
AAA Credit. Unrated Development Effectiveness.

ZERO CLUB SERIES · MDB REFORM PLATFORM

The World Bank's credit ratings tell investors that its bonds are safe. They tell borrowers, taxpayers, and donor governments almost nothing about whether its lending achieves development results. After two Disbursement Disconnect papers documenting \$361 billion deployed to non-satisfactory operations, the gap between those two statements deserves examination.

A note from mdbreform.com. Rating agency figures: S&P Supranationals Special Edition 2025 (October 22, 2025), the Moody's IBRD Credit Opinion (February 19, 2026), and the Moody's IDA Credit Opinion (February 21, 2025); all publicly available. Disbursement Disconnect figures: IEG ICRR (March 2026) and Statement of Credits/Loans (31 May 2026).

Summary

The World Bank holds triple-A credit ratings from all three major agencies. The ratings are correctly assigned on the dimensions they measure. This paper does not argue that the AAA is wrong. It argues that the AAA is incomplete — and that the incompleteness matters more now than at any point in the institution's history, because S&P's October 2025 criteria revision has materially expanded WBG lending headroom: IBRD's risk-adjusted capital ratio rose from 24.1% to 40.1% in a single cycle; IDA's rose from 58% to 90%. S&P estimates the revision could unlock potentially \$600 to \$800 billion in additional sovereign lending capacity across the MLI sector as a whole. The case for that expansion rests on capital ratios and shareholder support. It says nothing about whether the institutions deploying that capital are producing development outcomes.

The central observation is structural. For most organisations, persistent failure in the core mission eventually affects perceptions of management quality, institutional credibility, and standing with funders. In the MDB case, that does not happen. The sovereign guarantee ensures that the development outcome is irrelevant to repayment — Eskom failed, the loan was repaid; Vietnam PIR failed, the loan was repaid; Brazil's environment DPL failed, the loan was repaid — and so the AAA is preserved regardless of what the projects deliver. The AAA is correct precisely because development outcomes don't matter financially. That is the gap.

S&P's own shareholder support analysis states that World Bank loans are “highly scrutinised for impact” and that “impact is measured and transparently reported.” This is the basis for expecting continued US support — the primary driver of the AAA's tail risk. But S&P does not verify it. And the Disbursement Disconnect evidence shows it is not accurate: ERR coverage is zero, QAG was disbanded in 2014, and \$257 billion in IBRD went to non-satisfactory operations.

The Paradox: Can an Institution Be AAA While Performing Poorly in Its Core Mission?

For most institutions the answer is no, because financial failure and operational failure are connected. When a commercial bank's loans fail to perform, provisions rise, capital ratios erode, and the credit rating deteriorates. Bad loans cost money. The link is direct.

The World Bank is structured differently. Its loans do not fail financially — they fail developmentally:

- **Financial failure:** a borrower cannot service its debt. By this standard, IBRD has had 27 non-accrual events in 80 years — a lifetime default rate of 0.7 percent.
- **Development failure:** a project does not achieve its stated objectives. By this standard, \$361 billion across both windows went to operations that did not achieve a satisfactory outcome.

These are two entirely different metrics. Rating agencies measure the first. Nobody in the rating framework measures the second. The Disbursement Disconnect evidence shows the pattern is systematic rather than noise: the appraisal function has reached zero coverage, and the performance trend on quality at entry shows systematic rather than random deterioration.

The Sovereign Guarantee: The Mechanism That Disconnects the Two

Every IBRD loan and IDA credit carries a sovereign guarantee — a legal obligation to repay regardless of the development outcome. This is not a flaw; it is the founding architecture of development lending. Without it, the AAA would be unjustifiable.

But the guarantee has a corollary the rating framework does not examine: it insulates every party in the disbursement chain from the development outcome. No one in the chain loses money when a project fails developmentally.

Project	Country	IEG Outcome	Disbursed	Loan repaid?
Eskom P116410	South Africa	Moderately Unsatisfactory	~\$3.75bn	Yes
NH28 P077856	India	Unsatisfactory	\$615.7M (99.3%)	Yes
Vietnam PIR 1 P117723	Vietnam	Unsatisfactory	\$500M (100%)	Yes
Brazil Env DPL P095205	Brazil	Unsatisfactory	\$1.3bn (100%)	Yes

From the rating agency perspective, every one of these is a clean credit outcome. From a development perspective, the projects failed. The sovereign guarantee is doing two things simultaneously: it is the mechanism that justifies the AAA, and it is the mechanism that severs the connection between development performance and any financial consequence.

The Rating Agencies Evaluate Credit Risk Accurately. They Do Not Evaluate Development Risk.

Yet development effectiveness is the institution's stated purpose. That is the contradiction — and the table below makes it visible:

Dimension	Moody's / S&P	MDB Reform evidence
Repayment risk	AAA	AAA — confirmed: 0.7% lifetime default rate
Capital adequacy	AAA	Confirmed: IBRD 24.1%, IDA 57.6% RAC
Liquidity	AAA	Confirmed: IBRD 2.18x at 6-month horizon
Development risk	Not rated	Weak — 46.4% (IBRD) / 65.8% (IDA Africa) non-S+
Appraisal quality	Not rated	Weak — ERR coverage: 0% since 2020
Outcome record	Not rated	Weak — QAE below-standard: 91.6% failure rate
Economic analysis	Not rated	Collapsing — 70% to zero over five decades
Value for money	Not rated	Unknown — no ERR, no systematic cost-effectiveness
Development effectiveness	Not rated	\$361bn deployed to non-satisfactory operations across both windows

The top three rows are credit metrics: correctly assessed, AAA justified. The bottom five rows are development metrics: unassessed by the rating framework and, where evidence exists from the Disbursement Disconnect papers, weak to collapsing.

The central observation: MDBs are low credit risk precisely because development performance is largely irrelevant to repayment. The sovereign guarantee means the loan performs whether or not the project does. The AAA is not wrong. It conflates two things that should be kept separate: financial soundness and development effectiveness. The first is high and correctly rated. The second is unrated and, on the available evidence, weak.

Inside the Moody's Reports: What They Count — and What They Don't

The two Moody's credit opinions — IBRD (February 19, 2026) and IDA (February 21, 2025) — run to roughly 25 pages of analysis. Reading them systematically against the Disbursement Disconnect evidence produces a precise accounting of the gap.

What Moody's assesses — exhaustively

Capital adequacy: IBRD score 'a2'; leverage 3.94x; usable equity \$73.6 billion; E/L ratio 21.6% against 18% floor. IDA score 'aa2' (stronger than IBRD); leverage 1.1x — among the lowest in the Aaa-rated MDB sector; usable equity \$204.2 billion.

Asset performance (as repayment): IBRD NPA ratio 0.5%; 27 non-accrual events in 80 years; average default rate 0.7%. IDA NPA ratio 0.4%. Both assessed at the highest category — because these are repayment measures, not development outcome measures.

Preferred creditor treatment: Moody's assigns IBRD a DACQ of 'aa' — lifted from its average borrower rating of B1 through PCT. For IDA, the DACQ is 'baa' — lifted from a weighted average borrower rating of Caa1 (deep junk) through PCT and diversification. The lift is mechanical: PCT raises effective credit quality regardless of whether the underlying projects delivered.

Shareholder support: Identified as the primary downgrade trigger in both reports. Moody's states: "Reassessment of the strength of shareholder support would exert negative pressure on the rating."

What Moody's does not assess — at all

Across both credit opinions, zero mention of: IEG outcome ratings; the share of disbursements going to non-satisfactory operations; ERR coverage (or its collapse from 70% to zero); Quality at Entry ratings; the disbandment of the QAG in 2014; project success rates; or the development value of the \$361 billion deployed to non-satisfactory operations. The phrase "development effectiveness" does not appear in either report. "Development" appears exclusively as an institutional descriptor — never as a performance dimension.

The IDA report lists under Credit Challenges: "Development mandate that requires lending to sovereigns with weak credit profiles." The development mandate is a credit challenge — because lending to poor countries means lending to riskier repayers. Whether those loans achieve their development objectives is not mentioned as a factor in either direction. Development mission equals credit risk. Development effectiveness equals not rated.

The mechanical rating: how Caa1 becomes Aaa

IDA's weighted average borrower rating is Caa1 — well into speculative-grade territory. Caa1 is three notches below the lowest investment-grade category. This is IDA's average. Under any conventional credit analysis, a lending institution whose average customer is rated Caa1 would face immediate scrutiny of its capital adequacy, provisioning levels, and sustainability.

IDA is rated Aaa — the highest possible rating. The gap between Caa1 (average borrower) and Aaa (institution) spans approximately fifteen notches on the Moody's scale. No commercial lender achieves that spread. The lift happens in five steps:

Step	What it adds	Moody's assessment
1. Average sovereign borrower	Caa1 baseline	B2 to Caa1 WABR across borrowing members
2. Preferred creditor treatment	+4 to +5 notches	PCT lifts DACQ to 'baa'
3. Portfolio diversification	Additional support	78 countries, low crisis correlation
4. Capital adequacy	Low leverage buffer	Leverage 1.1x, usable equity \$204.2bn
5. Callable capital + shareholder support	Final lift	Aa3 weighted-average shareholder rating
IDA institution	Aaa	Scorecard range: Aaa–Aa2, lifted to Aaa

Preferred creditor treatment is the single most important mechanism. PCT is not a legal right — there is no treaty giving MDBs priority over bilateral creditors. It is a convention: sovereign borrowers have consistently serviced MDB debt ahead of other obligations because the political cost of default — loss of concessional financing, diplomatic damage, exclusion from future capital increases — has historically outweighed the economic benefit. Moody's attributes roughly four to five notches of uplift to PCT for IDA, lifting effective DACQ from Caa1 to 'baa.'

The return on equity confirms the decoupling. IDA's return on equity is negative (-1.9% in fiscal 2024) — the institution loses money. For a commercial institution, a negative ROE would raise immediate questions about viability. For IDA, the rating is unaffected: the capital base (\$204bn usable equity) is large enough that equity erosion is gradual, and triannual donor replenishments offset what is consumed.

Development effectiveness contributes zero to the calculation. A portfolio producing \$104 billion in non-satisfactory disbursements is, from Moody's perspective, indistinguishable from a portfolio producing zero non-satisfactory disbursements — because the relevant metric is NPA ratio (0.4%), not development outcome. Every step in the Caa1-to-Aaa lift is driven entirely by repayment architecture — designed to be independent of development performance. This is the system working as designed. But it means the Aaa answers one question — “will bondholders be repaid?” — while leaving the institution's core question — “are development objectives being achieved?” — not just unanswered but unasked.

The gap confirmed in management's own accounts

The same separation appears in the Bank's own financial reporting. Both the IBRD and IDA Management's Discussion & Analysis for the nine months ended March 31, 2026 — prepared under US GAAP and subject to independent auditor review — formally name “development outcome risk” as a risk category. The language is identical across both documents: *“The risk of [IBRD's/IDA's] operations not meeting their development outcomes (development outcome risk) in [IBRD's/IDA's] lending activities is monitored at the corporate level by Operations Policy and Country Services (OPCS).”*

Having named it, both documents dispose of it in a single sentence. Development outcome risk does not appear in the capital adequacy framework, the risk tables, or the income statement. It carries no

financial charge, no measurement methodology, and no quantified metric. The recognition and the non-measurement sit on the same page. The Bank’s own management accounts confirm, in their structure if not their intent, that development outcome risk is formally a category — and formally separate from financial risk. The rating agencies do not need to discover the gap. Management has already mapped it.

What a development effectiveness rating might look like

If rating agencies assessed development effectiveness with the same rigour as capital adequacy, the result might be: AAA credit risk. B+ development effectiveness. C+ appraisal discipline. D transparency on value for money. The agencies do not measure these dimensions at all. That is the missing risk.

Dimension	Assessment
Development outcome record	Weak — 46.4%/65.8% of disbursements below S+
Appraisal discipline	Weak — ERR coverage: 70% to 0%
Design quality at entry	Weak — 91.6% failure rate for QAE below-standard
Internal quality assurance	Absent — QAG disbanded 2014, not replaced
Transparency on value for money	Incomplete — no systematic CEA, ex-post evaluation only
Disbursement-outcome linkage	Weak — only 10.1pp gap between S+ and U disbursement in IBRD

The Embedded Assumption: Where Development Effectiveness Enters the Rating

S&P’s own US support analysis states as a basis for expecting continued shareholder backing:

“MLI aid for developing countries is mainly in the form of loans and not grants. These loans are highly scrutinised for impact and social and environmental safeguards are plentiful, meaning there are very few inefficiencies in terms of project outcomes involving taxpayer funds. Significant scrutiny continues throughout the life of the loan and impact is measured and transparently reported.”

S&P uses this to support the shareholder support assessment — the primary downgrade trigger. But S&P does not verify it. The Disbursement Disconnect evidence contradicts each element:

“Highly scrutinised for impact.” Of IBRD projects approved since 2020, not one carries a calculated ERR. QAG was disbanded in 2014. IEG’s 2010 evaluation documented that 80 percent of TTLs said CBA was sufficient to “tick a box.”

“Very few inefficiencies in outcomes.” \$257 billion in IBRD went to non-satisfactory operations. In IDA Africa: 65.8 percent of disbursements.

“Impact is measured and transparently reported.” IEG evaluates ex-post, years after disbursement. The ex-ante instrument (ERR) has reached zero. What is measured is outcomes after money moves; what has disappeared is the prospective test of whether it should.

The S&P Criteria Revision: Capital Endorsed, Development Unexamined

S&P’s October 2025 methodology update significantly increased risk-adjusted capital ratios across the MLI sector. For the World Bank specifically, IBRD’s RAC ratio rose from 24.1% to 40.1% and IDA’s rose from 58% to 90% — both in a single revision cycle. S&P estimates the criteria change could potentially unlock \$600 to \$800 billion in additional sovereign lending capacity across the MLI sector as a whole, with many institutions able to expand sovereign exposure by 35 to 70 percent, subject to other constraining factors. The World Bank is the largest single institution in that sector. The capital case is real and correctly made.

What the criteria revision does not examine is whether the institutions deploying that expanded capacity are producing development outcomes proportionate to the resources. For the World Bank, the evidence from two Disbursement Disconnect papers answers that question: \$361 billion across IBRD and IDA has gone to operations that did not achieve a satisfactory outcome; ERR coverage in both windows has reached zero; and the Bank’s own management accounts formally classify development outcome risk as a category delegated to an operational policy unit with no financial metric attached. S&P assessed the capital grounds for expansion exhaustively. The development grounds were not assessed at all.

Conclusion

IBRD and IDA deserve their AAA ratings on the dimensions those ratings measure. Bondholders are safe. Capital ratios are strong. Preferred creditor status has held for 80 years.

AAA ratings tell investors that MDB bonds are safe. They tell borrowers, taxpayers, and donor governments almost nothing about whether MDB lending achieves development results.

That sentence is difficult for Moody’s, S&P, management, or the Board to refute — because it is accurate. The AAA measures credit risk, not development effectiveness. The problem is that the AAA is used as a shorthand for the institution’s overall quality — and it is not. AAA means bondholders get repaid. It does not mean projects succeed, appraisals are sound, or money creates development value. Those are very different things.

The sovereign guarantee is the mechanism that makes the AAA possible, and the mechanism that makes development failure financially invisible. The gap it creates — between the AAA that protects bondholders and the development record that serves borrowers and taxpayers — can be named, measured, and disclosed. The rating agencies have the platform to name it. The IDA21 Mid-Term Review is the next formal accountability gate. Ajay Banga, presiding over an IBRD whose risk-adjusted capital ratio has just doubled and an IDA whose has risen by a third, has both the balance sheet and the moment to close it.

What We Are Proposing

The three papers in this series — the IDA Africa Disbursement Disconnect (Part 15), the IBRD Disbursement Disconnect, and this paper — converge on the same institutional problem: a guarantee architecture that severs development performance from financial consequence, an incentive structure that rewards moving money rather than delivering results, and a thirty-year retreat from the analytical discipline that once asked whether the money was worth committing. The proposals below are aligned across all three papers. They address the rating agencies, World Bank management, and the IDA21 Mid-Term Review. They are proposals for disclosure and accountability — not for downgrade and not for reduced lending.

To the rating agencies — disclosure, not downgrade:

1. Produce alongside each annual IBRD and IDA credit review a factual development-effectiveness disclosure covering: ERR coverage rate at appraisal and at completion; QAE S+ rate for new approvals in the preceding fiscal year; and portfolio S+ rate by region and Global Practice. No rating methodology change is required — only verification of the development premises the shareholder support narrative already incorporates. S&P’s assertion that World Bank loans are “highly scrutinised for impact” and that “impact is measured and transparently reported” is currently accepted without verification; this disclosure would replace that assumption with evidence.
2. Treat the institution’s internal quality-assurance architecture — the status of the Quality Assurance Group, ERR compliance rates, and borrower performance rating coverage — as verifiable management-quality inputs to the shareholder support assessment. All three were in place and functioning in 2010; all three have been allowed to lapse or were formally discontinued in the years since. That retreat is a measurable change in management quality. The agencies have the standing to assess it.

To World Bank management:

3. Restore the ERR at both ends of every investment operation — at appraisal, before Board approval, and at completion, recalculated in the ICR against the appraisal estimate. The IDA Africa paper documents ERR coverage falling from 71% in the 1970s to zero since 2015; the IBRD paper shows the same collapse with a decade lag, reaching zero since 2020. IEG’s own evidence shows the ex-post collapse tracked the ex-ante one: failing projects were selectively excluded from recalculation, and the reported closing-ERR distribution is censored at the bottom. Both ends must be restored together. An ERR produced after the Board has committed the money is, in IEG’s own characterisation, a compliance exercise rather than a design tool. That is what it had become before it was abandoned entirely.
4. Re-establish independent pre-Board quality assurance. The Quality Assurance Group was disbanded in 2014 — the same institutional cycle that completed the ERR collapse. The consequence is visible in the data: when QAE is Satisfactory or better, 73% of IBRD projects and 73% of IDA Africa projects achieve satisfactory outcomes; when QAE is below satisfactory, 8.4% of IBRD projects do and 5.4% of IDA Africa projects do — a 65-percentage-point gap virtually

identical across both windows. \$114 billion in IBRD commitments and \$40 billion in IDA Africa commitments went to projects already rated below standard at entry. Re-establish a pre-Board independent design-review function, structurally separate from the task team responsible for taking the project to approval. QAG's limitation was that it reviewed projects after Board approval; the new function must review them before.

5. Make the disbursement-outcome gap a governed Board metric, reported by region and Global Practice at every Board meeting — across both IDA and IBRD. The priority practices for immediate scrutiny: Water (36.0% S+ on \$26bn IBRD); Health, Nutrition and Population (38.3%, \$17bn); Macroeconomics, Trade and Investment (40.7% IBRD, 21.1% IDA Africa — the worst-performing major practice in the evaluated Africa portfolio, with \$98bn in IBRD disbursements); and the MENA region (33.6% on \$41bn IBRD — worse than IDA Africa's 35.6%, on a portfolio of middle-income governments). The Board owns the outcome risk and authorises every commitment. The metric should reach it in real time, not in IEG retrospectives five years after closing.
6. Tie consecutive Unsatisfactory ISRs to mandatory disbursement review. An operation recording consecutive Unsatisfactory development-objective ratings should not continue to disburse on autopilot. The DRC Multi-modal Transport Project — \$133 million deployed after the Bank's own supervision rated it Unsatisfactory, suspension proposed twice and not executed because it “would have had a negative impact on the Bank–Government relationship” — is not an outlier; it is the operating model under a sovereign guarantee. Consecutive Unsatisfactory ISRs should trigger a mandatory Board-level review: restructure, suspend, or close. Not a quiet continuation to the scheduled closing date while the guarantee covers the eventual repayment.
7. Restore borrower performance ratings across both windows. The rating was discontinued after FY2017 — within the same institutional cycle that retired the ERR and disbanded QAG. The Bank's own performance is rated sub-satisfactory in 92% of IDA Africa projects that fail; removing the only independent locus of borrower accountability in the same period concentrates responsibility nowhere. The lockstep finding — Bank and borrower rated down together in 88% of failed IDA Africa projects, faulting the borrower alone in only 7% and the Bank alone in 4% — suggests the rating was never disaggregating responsibility effectively; that is an argument for reforming it, not for removing it.
8. Require ex-ante and ex-post effectiveness assessments for all DPF operations. DPF carries \$237 billion in IBRD disbursements — 43% of all IBRD disbursed — at the portfolio's lowest instrument S+ rate (50.8%). In IDA Africa, DPF runs at 28.9% S+ against IPF's 38.1%. DPF is exempt from the ERR by design; it is not exempt from the question of whether its policy conditions produced the stated development objectives. Require for all DPF operations: an ex-ante assessment at Board approval of whether the prior actions are sufficient — not merely verifiable — to achieve the stated development objective; and an ex-post evaluation, separate from the prior-action compliance gate, of whether the disbursed tranche achieved that objective. The sovereign guarantee should not convert a development-policy instrument into an unconditional budget transfer whose effectiveness is assessed by no one.

9. Publish the full quality record for every closed project — QAE rating, IEG outcome rating, and amount disbursed — in a single publicly accessible dataset, updated annually. The data exist. IEG holds the evaluation ratings. Treasury holds the disbursement records. The combination that drives every finding in this series is not a research product accessible only to those with the capacity to link two databases across a P-code. It should be a published accountability table. Transparency on development effectiveness begins with making the evidence visible to the people whose money is at stake.

To IDA21 Deputies — at the Mid-Term Review:

10. Replace the MS+ performance figure in IDA reporting with the S+ figure — and require the IDA21 Results Measurement Framework to report the disbursement-outcome gap disaggregated by region, Global Practice, and instrument. The IDA21 Deputies Report, approved on 17 March 2025, told 59 donor governments contributing \$23.7 billion that satisfactory performance in IDA-financed operations stands at 91 percent. It seems that the criteria they used was the Moderately Satisfactory or above threshold. Not Satisfactory and Above. Using the Satisfactory or above threshold — the original standard — the IDA-only rate is 31 percent. Deputies from 59 countries committed \$23.7 billion on the basis of a figure that is three times the honest number. The Results Measurement Framework should replace that figure and add the financial accountability metric the current scorecard omits: how much of IDA’s money is moving into operations the Bank’s own supervision says are failing.
11. Condition the IDA21 Mid-Term Review endorsement of the second-tranche financing on demonstrated progress on three measurable indicators: ERR coverage restored to at least 30 percent of new investment operations approved in FY2026–FY2027; an independent pre-Board QAE function re-established and operational; and the non-S+ disbursement share for IDA Africa declining below 50 percent in the evaluated portfolio. The targets are achievable within the replenishment window and the conditioning is modest — it is not a threat of reduced support but a definition of what progress looks like. For IDA22 Deputies convening in 2027–2028, the evidence of whether the institution has re-coupled its financial system to its results system should inform both the size of the next replenishment and its architecture: including the case, now substantially stronger given USAID’s closure and the availability of experienced implementing partners, for a competitive allocation mechanism that benchmarks Bank delivery against independently verified results from alternative implementers.

Methodological Note

S&P figures. Supranationals Special Edition 2025 (October 22, 2025): Introduction pp. 7–13; IBRD pp. 137–139; IDA pp. 140–142; US support article pp. 58–61. Analysts: Alexis Smith-Juvelis and Alexander Ekbohm.

Moody’s figures. IBRD Credit Opinion, 19 February 2026; IDA Credit Opinion, 21 February 2025. Both publicly available via World Bank Treasury.

Management accounts. IBRD Management’s Discussion & Analysis and Condensed Quarterly Financial Statements, March 31, 2026 (unaudited); IDA Management’s Discussion & Analysis and Condensed Quarterly Financial Statements, March 31, 2026 (unaudited). Both publicly available via World Bank Treasury. Cited language (Risk Management / Risk Governance section, both documents): “The risk of [IBRD’s/IDA’s] operations not meeting their development outcomes (development outcome risk) in [IBRD’s/IDA’s] lending activities is monitored at the corporate level by Operations Policy and Country Services (OPCS).” The language is identical across both documents. Development outcome risk does not appear in either document’s capital adequacy framework, risk tables, or income statement.

DD references. IDA Africa: 2,576 projects, \$158bn, 65.8% non-S+ (Part 15, Zero Club Series). IBRD: 4,535 projects, \$554bn, 46.4% non-S+ (companion paper). Both: IEG ICRR March 2026; Statement of Credits/Loans 31 May 2026.

Causation. All relationships are associational. The argument is structural — about MDB architecture — not a prediction of rating action.

Scope. This paper proposes no rating change. It proposes disclosure of the development dimensions the credit rating does not address, and verification of the development premises already embedded in the shareholder support assessment.