

NSSP/PSF Research Seminar

Transaction costs and Investment in Irrigation Pumps: *Evidence from the Fadama II project*

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Abstract: The small-scale private irrigation scheme (SPRI) has been the major driving force behind the expansion of irrigated area in Nigeria. SPRI allows adjustment of irrigation schedules in accordance with observed crop needs. The irrigated area in Nigeria is far below its potential, and therefore, farmers' investment in irrigation is essential. While Nigerian farmers' low level of investment in irrigation pumps may be partly due to low returns from investment, it is also due to high transaction costs associated with such investment. Although reducing transaction costs is important as it provides farmers a more enabling environment, transaction costs are often unobservable and little is known about what factors contribute to high transaction costs. Using the dataset from the Second National Fadama Development Project, this study empirically analyzes how socio-economic characteristics of farmers affect such unobserved transaction costs in irrigation pump investment and discusses appropriate policy implications to reduce such transaction costs.