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**WORLD BANK HISTORY PROJECT**

**Brookings Institution**

**Transcript of interview with**

**HANS BINSWANGER**

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**By: John Lewis, Richard Webb, Devesh Kapur**

## FOREWORD

The following is a transcript of an oral interview conducted by the authors of the World Bank's fiftieth anniversary history: John P. Lewis, Richard Webb and Devesh Kapur, *The World Bank: Its First Half Century*, Washington, DC: Brookings Institution Press, 1997. It is not a formal oral history, and it is not a systematic overview of the work of the person interviewed. At times the authors discussed the planned publication itself and the sources that should be consulted; at other times they talked about persons and publications extraneous to the Bank. Some interview tapes and transcripts begin and end abruptly. Nevertheless, the World Bank Group Archives believes that this transcript may be of interest to researchers and makes it available for public use.

*Hans Binswanger*  
*October 17, 1991 – Final Edited*

[The quality of this recording is poor; the recorder often seems too far away from all three participants.]<sup>1</sup>

*[Begin Tape 1, Side A]*

**WEBB:** I saw you last time, I think it was just the month or two that you arrived in the Development Economics Department. I was just leaving.

**BINSWANGER:** That's right! Yes, yes. And then you went to the central bank in Peru.

**WEBB:** We never really talked, I think.

**BINSWANGER:** No, we never did.

**WEBB:** You were unpacking and I was packing. And then I went back to Peru.

**LEWIS:** You came straight from ICRISAT ADC [*International Crops Research Institute for the Semi-Arid Tropics, Agribusiness Development Centre*], was that it?

**BINSWANGER:** Yes, to the Bank, and then I spent a couple of years in research. And then I headed the research, agricultural economics research. Then I switched to . .

**LEWIS:** Agricultural economics research in the research . . .

**BINSWANGER:** For the Bank.

**LEWIS:** For the Bank.

**BINSWANGER:** In the research part of the Bank.

**LEWIS:** I see, but that was not the [*Montague*] Yudelman shop.

**BINSWANGER:** That was in Yudelman's shop.

**LEWIS:** Oh, it was. I see. Oh, I remember agricultural research was in that shop.

**BINSWANGER:** Yeah. Agricultural economics research.

**LEWIS:** Agricultural economics research. Now I get you. All right. And then what did you do?

**BINSWANGER:** And then the reorganization came, and I was tired of research. So I wanted to become division chief in agriculture, for an operating unit. I wanted to try and see whether I could apply the knowledge gained in actual practice. Actually I wanted to work on Africa, but the Bank in its wisdom decided that I needed to learn Spanish so they said it would be Mexico and Central America.

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<sup>1</sup> Original transcript by Brookings Institution World Bank history project; original insertions are in [ ]. Insertions added by World Bank Group Archives are in *italics* in [ ].

**LEWIS:** I see. So you've been here since '87 or something like that?

**BINSWANGER:** Right, that's right.

So you're doing a report on . . .

**LEWIS:** We have gotten into something that I think we might back out of if it were possible, but it's impossible at this point. We're supposed to--Richard and I--produce a big, big history of the World Bank, of the whole damned thing, from the start up to the 50-year mark.

You have probably seen this fat book and haven't read it by [*Edward S.]*Mason-  
[*Robert E.]* Asher. You haven't? It's a—it's done under similar circumstances at the 25-year mark, roughly, Ed Mason of Harvard, Bob Asher of Brookings [*Institution*]. It was done at the behest of the Bank but done at arm's length so that it wouldn't be just a cosmetic job, seated at Brookings.

And this one, again at the behest of the Bank, same sort of deal, it's administratively situated at Brookings. Two of us are engaged in a partnership. Devesh Kapur is our principal research associate. We're a very small but trusting staff. And they're supposed to--we have autonomy from both the Bank and Brookings, at least substantively. Brookings will finally wind up editing our product. We have almost unlimited access to records, confidential and otherwise, and the danger is we will get totally lost in this mass of material. We've been trying to get cues, mainly by interviews. And we're contracted to produce a history that can be published in 1994 which happens to be the 50th year of Bretton Woods.

And we're having—we're doing our own book and also have contracted out a set of chapters looking at the Bank from different outside perspectives. That will be done by--in a separate volume. There's a very interesting alignment of authors, some of them looking at it from different country perspectives, Part I and Part II countries, and some looking at it from different perspectives such as Mahbub ul-Haq is going to write a chapter on the Bank as an apolitical institution in a political world. Nick [*Nicholas H.]* Stern is going to do one on the Bank as a development economics shop. So that's what we're up to. It's--the majority of time [*inaudible*] full time for Devesh, but not full time for Richard and me, but it will be for awhile. We've gotten a rather slow start.

We have no specific agenda for questioning you, but I think that given what we know about your background, when you came into the Bank--which was what, about '75?

**BINSWANGER:** '80, 1980.

**LEWIS:** 1980. Oh, I see, that's right, 1980. So you were at ICRISAT for quite a long time, weren't you?

**BINSWANGER:** Yeah, six years.

**LEWIS:** Yeah, yes, I remember your entertaining us very nicely once there.

Well, I'd like to sort of get your sense of--how would you put the story line of agricultural development analysis and policy in this institution as you've seen it?

**BINSWANGER:** Agricultural policy analysis?

**LEWIS:** Yeah. Well, agricultural economic analysis and related policy.

**BINSWANGER:** You mean the . .

**LEWIS:** I guess I—go ahead. I wasn't very clear. I really think we're--we think we understand that there was a, almost a neglect of agriculture in the early years of the Bank except perhaps for irrigation and drainage related partly to the Indus business, but it came up rather rapidly, actually relatively very rapidly, under George Woods, an increased emphasis on agriculture. Then there was the whole [Robert S.] McNamara phase, greater attention to equity, related to the integrated rural development project, the sort of development in the round in the countryside which is what Bob's arguing about, terrific expansion in investment in agriculture, a lot of targeting, pushing. Then you get to the '80s, and there's a lot of argument about how much it slowed down, whether it has indeed slowed down qualitatively, and whether there is a different mix between growth and equity emphasis, the intersection of agriculture and adjustment lending. This is kind of the--I'd like to hear what you have to say about it.

**BINSWANGER:** That's a lot to say off the top of my head.

**LEWIS:** I know.

**BINSWANGER:** I mean, you know the story how the Bank got into agriculture better than I. I know the story perhaps from 1975 onwards, . . .

I think when the Bank got into agriculture, it got into it with a technical and engineering approach pretty much the way it went into power or anything else. And I think it got into it very naively. Technically it went into the—you know, let's leave irrigation out. I mean irrigation was very much like a power sector and [inaudible] construction, and that was a suitable vehicle for Bank lending. Even there the Bank lent for irrigation. Let me not talk about it. I mean, that was sort of the mainstay of the program.

Mexico is a good example because the Bank was in the ground floor when what is today the Comision Nacional de Aguas was created and provided a lot of inputs for the construction of irrigation systems. And many, many of the Bank's procedure of project preparation, et cetera, have become very much standard tools in the Mexican irrigation sectors, so much that you can truly find economic and social rates of return for virtually every one of the irrigation projects which is on the map. That's the way they are prepared. The Bank has had a lot of influence on the food security side there and maybe less so on policy. The U.S. can talk about the cost recovery and about—but there's very little actual impact on the ground about water pricing [inaudible]. In fact, the real amount of impact that it's had on these topics has been very limited. It's

had more of overall construction volumes and how it's done, rate of return analysis and all those kinds of things.

In the other sectors of agriculture--really in a sense two kinds. They've been mixed up from time to time but there are really two kinds. There are the commodity, the line of credit kinds of operation. Each has one or two advanced *[inaudible]* production for that particular region with help with the institutionalizing of an agricultural bank, and then you push the credit out. And the Bank went along with this and ended up lending the largest part of the agricultural lending in the Bank was actually credit operations. It was credit in India. If you take, for example, credit operations in India, Brazil, and Mexico together, that must account for more than half of World Bank lending in agriculture.

Now, I would characterize that kind of lending operation as an unmitigated disaster. It was in India and it was in Mexico. It was a financial disaster and an institutional disaster—I mean, we haven't been--and a social disaster because in each of these cases what was being financed was larger farmers. Mechanization increased, labor displacement of all sorts, India certainly very much so. The Bank might have again reduced--in India they reduced its mechanization lending earlier than others. In Brazil it was extreme. I mean you had Brazilian land policies and other policies which were highly unfavorable to small farmers. On top of that you had these massive credit subsidies which *[inaudible]* actually money away to the wealthy to get rid of their farm labor. So a system of subsidized credit was being supported which was, from the public's finance point of view, generated extraordinary losses for these governments and from a social point of view certainly damaged.

The damage, probably the largest social damage, probably the largest in Brazil, in the countries which had more even farm size distributions perhaps less so. Even there, I mean look at today's agricultural credit system in India. It is in a complete state of disrepair. It is lending to the wealth, to the richer segments of society. Subsidies are not that large, but it is true there that eventually the government will have to make up for the defaults in those systems.

**LEWIS:** Large defaults.

**BINSWANGER:** Yeah, large defaults.

There is a wonderful OED [*Operations Evaluation Department*] report on five agricultural credit projects—I think you should read that--in Mexico. It was produced by Willy [*William I.*] Jones, and that sort of—I mean, good--that makes very facile arguments. But you have to think about--for example, in Mexico we were lending for agricultural credit throughout the 1980s, and during those 1980s we removed this way. We never even truly added up the losses of the agricultural aid assistance. We never tried to go for assistance with them *[inaudible]* Mexico's history on *[inaudible]* And these agricultural credit systems in the 1980s lost something like 20 billion dollars for the government. And that's quantified *[inaudible]* We disbursed a lot of money, but we didn't do much. It was not a productive agricultural development.

**LEWIS:** That's a pretty damning critique, and there are others, too, from other people than yourself. How do you explain the continuation of as much agricultural

credit activity if it was that bad? I know that in India back in the '60s or '50s even there was a--sort of de rigueur to think that this was one of the necessary components of an agricultural development package.

**BINSWANGER:** You could be even more damning. I mean, we have set up a number of institutions which have emerged as major fiscal drains with Latin America and others [inaudible] We were in there on the ground floor to implement [inaudible] and pushed. And they didn't work very well, we pulled out of them, and then we created—they discount in dollars to banks [inaudible] commercial banks, and they get sometimes very good institutional returns. But the [inaudible] the fiscal problems that existed in the system were extreme. The subsidy [inaudible] credit budgets are rising, they don't require a lot of Bank [inaudible], they disburse a lot of money, and we want, for example, to have a 30 percent of World Bank lending in agriculture, and that's how we get it.

**LEWIS:** I see.

**KAPUR:** But that would not explain why that continued at least in the first half of the '80s when supposedly . .

**BINSWANGER:** In India we [inaudible] find out what [inaudible] It was in many instances--in the end whenever a decision had to be taken in Mexico, because I was so [inaudible] disbursement imperatives won out over the [inaudible] The point was very clear that the staff knew where the problems were. I guess even in the Mexico case the staff would sort of, "You know that's not true." There was an episode in which the staff went in and tried to reform [inaudible] which was the biggest loss maker [inaudible] The Mexicans refused, and the Bank was [inaudible] discount window.

It stopped earlier in Brazil than in Mexico. In Mexico we started—then one of the interesting things is that for awhile if you looked at the--and Mexico is an interesting case. Just before I came, throughout these reports you see an immense focusing on interest rates. It was the key policy issue. But in fact if you look at . .

**LEWIS:** Which way did you want them to go?

**BINSWANGER:** Up.

**LEWIS:** Up.

**BINSWANGER:** But if you look at the--and it is true that as inflation accelerated in Brazil, in Mexico--not so much in India--the rural credit institutions lost enormous amounts of capital by underpricing and pricing trying to make up their interest. But if you look at where the--but there was an equally large hole in the thing which was simply to increasingly ensure that there is discipline. So if you look at today, for example, the Indian agricultural credit system, the public sector has put in, the treasury has put in very large amounts of money into the credit system from which very little has been ever recovered so that the losses are always exposed. After the debt has to be written off, the government has to [inaudible] the larger banks to make it up, and so if you really wanted to do something about the rural finance, you really

needed to go in with an extraordinarily difficult and major reform package. And we're not yet getting there in the case of Mexico—we're still haggling about it--but we can change the focus around. We have another rural financial operation in the pipeline which has now been delayed for a year and a half or two years because we are not going to move this forward unless there is a major reform package.

**LEWIS:** Is it true that these credit institutions did little to mobilize local savings?

**BINSWANGER:** Right, *[inaudible]* Now, the commercial banks mobilized a lot of savings in the rural areas, specialized agricultural credit institutions. But I think this kind of support for credit *[inaudible]* was a very sad chapter in the Bank's history. And if I read my colleagues in problems with the declining agricultural lending I would think that most of it is just defining agricultural credit lines. It's not clear to me that--I mean, you can look at the numbers and it might be worthwhile to so *[inaudible]* I don't think we lend for agricultural credit because we didn't know that some of the *[inaudible]* but there has been a lot of money coming, which from the equity point of view is very *[inaudible]*

The irony is that these credit lines probably were—these credit lines problems and the credit policies pursued by the developing countries--take Latin America, for example—do much, much more harm to equity than all the great rural development programs we could. That would be my gut feeling. Now, whether the Bank not lending to it could have stopped it is a different question. Countries pursued these policies of the Bank quite a lot, putting enormous amounts of money along the line with its agricultural credit and did not . . .

**LEWIS:** Excuse me. This kind of critique, was it sort of in stir when you were in Hyderabad? Were people talking along this . . .

**BINSWANGER:** I was. I was looking at these credit lines from a . . .

**LEWIS:** You were.

**BINSWANGER:** I wrote a little book for ADC on agricultural mechanization and . . .

**LEWIS:** I remember the book.

**BINSWANGER:** . . . I mean, that created a massive upheaval in the Bank, and it resulted in some reduction in finance for mechanization in India, but it did not change either lending practices *[inaudible]* in India. It certainly didn't have any influence on what money the Bank was pouring into Latin America.

**KAPUR:** In during this, in the early '80s there was a work by, I guess, within the Bank, *[Probal P.] Ghosh* and *[John] von Pischke*—on agricultural credit.

**BINSWANGER:** Ghosh was much later. Well, von Pischke—I mean, you should interview von Pischke on this because this was under Yudelman's reign. Von Pischke was in the agriculture department and saw this all, and he had put together a--now it's a publication. It was very useful on the scandalous situation in this credit system. Von Pichske had very few friends in the department, and as was the case with my latest

critique of rural development, there was a lot of institutional resistance. The book came out somewhere in 1980, '82--the Bank actually published it--and the institutional response was to do something about this. I mean, I went with von Pischke and others to some, to Pakistan talking about this credit scandal. The momentum to lend for agricultural credit was on.

**LEWIS:** I was there with Vernon Ruttan in '84 and '85. We were doing an OED-type look at the Bank's history in Pakistan generally, and that was, I remember, Vern's particular criticism.

**BINSWANGER:** Yeah, but it was not just that, but I mean it was worldwide. The only place where the Bank didn't do much of that was in Africa because there were no institutions to back. And the Bank didn't go to the *[inaudible]* the Asian institutions. So that's a sad chapter, I think. The von Pischke book is *[inaudible]* I don't know whether I quite remember, but you could find it . . .

**LEWIS:** We can find it.

**BINSWANGER:** Then I don't know whether you've seen the OED report on Brazil. Certainly there's stuff that you can get regarding Pakistan.

Now, the other sort of thrust which the Bank was to become famous for was integrated rural development. Actually, poverty-oriented lending of the McNamara Bank variety, I think--I thought even in 1974, and actually I applied for the YP *[young professionals]* programs in the late '60s, early '70s and I was not hired. McNamara's approach to poverty alleviation was extremely naïve. And it completely ignored fungibility. And sure enough, the countries were going to get fallout from the Bank for poverty alleviation projects that they were going to do with their own money and with their own policies just as the Bank does with its, so that the impact of these projects on poverty alleviation was slightly less *[inaudible]*

So in a way, that's a criticism which isn't really--the usual line of criticizing with the rural development *[inaudible]* it's their fault *[inaudible]* complexities and all that sort of assumptions, but I mean it is truly the most important *[inaudible]* certainly as important a criticism as the complexities. So I come back to the complexities--now, the Bank has learned that—a little way--the full expression of what the Bank has learned about poverty alleviation is only in these last years of rural development and poverty alleviation in which . . .

**LEWIS:** The poverty one or the . . .

**BINSWANGER:** The poverty one, in which the emphasis has completely or very much shifted from specific project interventions to policies. There are still project interventions, but the policy context of poverty. That's very *[inaudible]* investments, starting with the investigation *[inaudible]* But the Bank does not *[inaudible]*

The Bank was still an engineering and planning outfit. Remember the intellectual history of that time. *[Hollis]* Chenery was running the intellectual foundation of Bank interventions. It was very much a conflict internally, so that was . . .

*[End of Tape 1, Side A]*

*[Begin Tape 1, Side B]*

**BINSWANGER:** . . so you have the intellectual underpinnings of the Bank coming together with--they hired the economists, which they needed to support the kinds of approaches which the Bank people were used to on infrastructure and maybe irrigation lending, and they applied it to rural development, and where is the emphasis on this disbursement and on procurement, and that's why they got into trouble with those projects. It is one of the reasons we get into trouble with those projects, because we have applied the rules which were originally developed for very large projects to interventions in rural development that were highly inappropriate. And often I have to hire an extra person to figure out how to bend the rules in such a way that I can still disburse using so widely dispersed projects. It's a huge *[inaudible]* today.

Now, the other criticism which is made of integrated rural development is that it is too complex for the beneficiaries. And my response to that is, "Yeah, that's because you went about it like the planners did. You looked at the region--*[inaudible]* projects in Mexico are classic cases. You send in a team from outside. You parachute it in the region, you ask the people what would they like, and then you say, 'In this region you construct this and that, and do this and this and that and that,' and there is a regional plan, and then you support it through these projects. And I think it's almost impossible to get beneficiary participation or anything like that as long as you keep the control of the decision making and for funding in some central agency. *[inaudible]* comes out there."

And here I think again a fundamental mistake has been made, which is looking at this as a targeted approach where you actually plan the development of a particular community and then do these things like that. An alternative approach is to think of rural development as a financial problem, public finance problem. How do you get the money to the communities with guidelines which they have to respect in such a way that they themselves can undertake investments or command other agencies to invest or undertake investments for them in order to bring about the desired changes? And if the communities have authority over the resources, they automatically have participation in it. So instead of looking at the rural or regional development as a public finance problem, they looked at it as a planning problem and instituted planning mechanisms and coordinating methods. No amount of coordination can ever succeed in bringing it together these various components, unless it is the local groups themselves. Let's do it.

So I mean I took this very seriously in the lending which we are now doing in Mexico, where the regional development program which we have is a financial mechanism. And the social funds which are being generated are financial mechanisms.

In India the social funds are a finance mechanism. Nobody plans ahead where the roads are going to go. They are much wiser in terms of the way they approach these things and so . . .

Social funding in Honduras the same way, and we have a massive program which essentially is a block grant, you see, for government. A block grant system.

**LEWIS:** With a kind of matching grant?

**BINSWANGER:** Matching grants. What we have is that the latest generations of projects are all matching grants or block grant types of systems. And the other thing which you do is instead of--the social funds still are set up in separate agencies, but in some cases, in Mexico for example, they have been integrated into the budget minister's block grants, you see, so there's been a major revolution.

Agriculture was a particularly sad case in which the Bank fell flat on its face in Africa and not so much in Asia because Asia never discriminated against agriculture the way Africa did. And when it finally came down to analyzing its success or failure, it's not working because we didn't pay attention to the policy regime and we didn't pay attention to a couple of the *[inaudible]* We didn't pay attention to the policies, we didn't pay attention to public finance issues, and we didn't pay attention to--I'd say deeper institutional issues. Perversion which *[inaudible]*

**LEWIS:** You say deeper institutional issues. Can you spell that out?

**BINSWANGER:** Yeah, I think we create these rural development banks and they're channels of subsidies, and then we're surprised when subsidies end up in the hands of the richer people and then they don't want to pay it back. And even once you know that that's the case, you are not able to extricate yourself. So, I mean, I have no--I shed no tears for . . . Yeah.

There's another thing. If you look at the Bank's agricultural staffing pattern, I mean enter into agriculture, the Bank hired essentially engineers and technical people. There is this cry and hue about the decline of the technical people expertise in the Bank today in agriculture, and I think that's just bullshit, if you ask me. That's just bullshit. I mean, these engineers and agronomists did a lot of harm to the Bank's agriculture department because they did not seem—they were incapable by their training of looking at things from the policy side, and they didn't even understand that money was fungible! And so they got hoodwinked, too. They built up these project vehicles borrowed from--they basically asked these people to put as a mold over agricultural development projects for poor people the procedures of a port project with procurement and auditing and all these kinds of things. We weren't thinking of it as a--I mean, these are not port authorities! These are rural people. And the agronomists and the engineers I don't think had a good understanding of how rural communities work, and they were not economists. So you had a mismatch of skills, and they just blindly went on with these projects with perfectly enormous amount of work which goes into it, and they came up with production plans, farm models, immense amount of work, all of which is bullshit. I have not had a single appraisal report since I came here in which I have had to farm out because, I mean, they're useless because I mean the people who make the investments decide whether they want to make those decisions. And the farm models are used to co-generate rates of return—absurdities were committed as these things which *[inaudible]*

One of the great absurdities of rural finance, rural credit markets--and you look at the OED reports--rural credit lines are the best performing credit projects. Why is that? They disburse fast, and they have high rates of returns. Why do they have high rates

of returns? The reason they have high rates of return is because you have the modeling. You set up a farm model, and you find, okay, this guy wants to invest in a pump. The rate of return on the pump is 23 percent. So you assign a rate of return, the entire 23 percent, to the credit. So it is assumed that there is a one-to-one correspondence between that investment and the credit line, and that's how you get these extraordinary rates of returns for these credit projects, but analytically this is a totally flawed question because it assumes that there is no self-financing, no fungibility of money. Again, a complete perversion in terms of--methodologically. So every time somebody came and said, "Yeah, but these credit [*inaudible*] are really off the projects and they don't do anything [*inaudible*] but they're wonderful rates of return and they disburse fine." So . . .

**KAPUR:** In fact, if actually one looks at the subsector allocations of the Bank in agriculture, irrigation would be actually slightly more than agriculture credit if you take, based on a year [*inaudible*] and in South Asia I think irrigation is probably slightly more.

**BINSWANGER:** In Latin America it's all credit.

**KAPUR:** Right. And also from the outside one hears, you know, a lot of criticism of the Bank, especially around dams development, emotional issues in some places, but more if one looks back at the way the Bank sees its irrigation projects, the way it looked at or perhaps underplayed drainage, using probable salinity, 10, 15 or 20 years gone by, or perhaps it favored canal irrigation over well irrigation. How do you see these sort of issues?

**BINSWANGER:** I'd prefer the Bank's irrigation program over any of the [*inaudible*] The flaws which were done in irrigation are minor compared to the intellectual flaw and the intellectual premises under which integrated rural development was a project or the credit projects because the intellectual flaws were . .

**LEWIS:** These were the big failings, these two, you think.

**BINSWANGER:** These two.

Irrigation: let's say you have salinity 25 years down line. Even if you knew that you had salinity 25 years down the line, in many instances if you did the calculations, it would not have paid to put in the drainage channels at that time. So because it would have been an investment which for 15 years wouldn't have provided any returns, so what you have to do is really design the system so that you can accommodate drainage later on. In fact, the lines are drawn, and the things are actually going to hypothetical drainage channels, but you only build those when you need them or when the water table comes up. So that I think is one thing. Not every salinity problem is a mis-design problem at the start. Our salinity problems and these design problems when you didn't have any--there are irrigation systems where in fact once you want to do the drainage channels the topography is such that you can't or can only do it at such great costs that it's over.

Secondly, I think salinity is an overrated problem. It's an overrated problem. Suppose you farm an area for 25 years and it becomes saline, in Pakistan or in somewhere else.

You could move that water to somewhere else and farm there. The idea that, you know, land is the scarce factor has been--water is the scarce factor, so the water is still there, and it can be transported somewhere else and make a *[inaudible]*

**LEWIS:** You're assuming there is extra land, is that it?

**BINSWANGER:** There is extra land. That's not true everywhere, but that's true in some places, many places. So I think that one can get--the fact that certain areas are becoming saline, okay, that's an aesthetic problem, it may be an environmental problem, but let's not go to--I don't want to minimize the salinization problems or say that it is really the major problem, because there are all these solutions to the salinity *[inaudible]* water *[inaudible]* you can pump it, you can change the ground water table in other ways. In many instances there are well-defined technical solutions to the salinity problems which you can apply. Very often they are not applied because the bureaucracies are not willing to actually take some tough and hard decisions which would do but I would think that as time goes on bit by bit these things can also come out on top.

But think about what would have happened in Pakistan if you hadn't built all this irrigation system. Think what kind of agriculture sector you would have had. And Mexico the same way. There would be very little. I would not think that these are . . .

The other question is the rates of returns for these irrigation systems are probably substantially lower than *[inaudible]* but if you really think about 10 percent real rate of return, about which the Bank does, that just invites cheating because if you had to make an investment which for 30 years gave you 10 percent rate of return--any one of us that are real people, I mean, these are extraordinary rates of return. So I think if an irrigation project provides you with a 5 percent real rate of return over a 30-year period like power, then you have used your capital quite wisely.

**LEWIS:** Let me switch back for a minute to these two major failings you pointed to, credit lines and integrated rural development. Part of the business, I suppose, of historians is to assign responsibilities to some extent--not savagely, but if there are individuals in the story who deserve credit for good things--let's say, if you think the CD *[community development]* is a good thing, I suppose you'll say so. To what extent were the leaders, and who were the leaders who, if you can identify them, who were responsible for these errors? Were these things that Monte, for example, Monte Yudelman, was on the wrong side of? McNamara, I suppose, in a sense must have been on the wrong side of them. He was not oblivious to what was going on, was he?

**BINSWANGER:** Before I go into that, let me just make one point. The fact that integrated rural development has such a bad name is actually counterproductive in terms of rural development because if you think of—you see, the components of what needs to be done in rural areas is always the same. You need some roads, you need some electricity, you need maybe some wells, you may need some small-scale irrigation in some places, and you need some schools, you need some health posts. That's the investment program. And then you need some services, extension, *[inaudible]* The components are these. People go and run around, and come around, and go around. And in the end, I mean if you go back, what do these rural areas need? They need better roads, they need better electricity, they need more and better

schools, they need some small-scale irrigation, they need a few other specific items of agricultural infrastructure. All of that is in the public sector. The rest of it is private sector. You can't bring it about by a project. In fact, you have to bring it about by a better investment climate or *[inaudible]* climate, but the components are obvious. Let's not kid ourselves. Nobody's going to remake them.

But the question is how do you bring it about? And the way it was supposed to be brought about is in a coordinated fashion through an integrated rural development program, when in fact it might have been better to think about it, how can we provide the financing for communities for themselves to actually use. Most of these things are fairly simple, and the participatory rhetoric was in fact undermined by our insistence that it had to be done by an administrative agency rather than by thinking of the financing scheme.

Now, who is at fault? McNamara, yeah. McNamara went at this very much with a quantitative management planning bias, and that's where he came from. Everything was managed, planned. Operations research was--and he came out of that, and so he quantified. And he brought around him the people who would serve him in that culture. I don't think it's an accident he hired Chenery instead of somebody who might have different policies. Monte was a very docile, gentle person who helped McNamara on his decisions. I think Graham Donaldson was, knew about the decisions but certainly wasn't up to standing up and saying, "Hey, we can't do this." And so I think under McNamara the Bank didn't have an open intellectual climate. The intellectual climate was more—there were issues which you couldn't discuss, or if you discussed them, people were going to get mad. I think it's easier now.

**LEWIS:** It has been less so since McNamara?

**BINSWANGER:** Oh, yeah, substantially. I mean, that's my perception. I don't know, but you can ask other people.

Moreover McNamara ran a very centralized decision-making scheme, and when he left, innovation and initiative changed to the regions. In the Bank of McNamara I think there were certain ideas which were centrally propagated and then generalized throughout the Bank. Integrated rural development certainly was one of those. But if you look at policy levels, those initiatives, I think, came from regional offices and then went to the Bank's lawyers and everybody else found a way to actually come up .

..

**LEWIS:** Policy, this would be before the SALs [*structural adjustment loans*] were employed?

**BINSWANGER:** No, the SALs and non-SALs, the SALs and the sectors, I'm sure that this came out of initiatives from some regional offices which thought--it has to be checked.

**LEWIS:** McNamara claims paternity.

**BINSWANGER:** He does?

**WEBB:** And Ernie [*Ernest Stern*], also.

**LEWIS:** And Ernie. McNamara and Ernie claim paternity jointly.

**WEBB:** He [*inaudible*] over the term . . .

**BINSWANGER:** Who knows? I think it's very hard to say.

**LEWIS:** I think your point about the planning mentality, which I hadn't quite heard lately in quite that way and it's very persuasive. It certainly was the style of things back in those days in the early '70s and still . . .

**WEBB:** What about Anne Krueger? She came in '81, was it? '82? Did that cause any change in the program, awareness coming out of the research people with regard to all of this, messaging?

**BINSWANGER:** Oh, by the time Anne Krueger came integrated rural development, the way it was done in the '70s, was already disappearing, so she didn't have any impact on that. She was also not interested.

I mean, the work which did—I mean, it became very clear very quickly that these projects were all running into the same kinds of criticism of no participation, huge kind of disengagement, you were told what to do, no participation or when you don't have control over money, no participation, complexity, lack of coordination.

These criticisms haven't changed. I mean, Uma Lele wrote this book on Africa, and when they picked them up and said the aid percentages . . .

**LEWIS:** The revised edition came out in '79. It must have been '77 or something like that.

**BINSWANGER:** I mean, if the revised edition came out in '79, the book must have been around in '75 or '76.

**LEWIS:** I think it was. Yeah, yeah.

**BINSWANGER:** Or the manuscript must have been around, and the debates must have been raging then.

But, I mean, Monte Yudelman ran a shop in which I think only very mediocre [*inaudible*] Uma left. [*Shlomo*] Reutlinger left. I don't know, possibly some others left. The ideas of Reutlinger's on food security could only come out years later, and—I mean, he was a singular character, but he was right on many things very early on. He was right on rural development and a lot of things. But Monte didn't—I mean, that shop there wasn't really—I don't know. I came in at the last. I may be very unfair because I came into this shop during the last year or two of Monte's tenure, but I had a feeling that between Monte and his two assistant directors, there was very little willingness to intellectually challenge.

**LEWIS:** Was it different under [*G. Edward*] Ed Schuh?

**BINSWANGER:** No. Ed was an extraordinarily poor manager, who did not have a clue about how to use the work of the people and who circled the globe, making his own speeches and writing virtually everything that he ever said himself. He did not make *[inaudible]* use of the department or how to use the structure, who had influence in the Bank. So he became quite—he was not influential.

In this setting, I--the other guy who finally led that department, von Pischke, was the same thing: challenged. Uma Lele challenged; Reutlinger challenged. Reutlinger went to the Development Economics Department. Uma, I don't know where she was, left, she went to Africa or somewhere. Von Pischke went to IFC *[International Finance Corporation]*. He went to something completely different.

**LEWIS:** Does Warren Baum figure in this kind of . . .

**BINSWANGER:** I don't know.

**LEWIS:** People like the sort of radicals, house radicals like Mahbub ul-Haq, do you have a view of these kinds of things?

**BINSWANGER:** No idea. Mahbub was already gone by the time I . . .

*[End Tape 1, Side B]*

*[Begin Tape 2, Side A]*

**WEBB:** . . . area development *[inaudible]* credit and . . .

**BINSWANGER:** I never got involved in that.

**WEBB:** It was pretty much *[inaudible]* mindset, worries, interest rates, markets . . .

**KAPUR:** I was wondering, what people have said that other parts of agriculture, non-farm employment, rural industrialization, fisheries, development of market towns, how have sort of--have these issues been underplayed?

**BINSWANGER:** No, I mean there is nothing you can do about them in a project context. I went to Thailand; I wrote the report. The first thing which I did when I came to the Bank was a report on rural *[inaudible]* And I analyzed the issue, and all these items are linked to agricultural development. It's forward linkage, it's backward linkage, it's all rural development. If there is no agriculture, there is nothing, none of that going on. The idea that you can get rural industry *[inaudible]* industries out there, you can just forget it. The only thing which you get in that space is what I call rural home building (that's cement blocks), services which cannot be transported or the processing of weight-losing agricultural commodities. Everything else goes to the urban areas for reasons of economies of scale and economies of skill. So the idea is that you can industrialize the rural areas--and then the other rural industries which you have are some extremely labor-intensive and the very low skill intensity things like rural *[inaudible]* and handicrafts which can take advantage of off-season labor. That's all. But anything which requires investment in skills or investment in capital is

*[inaudible]* rural areas because it would be *[inaudible]* idle to *[inaudible]* agricultural system.

So I don't think the Bank underplayed it. I think the Bank wisely stayed away out of that. It's just not feasible to find a public-sector type of activity to support in order to get that far.

**LEWIS:** You don't think that--I mean if you're pushing agriculture and indeed you're trying to increase labor productivity in agriculture, you are almost by definition expecting to see people leave agriculture somehow or another.

**BINSWANGER:** But *[inaudible]*

**LEWIS:** But if you have a--if the agriculture share of GDP is declining because of the--you know, if the usual pattern of relative growth occurs in output, and if you're going to have a productivity rise in agriculture, which you want, you almost have to get some people squeezed out of agriculture, don't you?

**BINSWANGER:** It depends. You look at the green revolution type of experience in India, irrigation, fertilizer, et cetera, and that's absorbed a lot of labor.

**LEWIS:** Sure, for some time in some parts, but still the long-term trend is . . .

**BINSWANGER:** But the long-term trend, of course, has to be downwards.

**LEWIS:** Yeah, yeah, so that there is a problem of--and I think you're quite right that you can't get very much private development, non-farm, in the rural areas without a fairly vigorous agriculture, but there is also a problem of employment in rural areas of people leaving agriculture. And you don't think there's anything for the Bank to have done or should have done in terms of rural works?

**BINSWANGER:** The Bank looked at that many times.

**LEWIS:** It didn't have a *[inaudible]*

**WEBB:** *[inaudible]* of that is to run a partners *[inaudible]*

**BINSWANGER:** The experience of the rural works program was never that glorious.

**LEWIS:** No, that's right, but in a sense a lot of what you have said which I find resonates wonderfully with me about how you can't plan these things from the top down, you've got to put responsibility on the locals, you've got to give them financial responsibility . . .

**BINSWANGER:** And money.

**LEWIS:** . . . and money--and use matching grants. Now, that is exactly the kind of thing that you could get a fair amount of activity going of a construction type.

**BINSWANGER:** But then once you get that going, why would you worry about public works? *[inaudible]* it generates itself. The contractors are going to hire the workers.

**LEWIS:** Yeah, but you've got to decide what you're--these are public-sector constructions, quite a lot of them, schoolhouses, clinics, market facilities . .

**BINSWANGER:** Rural *[inaudible]*

**LEWIS:** Yeah, the whole litany. With some of them you could recapture the resources from user charges, others you wouldn't. But these are the kinds of things that, if you had a mechanism for wholesaling resources down to these local decision-makers, some kind of vetting procedures, let them choose their own projects.

**BINSWANGER:** Yes, that's what I would like. That's what a regional development project is about. That's the regional development project which we have in Mexico now. That's what it takes.

**WEBB:** What regional development project?

**BINSWANGER:** It's a regional decentralization and regional development project. I mean, everybody criticizes it because it's so *[inaudible]*

**LEWIS:** We ought to look at that. I'm just suggesting there was a scope for doing more of that in the '70s, I should think, than was actually done.

**BINSWANGER:** Oh, there was, much more. I mean, the Bank leapt into rural development, it *[inaudible]* emphasizing rural development. I think it also did not correctly diagnose what the alternatives were, so we now have in the late '70s and early '80s found project types which are of these kind of things, social science systems, and maybe we can—so I mean I had the greatest and most incredible battle getting this project. I haven't had a battle like this since . .

**LEWIS:** Where was the resistance? All over?

**BINSWANGER:** In the management. All over. "What are you doing? You're just doing the same old thing, building ten different kinds of things in the same project."

The Mexicans created a municipal fund, municipal *[inaudible]* so much money. There's a manual for what they could use it for, and the decision-making mechanisms which are transparent, and in nine months in Mexico they executed 17,000 projects. People just . . .

You see, it's identifying the right public finance deficiency, and then going there and trying to correct it. Now, that doesn't solve all the problems because that's only infrastructure. You can only do infrastructure like that, economic and social infrastructure. You cannot do finance . .

**LEWIS:** When was this project started?

**BINSWANGER:** It was brought to the Board [*of Executive Directors*] about three or four months ago. It is not yet effective, but because it's simply reimbursing things which are going on in the revenue-sharing mechanism, in the block grant system, in fact the project is already going on.

**WEBB:** Well, in principle [*inaudible*] should be conservative, too.

**BINSWANGER:** The people [*inaudible*] this project and the municipal funds to have [*inaudible*] unskilled labor and . . .

**WEBB:** I mean, you could create demand. As you say, you give people the power to command research, extension, communication right now. In principle it's not evident that . . .

**BINSWANGER:** They're playing with some of these things.

**WEBB:** So this is an innovation, this project?

**BINSWANGER:** There are others. There is one in Venezuela or Colombia which is a similar structure because the ministry of finance or social funds are in a way operate very similarly. They are a separate organizations on the side.

But one of the things that creates extraordinarily difficulty is the Bank's own procedures because the Bank has this very rigid procurement and auditing and all kinds of bureaucracy. So my biggest problem with that project is how can I make what is actually going on already in this thing comply sufficiently with Bank rules so that we can actually disburse against it. That's quite a challenge, not the problem of actually creating a system in Mexico that is . . .

**LEWIS:** Is it only in the LAC [*Latin American and Caribbean Region*] region these things have started up?

**BINSWANGER:** I wouldn't be surprised if you find examples elsewhere. I haven't looked around for them.

You know, in the '70s, in '86 when I changed I felt that there was no way out of the central part of the Bank you could have any influence on what was going on. By talking people, I decided I better go and do things outside.

**KAPUR:** You mentioned extension, the T&V [*training and visit*] as the system in agriculture, the Bank's sort of most successful aspect of the Bank's agricultural operations. How do you see it?

**BINSWANGER:** A T&V type of approach certainly works very well. For example, we have terrific extension projects in which we saw a lot of innovations. We don't call it T and V but basically [*inaudible*] T&V is probably much better than—T&V has become one of those lightning rods for emotions. One of the reasons it has become such a lightning rod for emotions is because [*Daniel*] Benor and some people ran around the world making these absolutely incredible claims on how good it is, and of course it isn't as good as they claim. Of course it isn't. This is absurd. It's like the

researcher who says, “Look, here is my big *[inaudible]* and his little *[inaudible]*” And these things are so—and so you have people in the Bank and outside whose hostility to T&V is nothing but hostility to the propaganda and the PR. When you look at many of the evaluations which were done, I mean almost any time you go and evaluate the farmers get more visits more regularly, they know more. I mean, if you interview them, they are generally *[inaudible]* problems, and in the few quantitative studies which have been done on the *[inaudible]* they can actually show increase in output.

Now, there are some reservations--I haven't followed it recently—in, for example, in India because the T&V system instead of converting the old system, it was set, created like a parallel system and therefore it was very costly and all of that, but in those kind of problems I haven't evaluated. But surely in Mexico where they have introduced these types of approaches on a pilot scale, we are not creating a parallel system but a working system to do that type of agricultural . . .

**LEWIS:** I had the impression that in India that state by state, within some states it has taken over completely. I mean *[inaudible]* T&V, and I think that was true in West Bengal. I went down at one time--it must have been about '78--to interview people in the government in West Bengal about it. I expected I was going to get a blast at the system. I had just been blasted by Bob *[Robert]* Picciotto for being insufficiently reverent in referring to the system, and I went down there and my god! Of course, these were not the CPM *[Communist Party of India (Marxist)]* ministers themselves, but their functionaries. They were absolutely, completely enthusiastic about it. It was really very, very effective. It's almost a codified common sense, in a sense.

**BINSWANGER:** Yeah, it's a management system for extension which has very good systematic features *[inaudible]* I've never entered the fray of these things with emotion. I think it's a better system. It's probably not, certainly not as good as it is claimed to be.

**LEWIS:** Well, you've given us a lot. This has truly been great. I don't think we should keep you any longer this time around, but we may be back at you.

**BINSWANGER:** Okay, you're welcome.

**LEWIS:** Terrific. Thank you.

*[End of Tape 2, Side A]*

*[End of interview]*