conducted in secret, with no outsiders allowed, as the presence of an outsider would make FWUA staff feel uneasy about making their personal financial arrangements within the overall process of fund management. These financial arrangements concerned how the FWUA staff took a certain percentage from the total amount of the stimulant fund and distributed these 'overhead costs' equally among some or the entire FWUA staff.

The existing financial procedure does not require farmers to monitor and evaluate the proposed infrastructure work, but relies entirely on the irrigation agency's audit system to ensure fund allocation and disbursement. While the irrigation agency could technically provide quality control for the overall management of the funds by FWUAs, in most cases FWUAs would learn about different ways to gain personal profits from the funds management from the irrigation agency staff in charge for funds allocation and audit.

2.3. The logic behind local rent-seeking practices surrounding O&M funds

An FWUA's access to O&M funds linked FWUA organizational functioning to a particular logic in development fund disbursement. As the fund does not belong to any particular person, both the irrigation agency and FWUAs do not have any sense of ownership towards it. The FWUA perceived the fund as a gift. Nobody was expected to feel responsible with regard to the fund management.

Contradicting the WATSAL policy makers' assumption that FWUAs would manage the fund in relation to farmers' needs, in practice, the fund management was focused on achieving predefined fund disbursement targets and less on whether or not the disbursed funds were used accordingly.

Here, maintenance and rehabilitation activities were conducted because the allocated budget had to be spent within a certain period of time regardless of farmers' actual needs. In practice, farmers often fund their own O&M activities individually or collectively, as their proposal for more specific canal maintenance or infrastructure repair were not included in the FWUA proposal. This rationale mimics the way the irrigation agency conducted system O&M and managed the funds, focusing on the need for total fund disbursement, to ensure they would receive the same if not higher amount of funds for the next budget year.

FWUA functioning was rooted in the disbursement of O&M funds rather in the representation of farmers' needs. Like the irrigation agency, who needed not to worry about their annual sectoral development, FWUA staff were convinced that their access to the O&M funds would be secured regardless of how they actually used the funds. This confidence was rooted in the financial control mechanisms for projects, where fund management across administrative levels was controlled primarily through the formulation of a project financial report. Whether or not this report was based on the actual use of the funds was considered to be beyond the project head's control. In general, the project head, in this case the irrigation agency staff would produce the right type of project report to describe all the activities so as to appear responsible and accountable.



Credit: Diana Suhardiman. Tertiary canal where farmers and WUAs manage their water distribution among themselves.

WATSAL POLICY RATIONALE	WATSAL POLICY IN PRACTICE
FWUA as the authorized and responsible manager for O&M funds.	FWUA staff do not have any sense of ownership towards O&M funds and perceive it merely as a gift.
FWUA empowerment as a means to eradicate rent-seeking practices within the irrigation agency.	Transfer of rent-seeking practices from the irrigation agency to FWUA staff
FWUA empowerment will increase the accountability of O&M funds management.	FWUA functioning was rooted in the disbursement of O&M funds rather in the representation of farmers' needs. Farmers were never informed about the actual management of the funds.
FWUA empowerment will strengthen farmers' ownership towards existing irrigation infrastructure.	FWUA staff manipulated the standard mixture of infrastructure work to gain personal profits.

3. FROM GOVERNMENT-INDUCED FARMER ORGANIZATION TO AN AUTONOMOUS GOVERNING BODY ACCOUNTABLE TO FARMERS

The way the irrigation management transfer was implemented through project development approach leaves the doors wide open for both irrigation agency and FWUA staff to follow the 'business as usual' mode of operation with regard to fund management for system O&M. The way the fund can only be used for infrastructure maintenance and repair provides an entry point for the irrigation agency to replicate its organizational characteristics in FWUAs. Like the irrigation agency, FWUA organizational functioning is focused on spending funds for system O&M regardless of how these funds were actually managed, and whether farmers need the proposed activities.

Under WATSAL, the way FWUAs were formed did not always allow project staff or district government to

inform all farmers to elect FWUAs staff through open election processes. In practice, FWUA staff are often selected by both the district government and the irrigation agency, rather than elected by farmers. FWUA rapid formation was partly driven by WATSAL policy makers' concern that the irrigation agency would regain its bureaucratic power, and resist the ongoing policy reform. Yet, the way it backfired brings to light the need to focus ongoing reform efforts towards the development of autonomous organizations accountable to farmers.

Future IMTs should focus FWUA organizational development towards greater representation of farmers' needs. In concrete terms, FWUA organizational development should target the direct election of its leaders by farmers, based on these leaders' earlier work performance and potential contribution to the local community, as the first step to tackle the problem of elite capture and local rent-seeking practices.

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