

# Contrasting green impact evaluations: Multilateral Development Banks and civil society approaches

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## 1. Introduction

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Climate change, the result of one of the most profound negative externalities in human history (Nordhaus, 2019; Stern, 2009), is recognized by many social scientists as a super-wicked problem, characterized by four defining features: an urgent timeframe in which policy intervention is required; the absence of a central authority responsible for formulating solutions; a paradox in which the agents contributing to the problem are the same as those needed to mitigate it; and the need for policy responses to incorporate considerations of future developments (Levin et al., 2009).

Considering these four elements together, efforts to address the impacts of climate change and halt its progress will require the design and implementation of innovative and complex policy frameworks (Pickering et al., 2017). While these policy frameworks are essential, they are inherently risky for those who finance them, given the inevitable uncertainty surrounding the climate crisis, its consequences, and the distribution of those consequences over time and space. However, despite these risks (Gardener, 2006), under the precautionary principle and to comply with international climate treaties (Falkner, 2016), the world needs a steady flow of funding for green projects (Gomez-Echeverri, 2013). Moreover, these projects should be properly evaluated to allow either their rejection if they prove ineffective, or their replication and mass adoption if they prove to be successful policy ideas (Bhandary et al., 2021).

The ensuing question is: who should carry out these evaluation procedures, and what objective(s) should underpin the evaluation? Although the number of 'green' projects - touted as proactive contributions to the fight against climate change - has grown exponentially in recent years (Buchner et al., 2019), the practice of evaluation has not consistently evolved towards a universally

accepted set of best practices (Romani & Stern, 2016). Instead, it has diverged, with different stakeholders taking responsibility for defining a unique approach to assessing the effectiveness of green finance and then applying this framework to the multitude of projects available worldwide.

In this short paper, we intend to explore two distinct evaluation practice paradigms. First, we delve into the evaluation procedures instituted top-down, primarily by the key financiers of the green transition: Multilateral Development Banks (MDBs). To illustrate this, we examine one such actor that has emerged as the third most committed MDB to green projects, namely the European Bank for Reconstruction and Development (EBRD) (see Figure 1). We look at the EBRD because its private sector mandate makes it the most apt MDB to follow the World Bank’s new green finance agenda, the Maximizing Finance for Development (MFD) (Piroska and Schlett, 2023). MFD promotes a blended financial approach to mobilize private sector investment through the use of public resources for the green transition (Gabor, 2021). Secondly, we study practices emerging organically from civil society, including NGOs, civic organizations, and think tanks. These entities offer an alternative to the evaluation procedures developed within MDBs. Their approach is significantly more focused on social outcomes and less rooted in conventional considerations of financial feasibility.

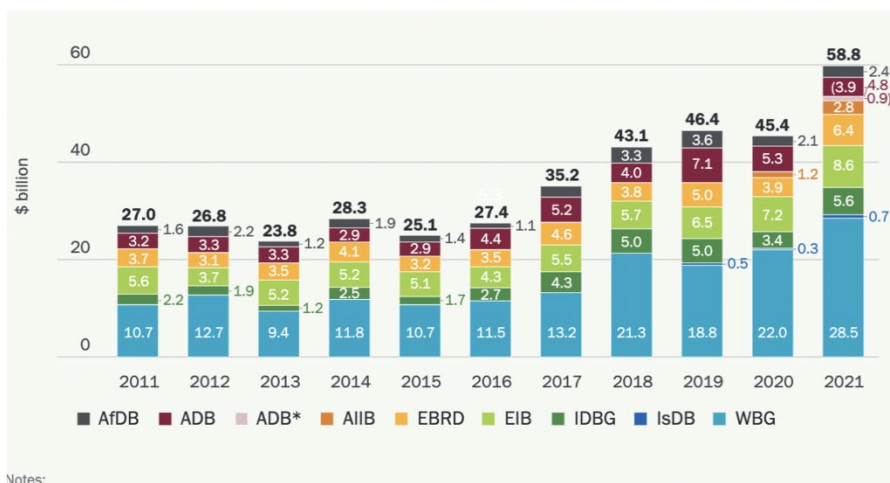


Figure 1. Green finance commitments 2011-2021 ([Joint MDB Report, 2022](#))

Our intention with this paper is not to definitively determine the optimal evaluation procedure or to generate concrete conclusions from juxtaposing these two sets of actors. Rather, our objective

is to stimulate a robust dialogue on the diverse strategies used to evaluate green finance. Given that green finance is a relatively nascent topic on the agendas of many national and international stakeholders, the paucity of literature is to be expected. Therefore, we see our work as a steppingstone towards a broader and deeper discourse about the key challenges and opportunities that green finance presents.

## 2. Evaluation practices from above: the case of the EBRD

Western MDBs endorsement of the World Bank’s MFD agenda in 2015 did not translate to a dominance of blended finance by 2022. Instead MDBs green finance projects dominantly take the form of investment loans and all other financial instruments, including a variety of blended financial instruments are only marginally present in the toolkit of MDBs. Both in high and low-income countries, investment loans make up most green project-finances (see Figure 2 and Figure 3). Therefore, MDBs’ green financial project evaluation methods focus on loan evaluation primarily.

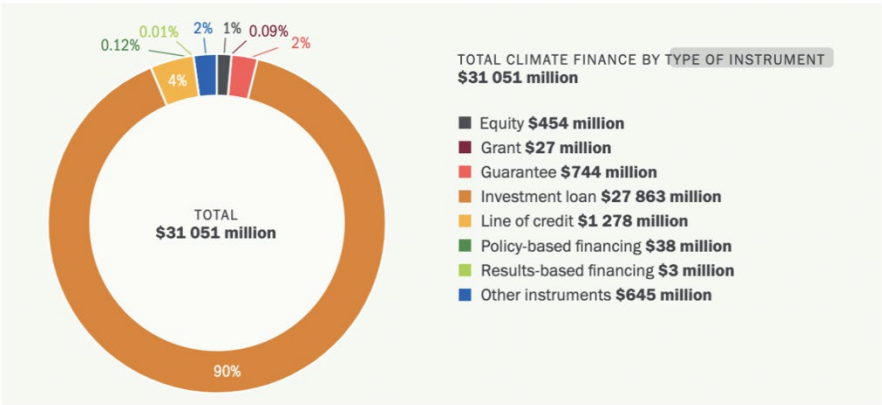


Figure 2. Green finance by instrument type, high-income countries ([Joint MDB Report, 2022](#))

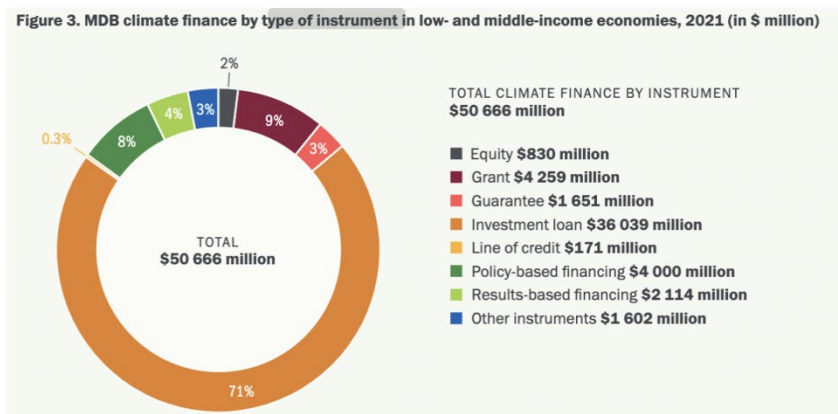


Figure 3. Green finance by instrument type, low- and middle-income countries ([Joint MDB Report, 2022](#))

The EBRD, a regional development bank operating primarily in the post-communist region, has a long history of financing environmental projects. In fact, alongside the promotion of private markets in countries committed to democratic transition, the Agreement establishing the EBRD expressly provided that the bank also focuses on improving the environment in its countries of operation (Kilpatrick, 2020).

The first approach of the EBRD to green finance was its integrated organizational design to energy finance that combined the expertise of environmental specialists from its E2C2 unit, with that of sectoral specialists. It made sense to focus on energy efficiency in the post-communist region, where the legacy of wasteful energy use in the communist era still lived on. It also made sense for the neoliberal minded EBRD staff which fostered energy market liberalization across the region. Adopted in 2006, the two-step approach enabled environmental experts to identify within each sector opportunities to engage with energy efficiency issues, while in the second step, bankers were mobilized to turn energy related opportunities into business opportunities “to enhance profitability, introduce and improve products, raise competitiveness or all three” (Kilpatrick, 2021: 349). In this integrated approach, environmental issues were turned from uncomfortable compliance issues into business opportunities.

While the EBRD claims to be among the first MDBs to tackle the climate change issue in a holistic and systemic way, its liberal mindset that prioritizes private sector solutions limits its capacity to be holistic. First, the EBRD considers physical output-based indicators only and strives for

financial valorization of these outcomes. As its internal policy documents show project-level climate vulnerability is identified as physical outcomes, which in the last step of project evolution are expressed in financial terms (Figure 1).

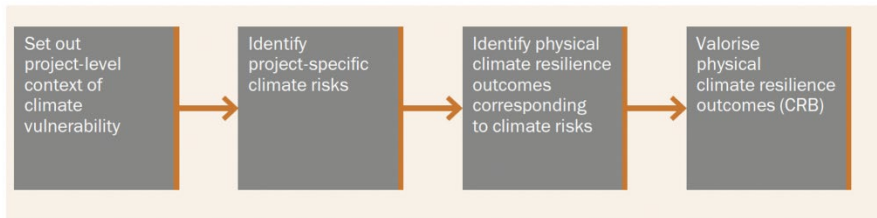


Figure 4. Linear EBRD process for selecting output-based indicators, with no social feedback loops (EBRD, 2018)

Similarly, the EBRD’s green finance performance evaluation documents’ performance indicators and the data through which they are assessed outline a narrow focus on material outputs with lack of connections to and consideration of social outcomes.

GET topic	Impact indicator	Unit	Baseline	Performance indicator	Activity data
GHG reduction	Annual CO <sub>2</sub> e reduction	tonnes/year	Annual CO <sub>2</sub> e emissions according to baseline scenario, see Annex 6	CO <sub>2</sub> emissions per activity data	Units of production (including tonnes, MWh, passenger/km, tonne/km)
Water efficiency	Annual water savings	m <sup>3</sup> /year	Annual water use according to baseline scenario	Water use per activity data	Units of production (including number of households, tonnes, MWh)
Energy efficiency	Annual primary energy savings	GJ/year or toe/year	Annual energy use according to baseline scenario	Primary energy use per activity data	Units of production (including tonnes, MWh, passenger/km, tonne/km)
Materials efficiency	Annual materials savings or waste minimised	tonnes/year, specified by type of material or waste	Annual materials used or waste produced according to baseline scenario	Materials used or waste produced	Units of production (including number of households, tonnes, MWh)
Renewable energy capacity installed	Capacity (peak)	MW	Zero for new or additional capacity	Not applicable	Not applicable
Renewable energy produced	Annual renewable energy production	MWh/year	Zero for new or additional capacity	Not applicable	Not applicable
Drinking water	Annual volume of clean and good-quality water (EU- or WHO-compliant) and/or number of people benefiting	m <sup>3</sup> /year number of people connected			
Wastewater	Volume of wastewater treated (effluent quality EU compliant) and/or wastewater avoided or reduced	m <sup>3</sup> /year			

Narrow focus on material outputs, lack of connection to social outcomes.

Figure 5. Output-based performance indicators for green finance (EBRD, 2018)

Moreover, the EBRD’s green finance project evaluation and approval process critically misses an emphasis on feedback from realized project back to the approval processes’ next cycle. Thus, this approval design not only narrows down the EBRD’s focus to physical outputs, but also deprives



its staff of the opportunity of learning from previous projects when approving new projects lines (Figure 6). The *a posteriori* involvement of its Evaluation Department only slightly improves the learning and feedback loop.

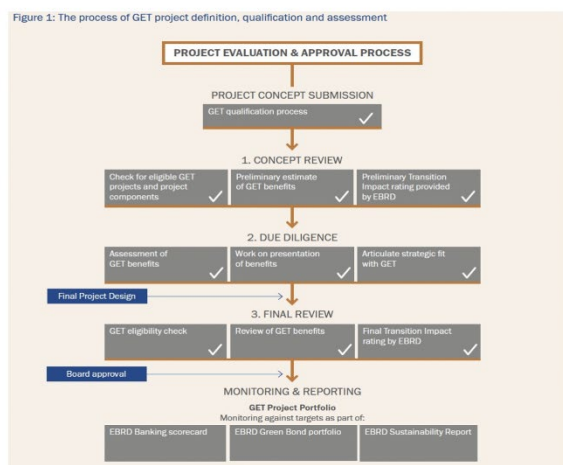


Figure 6. Green finance-eligible project definition: internal consistency vs social purpose (EBRD, 2018)

Finally, EBRD’s business-logic driven approach to green financial projects’ design, approval, and evaluation operates in the context of the EBRD’s effort to enhance its operation through the provision of technical assistance, i.e., knowledge transfers and legal infrastructure projects. A key purpose of technical assistance via selected consultants is “to raise awareness among borrowers of the financial attractiveness of sustainable energy investments” (Kilpatrick, 2021: 356). Thus, a key purpose of technical assistance provision is to educate like-minded interlocutors among borrowing countries’ administrations. This may be problematic from the point of view of involving a larger set of interests from the borrower countries in project design and evaluation.

Since the 2008 financial crisis, the EBRD’s approach to green finance evolved from a narrow focus on the fossil fuel-based energy sector to encompass renewables, biomass, energy efficiency, etc. (Kilpatrick, 2021). However, it remains dominated by a logic of increasing business volumes to the detriment of more socially encompassing developmental targets. Output targets dominate the internal evaluation process. The financial instruments to achieve its green targets remain dominantly investment loans while blended financial instruments such as guarantees, equity swaps, etc. remain at a low volume.

Finally, this limited overview cannot assess EBRD's internal evaluation process in-depth. A few examples from Egypt where it started operating in 2011 and is now has the second largest share in the total EBRD loan portfolio may highlight a few outcomes of the EBRD's green project evaluation. First, under the banner greenhouse effect reduction, the EBRD finances fossil fuel private companies to implement new Western technologies to reduce gas flaring while still operating on fossil fuel ([PICO Oil and Gas](#)). Second, it classifies green such investments which have both positive and continued negative effect in the environment ([6th of October Dry Port](#) and the Green Cities project). Third, the EBRD continues financing projects that have only negative environmental impact. While they are not classified as green, they are still financed under the bank's general green agenda ([ADES International Holding Limited](#) , [Sonker](#) , [DFF - Horus Bond](#)). With on project in Egypt the EBRD even ran up to such controversies that it had to step back from the financial arrangements ([Alexandria Refinery Sustainability Project](#)). Overall, as the EBRD intensifies its green projects in Central Asia, Turkey and the MENA region, it is increasing engages with "mandate management" with regards to its environmental mandate (Piroska and Schlett, 2023).

### 3. Evaluation practices from below: the case of NGOs and think-tanks

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A distinctive feature of green finance evaluation frameworks developed by civil society actors is their focus on multiple and interacting objectives for project evaluation (Ringel et al., 2021). This feature appropriately reflects the multiple societal roles that NGOs and think tanks play in the development, analysis and evaluation of climate finance instruments (Partzsch, 2017).

First, these civil society organizations seek to align the objectives of green projects with the evolving needs and aspirations of society (Spandagos et al., 2021). Unlike multilateral development banks (MDBs), which tend to prioritize traditional financial metrics focused on financial sustainability, these civil society organizations evaluate projects based on their potential social and environmental impact. They consider factors such as carbon reduction, air quality, pollution level, community engagement and local benefits to ensure that projects meet societal demands and contribute to broader sustainability goals (Ringel et al., 2021).

Second, they establish checks and balances in the evaluation of green projects, preventing greenwashing (Kim and Lyon, 2015). This ensures that the funds invested in each project are effectively used to achieve the pre-defined objectives, which usually prioritize social benefits over mere financial returns. In this way, NGOs and think tanks provide an essential watchdog function, holding corporations, governments and MDBs, including institutions such as the EBRD, to account for their green finance commitments.

Finally, civil society actors are working hard to keep green finance in the spotlight. They are lobbying the financial institutions tasked with providing the necessary finance to combat climate change to ensure that these crucial issues remain a priority. This is particularly important at times when climate change and sustainability may not be at the forefront of public or political discourse. Through its advocacy and watchdog roles, civil society helps maintain the momentum of the green transition and promotes transparency, accountability, and effectiveness in green finance (Marquis et al.,2016).

One question that arises is what is the comparative advantage of think tanks and NGOs that allows their evaluation frameworks to add value to the professional evaluations carried out within MDBs? The most direct answer is that civil society actors have access to a different set of information that enables them to better understand the real needs of the communities that different green projects aim to improve (Caniglia et al., 2015). During the formal selection process, MDBs look at project outputs and assess whether there is a correlation between these outputs and social needs. However, as discussed, this understanding of social needs tends to be quite limited. Civil society organizations, with their closer ties to the community, have the advantage of a more intimate knowledge and understanding of the unique and evolving needs of the populations they serve. As such, their assessments may better reflect the realities on the ground and the true potential impact of green projects.

However, this advantage also presents a limitation for evaluation practices originating from civil society. Given their unique, but restricted, informational access, NGOs may at times struggle to appreciate the broader implications when assessing the outcomes of different projects. For example, an independent investigation might label a project as greenwashing, yet if information from related and complementary projects were considered, the original project could potentially be viewed as beneficial from a climate change combat perspective.

This is a plausible scenario, given that the green transition is a highly intricate process involving multiple sectors, such as transport, power, agriculture, among others. The outputs of many projects might only contribute to improved environmental outcomes when considered in conjunction with the outputs of other projects. Given constraints such as limited human resources, time, and logistical access to information from numerous financed projects, NGOs may struggle to fully grasp this complexity. As a result, they may adopt a more pessimistic viewpoint than necessary, overlooking the potentially synergistic effects of combined project outputs in the broader green transition context.

## 4. The rise of professional evaluators

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Reconciling the seemingly disparate approaches to the evaluation of green finance, taken by MDBs and civil society, presents a challenge. Yet, given the urgency of the climate crisis and the need for rapid deployment of funding for effective projects mitigating climate change, it is a necessary task. Accordingly, the aggregate demand for professionals with an adequate skillset, network of contacts, as well as knowledge of both the green financing opportunities and climate policymaking processes, has been rapidly increasing.

Crucially, and unlike other sectors, green finance is not (yet) ideologically dominated by a particular economic mindset, nor is it shaped by a coordinated lobbying effort on the part of business as to what exactly should be the objective of financing. This lack of coordination is particularly pronounced in the European Union, where the preferences of different types of actors vary not only by type of activity but also by regional context, with different Member States prioritizing their own self-defined green interests (Seabrooke & Stenström, 2022).

As a consequence of the fungibility of the current finance-policy nexus in the case of climate action, a new class of professionals has emerged, whose members work in different types of organizations, from academia to business and even some of the think tanks that have dominated the European policy analysis space in recent decades, such as Bruegel, the Center for European Policy Analysis (CEPA) or the Centre for European Policy Studies (CEPS). However, the most

likely career path for these professionals, once they enter the system, is the plethora of consulting firms that aim to act as intermediaries between international funding bodies, such as the EBRD, and private or even public developers of green projects.

The revolving-door track record is not a novelty (Seabrooke & Tsingou, 2021), but the automatic importation of this model into the field of climate finance signals a continuity between green finance and other forms of finance that have historically focused on material, measurable objectives rather than social outcomes. There are potentially both positive and negative consequences of the emergence of this class of professionals. On the one hand, given the lack of extensive experience in green finance, tapping into the limited but significant experience of such professionals regarding the feasibility and likely impact of different types of pro-environmental project proposals could improve short-term outcomes, which in turn could lead to better social outcomes. On the other hand, given that these professionals sometimes lack the very skills they advertise, and given that their incentive system is designed to profit from every project opportunity, the green finance apparatus could ultimately be captured by special interests whose aim is not to correct climate change but to grab as much of the existing funding opportunities as possible while they last (Mazzucato & Collington, 2023).

The remaining question is whether such professionals could bridge the many approaches to green project evaluation. While the answer is not straightforward, we can observe from the recent history of green finance that synergies between academia, business, think tanks and NGOs have been harnessed by these professionals, ultimately leading to a higher pace of mobilization of green finance.

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