The World Bank Cannot Stop Reorganizing Its Private Sector Work

The Missing Welfare Anchor

ÁLVARO S. GONZÁLEZ

Abstract

Over four decades, the World Bank has cycled through multiple organizational forms for its Private Sector Development (PSD) functions. The latest iteration, now underway under President Ajay Banga, places PSD within one of five horizontal thematic "verticals" as the Bank seeks to adapt to emerging challenges, including an expected gap of 800 million jobs in developing countries.

This paper posits that this cycle of organizational churn has focused on the wrong challenge. While other practices at the Bank are organized around relatively stable operational lines—that is, what they seek to do—PSD has cycled through multiple approaches with shifting definitions, from privatization and financial sector development to financial inclusion and now industrial policy. This cycling has occurred without an analytically consistent definition of the appropriate role for PSD. This paper offers one approach: classical welfare economics.

When applied to PSD, a market failure should justify a PSD operation. Specifically, some distortion should prevent an efficient outcome in the allocation of labor or capital. The Bank's support should then aim to correct that distortion, not mitigate its impact or finance activity that would proceed on similar terms if the operation were not implemented.

The paper develops a three-part admissibility test for proposed PSD operations. First, the operation must diagnose a binding market failure. Second, the proposed operation's instruments must address the economic distortion causing that failure. Third, Bank participation must affect the counterfactual by changing investment or market outcomes that would otherwise occur on similar terms.

PSD anchored on welfare economic principles would persist across organizational forms and shifting policy agendas. More importantly, it would ensure that PSD operations expand economic activity without wasting public money or distorting markets and productive incentives.

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Over the past 40 years, the World Bank has undergone one major reorganization after another in its private sector operations. Although each round was heralded as a fundamental rethink, all were undone within a decade. The standard justification for these exercises cites operational obstacles. The typical explanation for their failure is poor change management. However, neither argument accounts for the repetition of the cycle.

World Bank President Ajay Banga's conceptualization of five thematic verticals, implemented throughout 2024, is the latest restructuring attempt. The stakes of this current round are higher than in any previous one. President Banga has committed the institution to job creation against a projected shortfall of roughly 800 million jobs.

Two of the three pillars of the jobs agenda—strengthening governance and the regulatory environment and mobilizing private capital—run through private sector development (PSD), which the World Bank is once again restructuring.

Through structural means, PSD reorganization aims to resolve questions that the Bank has never answered analytically: How does PSD reduce poverty in any given country? Which operations advance that mission without crowding out private flows of capital that would have reached firms anyway? Each organizational chart implicitly answers these questions based on the arrangement of the units, and the answer changes when the underlying theory of what PSD should do changes. A structural remedy cannot resolve an analytical problem that the Bank answers with the most recent trend in thinking.

Proof that the problem is analytical in nature lies in the successive views of PSD. The Bank's other operational practices also go through phases of orthodoxy; however, in agriculture, infrastructure, and macroeconomics, each new approach builds upon the previous one because they all rework a single underlying objective: agricultural yields and income, infrastructure construction and usage, and fiscal balance, respectively. The orthodoxies of PSD are competing theories regarding how the Bank should reduce poverty through private sector activity rather than complementary approaches that coalesce into a single theory. When a new idea arrives in PSD, there is nothing to test it against. It replaces the objective. Once the objective changes, the units built around the old objective no longer fit, so there is a push to reorganize.

One explanation for the pattern is turnover in senior leadership, which dictates the timing of each reorganization. PSD is an easier target for reorganization because, as a smaller-scale practice with low political cost, it is easily altered by a new president. The absence of an analytical standard explains why PSD is the practice that gets redesigned and why each new leader redesigns it differently. Repeated mergers with and divisions from the International Finance Corporation (IFC) stemmed from the nature of the relationship with a sister institution rather than from a debate over ideas. The nature of PSD cannot be analytically anchored by changing the organizational chart.

Welfare economics provides the missing analytical anchor. That branch of economics is one of the oldest and least controversial in the discipline. The Bank endorses welfare economics nominally, so the claim here is about enforcement of this framework in PSD. Under that framework, PSD advances the goal of poverty reduction when it eliminates market failures that prevent capital and labor from moving to the firms in which they are most productive, rather than when it substitutes for private flows.

Those economic principles are the basis for the criterion used to form a three-hurdle test that an operation must fully satisfy. The hurdles are admissibility conditions for a PSD operation. Appraisal still has to establish positive expected net social benefit and a link to the poverty and jobs objective.

The first hurdle, justification, requires the identification of a binding market failure. The second hurdle is effectiveness. Clearing the second hurdle requires that the instrument act on the distortion the diagnosis names and change the behavior that distortion produces. The third, additionality, requires that the investment, behavior, or market outcome would not have occurred on materially comparable terms, scale, and timing without World Bank Group participation. The justification hurdle is meant to determine whether Bank support removes a binding constraint or compensates for it.

Some market failures leave evidence that an external reviewer cannot examine directly, making it difficult for these operations to clear the first, justification, hurdle. Coordination failures, self-discovery externalities, and information externalities leave less direct evidence because the relevant counterfactual concerns how firms would have behaved without the operation. The justification hurdle requires the operation team to state what would have happened without the operation, and to identify the evidence that should be evident if that account is correct.

The welfare anchor establishes what the PSD practice could be organized around. This anchor addresses the problem reorganization after reorganization has failed to solve. Instituting a practice around a test, based on the welfare anchor, presents a challenge since a test cannot be housed in a structure the same way a subject area can. The question of where a function of this kind belongs is addressed in the companion paper, “The Exempt Window: A Rule for World Bank Private Sector Subsidies.”

The limits of structural reform

President Ajay Banga introduced a restructuring of the World Bank in late 2023 and rolled it out throughout 2024, organizing the Bank’s work into five thematic verticals: People, Prosperity, Planet, Infrastructure, and Digital. In October 2025 the Bank announced that the knowledge teams of its public arms (the International Bank for Reconstruction and Development, or IBRD, and the International Development Association, or IDA) and of its private sector arm (the IFC) would be merged. In the staff email announcing that merger, President Banga announced a shift from a model that rewarded production to one that rewarded impact.

Reorganizations are justified by the need to address organizational silos, duplication, weak coordination, or slow client response. When reorganizations fail, their failure is blamed on poor change management, weak incentives, and cultural resistance. It seems that one of these reorganizations would have produced a stable structure by now if coordination were the real problem. If change management were the cause of failure, the lessons of four decades of trial and error should have been absorbed by now.

Then there is the recurring centralization-decentralization tension across the World Bank Group, which has prompted the pendulum swings of several reorganizations. Health, education, infrastructure, governance, and macroeconomics practices all face the question of whether technical staff should occupy thematic vice presidencies, in Washington, DC or regional offices (outside of DC).

A reorganization moves staff among units that remain intact, while a restructuring creates, merges, or dissolves the units themselves. The PSD practice, however, has experienced internal restructurings (vice presidency, network, vice presidency again, Global Practices, verticals) at a frequency no other Bank practice has matched. The PSD—IFC fusion cycle, attempted in 1999, 2003, 2007, 2014, and again in the verticals, is another restructuring no other practice experiences.[1] The 2014 reform established two joint Bank—IFC departments but dismantled them within a few years. The Bank's own evaluators later found that the reform improved collaboration within sectors while making it harder to collaborate and work across them.

The IFC fusion cycle reflects recurrent institutional pressures to align PSD's policy work with the IFC's investment work. This alignment creates a collision between policy advisers in the World Bank and dealmakers in the IFC. Success for an IFC unit is defined by deal return, disbursements, and commitment volumes. Sovereign disbursements and completed operations and reforms are what

1 The chronology follows the World Bank Group Archives administrative histories (www.archivesholdings.worldbank.org). The Private Sector Development and Infrastructure Vice Presidency was established in February 1999 as a joint Bank—IFC unit reporting to Peter Woicke, who served simultaneously as IFC Executive Vice President and World Bank Managing Director. The joint Private Sector Development Vice Presidency succeeded it in May 2003 under Michael Klein, housing the joint Investment Climate Department. In 2006–07, that unit merged with the Bank's Financial Sector Vice Presidency to form the Financial and Private Sector Development Vice Presidency (FPD), organized jointly by the Bank, the IFC, and the Multilateral Investment Guarantee Agency. The 2014 restructuring reconstituted the joint arrangement as the jointly staffed Trade and Competitiveness and Finance and Markets Global Practices. See Independent Evaluation Group, *World Bank Group Joint Projects: A Review of Two Decades of Experience* (World Bank, 2017). The 2018 consolidation folded Trade and Competitiveness into the Equitable Growth, Finance, and Institutions Practice Group. The 2006–07 unit shares the acronym FPD with the Bank-only Finance and Private Sector Development Vice Presidency created in the January 1993 restructuring, a distinct unit. For more information on the 2014 reform's creation and subsequent disbandment of joint Bank—IFC departments, its effects on cross-sector collaboration, and the departure of several of its designers, see Independent Evaluation Group, "The Knowledge Bank: Five Recommendations for Getting the World Bank Group Reorganization Right," IEG blog, December 2025.

World Bank country directors[2] are evaluated on. Such a clash in work cultures ultimately unwinds the alignment that was hoped for. That clash accounts for the unwinding of each fusion; it does not account for the decision to attempt the next one.

The Bank has cycled through at least six distinct intellectual orthodoxies that reconfigure how PSD reduces poverty by promoting growth: privatization (the 1989 internal report published in 1991 as *Developing the Private Sector*), investment climate (Nicholas Stern's 2002 *Private Sector Development Strategy* and the 2005 World Development Report), financial inclusion (the 2008 *Finance for All?*), private capital mobilization (the 2017 *Maximizing Finance for Development* and the Cascade approach, which sequences private finance first and public money last), institutional evolution (the 2022 *Evolution Roadmap*), and now industrial policy (the 2026 *Industrial Policy for Development*).[3]

Each orthodoxy implies a different portfolio, as well as a different way to organize the staff who run it,[4] and the Bank produces strategic documents and intellectual rationales at a rate that outpaces its capacity to operationalize any of them.[5]

2 Renamed "Division Directors" under the 2024 restructuring. This paper uses the established term. On the accountability structure described here, see Alan Gelb and Mead Over, "World Bank Reorganization: To What End?" Center for Global Development blog, August 5, 2013, https://www.cgdev.org/blog/world-bank-reorganization-what-end, which describes the Bank's matrix as giving each staff member two lines of accountability, one to a country director reporting to a regional vice president and judged primarily on the quantity of Bank lending, the other to a sectoral director judged on the quality of operations, and which anticipated that the 2014 reform would tilt that balance toward volume. On the IFC side, the 2023 Independent Evaluation Group evaluation cited below (note 8, ch. 4) reports that the majority of IFC staff interviewed raised reservations about the alignment of staff incentives with additionality, that there is neither reward nor penalty for realizing additionality because IFC does not track realization, and that there are reportedly strong incentives to deliver projects and volume. IFC's own account of the incentive machinery is Meera Narayanaswamy, "What Gets Measured Gets Done: Using a Corporate Scorecard to Drive Greater Investment Impact," EM Compass Note 108 (Washington, DC: International Finance Corporation, December 2021), which reports that meeting scorecard targets is the fundamental way performance at IFC is incentivized, that the scorecard cascades to vice presidency key performance indicators and to award allocations, and that the financial sustainability dimension carries risk-adjusted return on the debt portfolio and equity portfolio return measured against the MSCI Emerging Markets index, alongside commitment volumes and median days from mandate to disbursement.

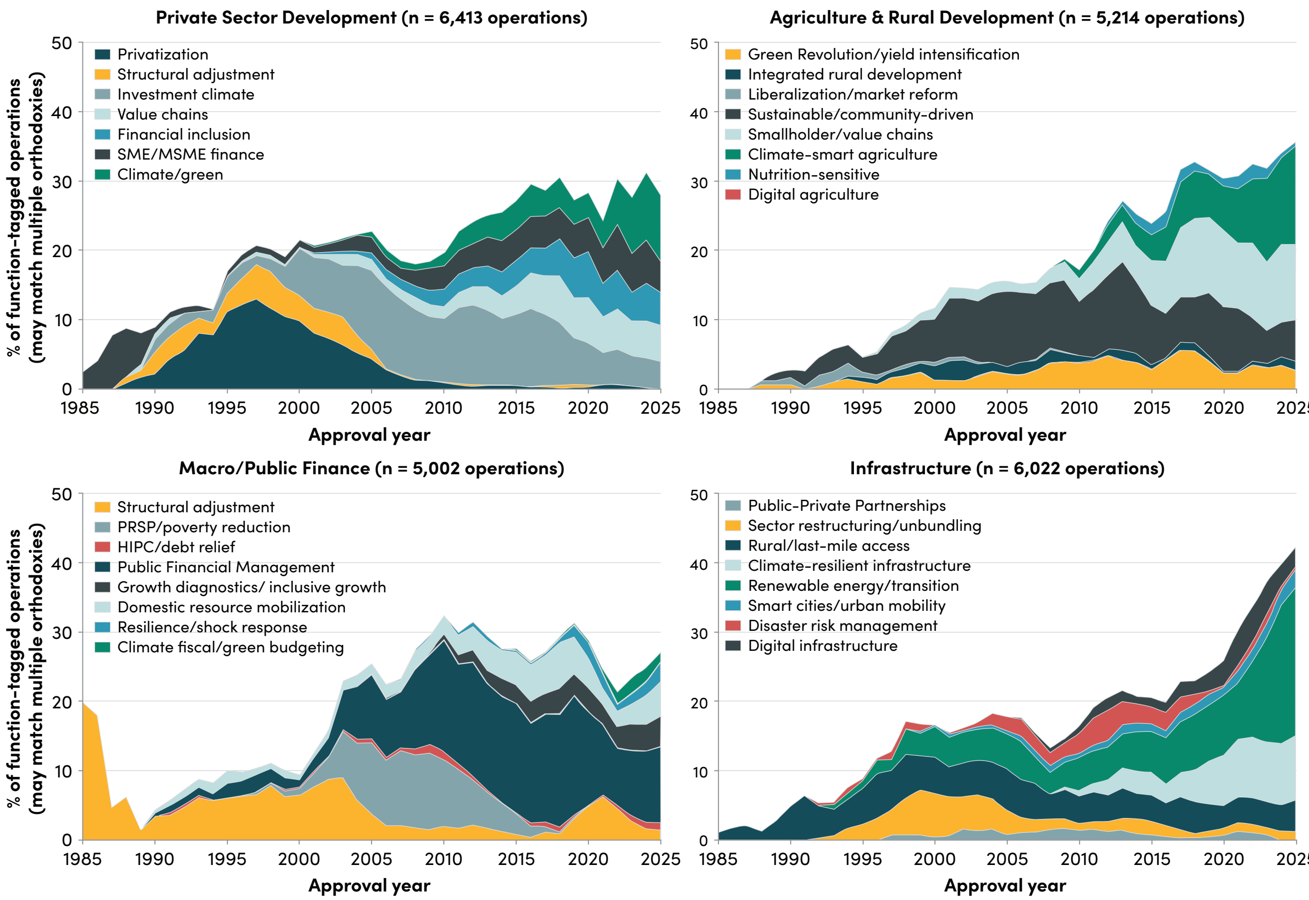
3 Charles Kenny, "The World Bank Group and Industrial Strategy," Center for Global Development blog, April 2026, https://www.cgdev.org/blog/world-bank-group-and-industrial-strategy. The 2026 World Bank report is Ana Margarida Fernandes and Tristan Reed, *Industrial Policy for Development: Approaches in the 21st Century*, Policy Research Report, which the chief economist's preface positions as an update to the 1993 *East Asian Miracle* report.

4 World Bank, "Developing the Private Sector: A Challenge for the World Bank Group" (1991, drawing on the 1989 internal report); World Bank, *Bureaucrats in Business: The Economics and Politics of Government Ownership* (Oxford University Press for the World Bank, 1995); World Bank, Private Sector Development Strategy (2002); World Bank, World Development Report 2005: A Better Investment Climate for Everyone (2004); World Bank, Finance for All? Policies and Pitfalls in Expanding Access (Policy Research Report, 2008); World Bank Group, Forward Look: A Vision for the World Bank Group in 2030 (2016); World Bank Group, Maximizing Finance for Development (2017); World Bank Group, Evolution Roadmap (2022).

5 The 2026 Fernandes and Reed report is the latest instance of this problem. The report attributes previous rounds of industrial policy disappointment to implementation failures and offers extensive guidance on tools, sequencing, and institutional design. It does not supply the mechanism by which governments terminate failing policies once they are operational. That is the more challenging problem, and the report leaves it to evidence-based judgment that its own diagnosis of capture risk gives reason to doubt. PSD staff will ultimately default to the instruments they already have.

Every Bank function absorbs changes in development thinking and the lending portfolios reflect these changes. In agriculture, successive approaches have included the Green Revolution, integrated rural development, structural adjustment in agriculture, sustainable and community-driven approaches, smallholder value chains, climate-smart agriculture, and many other ideas. Macroeconomic and infrastructure work has also cycled through several intellectual changes but maintained its focus on the need for fiscal balance and access, respectively. Shifts in analytical and policy emphasis, marked by changes in the vocabulary, are illustrated in Figure 1.

FIGURE 1. Vocabulary cycles in World Bank operations, 1985–2025



Notes: Each panel shows the share of operations in one Bank function—private sector development, agriculture and rural development, macro and public finance, and infrastructure—matching successive vocabulary waves. In the other three functions, new vocabularies layer onto their predecessors; in PSD, they displace them. Legend categories are vocabulary tags matched against project names and development objectives, not the orthodoxies discussed in the text.

Source: World Bank Projects and Operations data, three-year rolling mean.

Climate-smart agriculture builds on the sustainable and community-driven approaches that followed structural adjustment in agriculture. The objective of improving yields and farm income remains. Access is infrastructure's unchanging objective; public-private partnerships, rural access programs, and climate-resilient design have each served that objective by different means.

Public financial management followed structural adjustment without ever replacing the objective of obtaining fiscal balance.

The orthodoxies of PSD exhibit a different pattern in the lending portfolio. Privatization was a prominent PSD agenda that started in the late 1980s and waned significantly by the end of the 1990s. The investment climate agenda was announced through the World Development Report in 2005 and diminished in importance by around 2021, which marked the end of the Bank's Doing Business annual flagship. Financial inclusion appeared as a priority around 2011 and soon after, 2015, private capital mobilization was added to the agenda. Industrial policy has been an organizing force for PSD work since the COVID-19 pandemic, around 2020. Institutional evolution has no comparable portfolio signature. Each competing orthodoxy counts success differently—privatization transactions, reforms achieved, private capital mobilized, financial account ownership raised—and success under each changing PSD orthodoxy is not commensurable.

Each reorganization inherits a set of PSD instruments whose underlying design problems remain largely unchanged. For example, investment climate operations often rely on global indicators in place of country-specific diagnoses. Small and medium-sized enterprise (SME) credit programs that channel finance through intermediaries do not necessarily change the terms of credit or to whom those intermediaries lend. Nothing in the appraisal requires the operation to identify the binding market failure or to show that the chosen channel removes it. The non-earmarked lending through intermediaries is the effectiveness example discussed further in Section II.

Weak performance triggers another round of structural reform, which inherits the same instruments, reproduces the same performance, and generates pressure for the next round of reorganization.

The timing of the current round distinguishes it from previous reorganizations. Over the next decade, 1.2 billion young people in developing countries will reach working age, and current projections suggest that only about 420 million jobs will be created.[6] The institution has organized itself around addressing that shortfall in jobs. A High-Level Advisory Council on Jobs, co-chaired by President Tharman Shanmugaratnam of Singapore and former President Michelle Bachelet of Chile, advises on the response. The Private Sector Investment Lab convenes the chief executives whose

6 World Bank Group, "World Bank Group Launches High Level Council to Tackle Looming Jobs Crisis," press release, August 12, 2024, the source of the figures in the text. Remarks by World Bank Group President Ajay Banga at "Laying the Groundwork for Jobs in Africa: Core Infrastructure and Business Environments," Rome, March 4, 2026. Banga puts the jobs gap at nearly 800 million and characterizes it as the defining economic and strategic challenge of the current period. The figures the Bank has used publicly are not stable: the gap of nearly 800 million recurs across statements, while the jobs figure that produces it is given as 420 million in the 2024 press release and as about 400 million in the Rome remarks and in World Bank, *The Global Jobs Challenge* (2026), and the horizon is given as 10 years, as 2025 to 2035, and as 10 to 15 years. Although the order of magnitude is consistent, the precise numbers are not.

capital the Bank intends to mobilize. The Bank describes job creation as an explicit aim of every World Bank Group project.[7]

The Bank's strategy rests on three pillars, two of which are the focus of this paper. The first pillar, building the foundation, covers infrastructure and human capital. The IBRD and IDA finance it through the ministries that have always been their counterparts. The second pillar, strengthening governance and the regulatory environment, covers land policy, labor and bankruptcy laws, and the regulatory reforms the Bank has made under the investment climate heading for the past quarter century. The third pillar, mobilizing private capital, runs through the IFC and the Multilateral Investment Guarantee Agency, the Guarantee Platform, and a revamped approach to micro, small, and medium-sized enterprises.

The repeated reorganization of PSD reflects an institutional habit formed when the function was less central than it is today. The president has staked the institution on a claim that PSD operations will create jobs that would not otherwise have been created. Reorganization cannot bolster that claim, but a welfare anchor can.

The welfare anchor

The objective and its limits

PSD contributes to the Bank's poverty reduction mission through its effects on productive employment and productivity growth. Poverty falls when large numbers of people move into more productive work. Two things raise productivity: firms getting better at what they do, and resources moving out of firms that stay unproductive. A PSD operation is justified only where a market failure blocks the process of resource reallocation. To pass the test, Bank involvement must then change what would otherwise occur.

Productivity growth cannot be what defines the PSD practice because it is an objective shared across much of the Bank. Work in infrastructure, education, health, agriculture, and public sector reform can contribute to productivity growth.

Most of PSD operates in markets where private suppliers are already present. In that context, the relevant counterfactual is whether Bank participation extends activity beyond what the market would otherwise provide.

7 World Bank Group, "Creating Jobs for a Better Future" (www.worldbank.org/ext/en/jobs, accessed July 2026) sets out the three-pillar jobs strategy. It also describes the High-Level Advisory Council on Jobs and the Private Sector Investment Lab. The Lab is chaired by Shriti Vadera and convenes chief executives from AXA, BlackRock, Standard Chartered, Tata Sons, Temasek, and others.

Additionality is therefore a judgment about a proposed operation, not an objective around which a practice accumulates a body of work. Sometimes the judgment is that no operation is necessary. A review by the Independent Evaluation Group (IEG) of 579 evaluated IFC investment projects in middle-income countries found that only 60 percent realized both financial and nonfinancial additionality.[8] An objective judgment over additionality sits uneasily within a function that is also responsible for originating and maintaining a pipeline of operations. That same IEG review found that 82 percent of projects *anticipated* both financial and nonfinancial additionality.

The financial/nonfinancial boundary cannot be drawn from the instrument alone. A wholesale credit line through a participating intermediary is a useful example. IEG reviewed eight closed Bank credit lines targeted to SMEs and found that they were justified primarily by the direct benefits to recipient SMEs.[9] That finding cannot establish whether Bank participation changed the lending that would otherwise have occurred. The problem considered here is principally one of nonfinancial PSD; conventional financial-sector work has a more established institutional identity and its own additionality practices and is outside the scope of the paper.

Welfare economics and the failure cases

Welfare economics answers questions about the relevance of the operation and its additionality. This discipline is concerned with delineating when government action in markets is warranted, and when it is not. The starting point of welfare economics is that when markets function properly, they allocate resources appropriately. The categories of market failure that justify intervention are externalities, public goods, information asymmetries, coordination failures, missing markets, market power, and transaction-cost or property-rights failures. The welfare economics lens provides the discipline of requiring identification of which market failures are binding on productive private activity, which are present but not binding, and which are absent altogether.

PSD operations that fail to meet the welfare criteria generally do so in one of three ways. First, an intervention may be designed around a market failure that has not been identified. A tourism project where the operation team finds that there is not enough tourism is not a justification for intervention. Not having enough of anything is not a market failure; it is what defines development economics. PSD operations are susceptible to these arguments; not enough innovation, not enough exports, and not enough domestic processing or movement up the value chain.

8 World Bank, *International Finance Corporation Additionality in Middle-Income Countries: An Independent Evaluation* (Washington, DC: World Bank, 2023).

9 Independent Evaluation Group, *The Big Business of Small Enterprises: Evaluation of the World Bank Group Experience with Targeted Support to Small and Medium-Size Enterprises, 2006–12* (Washington, DC: World Bank Group, 2014), ch. 4, 134.

Second, an intervention may identify a market failure but misdiagnose it. For example, enterprise capability programs treat managerial knowledge as an information externality.[10] Management capabilities could be symptoms stemming from weak product-market competition or from a poor business environment. Where competition is weak, firms with poor management are not driven out, and weak management remains across the surviving stock of firms. If the labor market functions poorly and it is so costly to find good managers, bad managers will likely be very common. Training existing managers will only fix the problem until the next batch of managers hits the labor market.

Third, an intervention may identify the failure correctly, but the proposed channel does not address it. Non-earmarked lending through financial intermediaries provides the clearest example. The intervention is designed to address credit constraints such as available tenors that are too short for what firms need to make investments. If the operation does not earmark lending for longer tenors, then the underserved firms may not benefit from the operation.

The three failure cases reflect failures to clear the first two hurdles. The first and second cases fail the justification hurdle; the third fails the effectiveness hurdle.

Misdiagnosis, which is the second case, has a recognizable signature. When an intervention compensates for a binding constraint and does not remove it, the treated firms may perform better. Once the support ends, the constraint binds again, and firm performance tends to fall.[11] If the underlying constraint had been removed, some of the effect from the support would have endured.

An operation cannot pass the test without a credible diagnosis of the binding market failure. The distinction between Bank support that removes a binding constraint and one that compensates for it is part of the justification hurdle. A misdiagnosed constraint results in an instrument selected for the wrong constraint, and such an instrument can compensate for the binding constraint without removing it. The failure of diagnosis is therefore a failure of justification, and it may become observable only when the instrument is examined at the effectiveness hurdle. Whether the firm could have raised the money privately on similar terms is the test's additionality hurdle. If it could, the Bank's operation adds nothing. The counterfactual is focused on market outcomes, not on how well the operation was implemented.

Evidence, discretion, and incentives

The justification hurdle is easier to apply when the alleged market failure leaves evidence that an external reviewer can examine. In many appraisal documents, indicators serve as that evidence. Indicators, on their own, cannot establish a market failure, but each places some empirical discipline

10 Nicholas Bloom and John Van Reenen, "Measuring and Explaining Management Practices Across Firms and Countries," *Quarterly Journal of Economics* 122, no. 4 (2007): 1351–1408.

11 Nicholas Bloom, Aprajit Mahajan, David McKenzie, and John Roberts, "Do Management Interventions Last? Evidence from India," *American Economic Journal: Applied Economics* 12, no. 2 (2020): 198–219.

on the diagnosis. For example, a diagnosis of credit rationing attributed to asymmetric information will show patterns of firms not applying for loans because they expect to be turned down; rates that cluster and do not adjust to cover different levels of risk; lenders that ask for higher levels of collateral from some category of (small, usually) firms; and loans that are smaller than requested at the offered rate.

This problem arises when the market failure cannot be confirmed in the same way an external reviewer can verify market failures that leave empirical traces. The evidence required is a counterfactual—what would have happened otherwise. This is the case when operation teams are dealing with coordination failures, self-discovery externalities, or information externalities associated with management practices or technology.[12] The evidence of these failures is a plant that was not built, or an innovation nobody tried to develop, or the management practices or technologies not adopted because nobody knew they existed.

The operations team bears the burden of demonstrating the alleged market failure. If the appraisal does not provide evidence sufficient to support that diagnosis, the operation does not clear the justification hurdle.

When the evidence is the absence of action, as described above, the diagnosis relies more heavily on the operation team's judgment. An external reviewer relying on the appraisal documentation may have limited basis to assess whether that judgment is well founded. This creates scope for discretion, compounded by incentives to advance Bank lending. A team that concludes that no market failure exists has no operation to propose. At the same time, the Bank's incentive structure places weight on lending volume.[13]

An operation team that identifies this kind of empirically stealthy market failure has latitude in describing both the failure and the assumptions underlying its diagnosis. A higher evidentiary bar would limit that discretion by requiring the appraisal to distinguish between the theoretical basis for the market failure and the evidence that it is binding in the operation's specific context. A presumption against intervening until a positive case has been made, and externally validated, could also help.

12 The theoretical foundations for coordination failures and self-discovery externalities are well established. See Kevin M. Murphy, Andrei Shleifer, and Robert W. Vishny, "Industrialization and the Big Push," *Journal of Political Economy* 97, no. 5 (1989): 1003–26; and Ricardo Hausmann and Dani Rodrik, "Economic Development as Self-Discovery," *Journal of Development Economics* 72, no. 2 (2003): 603–33. For management practices as an incompletely adopted technology, see Nicholas Bloom, Raffaella Sadun, and John Van Reenen, "Management as a Technology?" NBER Working Paper 22327 (Cambridge, MA: National Bureau of Economic Research, 2016), together with the experimental evidence that Indian textile firms had not adopted profitable practices they did not know existed, in Nicholas Bloom, Benn Eifert, Aprajit Mahajan, David McKenzie, and John Roberts, "Does Management Matter? Evidence from India," *Quarterly Journal of Economics* 128, no. 1 (2013): 1–51.

13 On the accountability structure and the volume incentive, see Gelb and Over, "World Bank Reorganization: To What End?"; the 2023 Independent Evaluation Group additionality evaluation, ch. 4; and Narayanaswamy, "What Gets Measured Gets Done."

The same incentive is carried into management accountability by the World Bank Group Scorecard for FY2024 to FY2030, presented to the Board in April 2024. The Scorecard records the volume of private capital mobilized without establishing whether that capital would have been provided in the absence of World Bank Group participation. On the IFC's own corporate scorecard, every financial and delivery metric carries a numeric target, while the single ex post development-outcome metric, the IEG rating on investment operations, carries only a directional one. In FY25 the long-term commitments of the IFC for its own account fell to $18.2 billion from $21.5 billion, and the mobilization it recorded rose to $38.1 billion from $22.5 billion, a movement that a revision to the classification of credit enhancements accounts for in part. Mobilization is measurable at the corporate level, whereas additionality remains a separate judgment that must be made operation by operation.[14]

The anchor as criterion

The framework could be interpreted as just another orthodoxy—the next entry in a succession where each theory displaced the one before it. Each of the preceding theories identified a different binding constraint, whether state ownership, regulatory barriers, access to finance, or the absence of private capital. Addressing this drift in PSD orthodoxies by adopting welfare economics would anchor the practice's thinking. That very old, well-developed branch of economics identifies no constraint and predicts nothing about what most constrains the private sector. What it provides is an anchor: a test that a proposed operation must satisfy before public money is committed to it and an operation can be labeled a PSD operation. That is the function the earlier doctrines were asked to perform, and none could do it, because an orthodoxy about how private sector development works cannot also serve as the criterion by which claims about private sector development are assessed.

14 World Bank Group, "New World Bank Group Scorecard FY24–FY30: Driving Action, Measuring Results" (April 2024). The Scorecard was announced as a reduction of previous indicators to 22 Bank Group results indicators; the FY24 Scorecard as published presents 20 results indicators, alongside 8 vision and 22 client context indicators. It tracks performance across all the verticals through the same set, including "Mobilizing Private Capital" and a methodology under development for "Private Capital Enabled." See also Independent Evaluation Group, "Approach Paper: World Bank Group Scorecard Formative Evaluation" (November 2025), whose literature review reports, citing Christopher Hood, that centralized performance management systems can be gamed by those whose behavior they seek to influence, and that scorecards risk distorting behavior by directing attention toward what is quantifiable rather than what is important. The same paper reports that IEG evaluations have repeatedly found the Bank Group's results system geared more toward external reporting and upward accountability than organizational learning and have drawn attention to management's tendency to reward new lending and rapid disbursement at the expense of longer-term commitments. On the IFC's own corporate scorecard and the targets discussed in the text, see Narayanaswamy, "What Gets Measured Gets Done," figure 2. That note describes the IFC corporate scorecard as it stood before the FY24–FY30 Scorecard. The commitment and mobilization figures for both fiscal years are from World Bank Group, *World Bank Group Annual Report 2025: IFC Appendixes* (Washington, DC: International Finance Corporation, 2025), Financial Performance Summary, table of total commitments (own account and core mobilization). International Finance Corporation, *Management's Discussion and Analysis and Consolidated Financial Statements, June 30, 2025*, table 4, note a, records that starting in FY25 commitments carrying freestanding credit enhancements are classified as Core Mobilization rather than Own Account Commitments, under revised core mobilization definitions and criteria. That reclassification accounts for part of the movement reported in the text. Guarantees within long-term finance core mobilization rose by about $2.0 billion of the $15.6 billion increase, and the decline in own account commitments falls almost entirely on loans.

The test adds the requirement to formulate and defend a thesis. Previous orthodoxies took this for granted and did not articulate it well.

Conclusion

The Bank has redesigned its organizational structures and shifted staff back and forth in nearly identical cycles, hoping to improve the effectiveness of its PSD work. Now, at the behest of President Banga, it is trying again. Like previous efforts, this one is unlikely to achieve that improvement.

The PSD sector has been reorganized unusually often because its orthodoxies do not build on each other; they replace each other. While agriculture, infrastructure, and macroeconomic work took on new framings, the objective around which each is organized stayed intact. These practices could be reorganized without losing the standard against which their work was judged. PSD has no standing objective. Each new theory of how private activity reduces poverty replaced the old objective and raised new questions about how the practice was organized. Changing the structure was the lever management could affect.

A welfare economics anchor provides the fixed objective PSD needs. It justifies the use of public funds to affect private activity where three hurdles are cleared. The first is that a market failure prevents the market from allocating resources without assistance, and that the diagnosis names and locates it. The second is that the instrument acts on the distortion and changes behavior. The third is that investment, behavior, or market outcome, on comparable terms, scale, timing would not have happened in the absence of the operation. These hurdles remain valid as theories change, and the third of them can add credibility to the Bank's jobs record.

The World Bank asked to be judged on how it supports job creation. If private capital would have financed a job in the absence of the operation, that job cannot be counted as additional.

Whether the Bank's current private sector operations can substantiate their claims using their own evaluation documents is a separate, empirical matter. A companion paper, "The Exempt Window," is where this issue is addressed. The paper defines the category, examines the Bank's classification and performance record from FY1975 to FY2025, applies the three-hurdle test to the FY2024 to FY2025 portfolio, and addresses the question of where the PSD function fits in any development finance institution.