

CORPORATE SOCIAL RESPONSIBILITY, SOCIAL AND FINANCIAL PERFORMANCE: THE CASE STUDY OF THE LOAN APPRAISAL PROCESS OF THE RWANDA DEVELOPMENT BANK

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Abstract

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Development banks play an active role in smoothing growth of world's disadvantaged areas. The social mission of development banks requires that they pay attention to corporate social responsibility (CSR) and to the social outcome of financing activities. However, like any other financial institution, they must consider the business sustainability and the financial stability over time. Thus, a comprehensive loan appraisal process should include financial and social aspects. Literature does not properly investigate development banks loan appraisal process, thus the aim of this paper is to contribute to this stream of literature, analysing how development banks can include the evaluation of social and environmental variables within their loan appraisal process. For the purpose of the research, we employed a case study of the Rwanda Development Bank (BRD). The BRD loan appraisal process combines the evaluation of typical aspects of corporate social responsibility - like the firms or projects compliance to health and safety regulations or the implementation of the code of ethics including diversity policies - with the evaluation of social and environmental impact, as well with financial aspects. The BRD social impact assessment is also valuable because it follows the criteria of proportionality of loans evaluation, balancing completeness of information with the cost of the assessment.

Keywords: Loan Appraisal Process, Development Bank, Regional Development Bank, Multilateral Bank, Corporate Social Responsibility, Social Impact, Environmental Impact, Financial Performance

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1. INTRODUCTION

Development banks are financial institutions that have played a central role in the social and economic evolution worldwide, contributing to countries' growth and development (the United Nations, 2006). Currently, development banks are involved in reducing the social gap between developing and

developed countries, providing both financial support and professional advice. Unlike commercial banks - whose core business is offering financing through the acquisition of liabilities - development banks usually provide long-term credit to a variety of counterparties at more favourable financial conditions and raise funds mainly from governments and donors. The development banks'

role is particularly significant in the context where the supply of longer-term finance is scarce, such as in the vast majority of emerging economies. In fact, commercial banks in emerging economies are reluctant to offer long-term loans and to finance less traditional and consolidated businesses. This may, in turn, have a negative impact on investments in technology and can ultimately limit innovation.

Some of the most important development banks - i.e. the African Development Bank (AfDB) or the Asian Development Bank (ADB) - raise funds through several sources: (i) the member countries' subscriptions, (ii) bond issuance on international capital markets, (iii) from special funds offering grants and loans at subsidized interest rates¹¹. Moreover, development banks usually support their financing activities through retained earnings from their lending operations and the repayment of loans.

The social mission of development banks requires that they pay attention to CSR and to the social outcome of financing activities. However, like any other financial institution, they must consider the business sustainability and the financial stability over time. Thus, a comprehensive loan appraisal process should include financial and social aspects.

Literature does not properly investigate development bank loan appraisal process, thus the aim of this paper is to contribute to this stream of literature, analysing how development banks can include the evaluation of social and environmental variables within their loan appraisal process. For the purpose of the research, we employed a case study of the Rwanda Development Bank (BRD). The BRD - established as a Public Limited Company - is the main actor in the medium and long-term financing activity in Rwanda, with a market share of 40% (BRD, 2016a). It is a leader in the financing of strategic sectors, contributing to the straightness of Rwanda's real economy. The implementation of the loan appraisal process, which includes both financial and social variables, is part of a whole strategy that aims "to set up clear and measurable objectives in term of the portfolio quality and growth as well profitability of all its operations" (BRD, 2016a).

The paper is organized as follows: section 2 reviews the literature on development banks with a specific focus on loan appraisal process. Section 3 justifies the research method, while Section 4 describes the BRD loan appraisal process. Section 5 discusses the BRD social and environmental process, while the last section presents the conclusions.

2. LITERATURE REVIEW

The concept of development banks was introduced for the first time in the early 1950s. According to Bruck (1998, 2001), development banking has its origins in theories and models of the development economists of the 1950s.

The literature on development banks includes many different streams, among which the role covered by development banks over time, sometimes recognised using case studies of development banks around the world. The loan appraisal process of development bank has obtained limited attention by scholars.

2.1. Development banks' role

Several scholars focused their research activity on the roles covered by development banks during the last sixty years. According to Gerschenkron (1962), Hirschman (1967), Lewis (1955, 2013) and Prebisch (1950) development banks can be considered an instrument through which public support can be transmitted. Additionally, development banks like other institutions exist to address the shortage of funding for economic growth. As highlighted by Chandrasekhar (2010) "development banks are in the nature of universal banks, undertaking a wide range of activities besides those undertaken by commercial banking institutions".

Development banks provide loans to entities that would not be funded by commercial banks mainly because those potential borrowers are considered too risky and/or they need funds for long-term projects, which are usually not financed by commercial banks in emerging economies. Furthermore, development banks usually provide more affordable terms than commercial banks. In this scenario, the commercial banks' business involves the acquisition of liabilities that are individually small and liquid, although development banks also support long-term investments through the provision of long-term credit at suitable terms, by raising funds from governments and other institutions.

Historically, development banks have been a relevant driver of industrialization, helping and supporting a range of activities that no other banks supported. One of the most important sectors supported by development banks is the industrial sector. According to Diamond (1957), during the 19th century, industrialization of many countries worldwide was made possible thanks to the role covered by development banks in the financing of high-risk projects. The support of industrialization was relevant in Germany, Japan, France and Holland (Aghion et al., 1999; Cameron, 1961; Diamond, 1957).

Besides the industrial sector, development banks have also played a crucial role in fostering agriculture, which is typically considered too risky by traditional commercial banks. For instance, in Australia the Commonwealth Banks Act (1959) highlighted two principal functions covered by development banks: (i) to ensure the stability and the balanced development of the economy and rural credit; (ii) to intervene when the funding provision is needed or terms and conditions to access funding are not suitable. Kovachev (2013) recalls the importance of creating special lending products targeted towards agriculture and the need for supportive development banks whether commercial banks are not interested in financing the sector.

The role played by development banks in the generation of social benefits through the support of poverty reduction and investments in those areas that are not evolved is also emphasised by literature. According to Öztürk et al. (2010) development banks are established in order to support investments in many sectors and their performance is measured in term of social benefits. Gurria and Volcker (2001), investigating the role of the Multilateral Development Banks (MDBs), highlight that the MDBs' lending activity must play a central role in the

¹¹ Some example are the *Nigeria Trust Fund* (NTF) as regards the AfDB or the *Asian Development Fund* relatively to the ADB

development policies of poor countries because the access to private capital markets is difficult to obtain in emerging countries. According to Griffith-Jones et al. (2003) the principal function of MDBs is to provide loans to low-income countries that have limited access to private funds; moreover, development banks, acting as market makers or guarantors, facilitate the creation of new forms of development financing. Adediran et al. (2015), for instance, recognised that the growth and the development of the Nigerian economy have been influenced by the inability of obtaining credits and by the underdeveloped capital markets. Thus, in such context, development banks could be crucial in the provision of funds to the real economy and to high social impact projects.

The relevance of the development banks is also highlighted by Hinds (2002) who argues that regional development banks mobilize their own savings for development purposes. They are involved in the development of special lending policies and of new financial instruments and in the spreading of knowledge and best practices.

Bruck (2001) further argues that the field of development banking goes beyond the scope of the development bank. While a development bank is a financial institution with scopes delimited to its functions and operations, the development banking activity is wider than these functions and operations.

2.2. Development banks worldwide

According to the stream of literature focused on the specific role played by development banks existent worldwide, Chin (2014) examined the role of BRICS Development Bank in filling the funding gap of infrastructure industry, while Mohsin (2016) discussed the Islamic Development Bank's role in Waqf development. Shields (2016) focused on the European Bank for reconstruction and Development, while Clifton et al. (2016) analysed the European Investment Bank involvement in financing utilities. Moreover, Retzl (2016) discussed the poverty alleviation role of Inter-American Development Bank and Doctor (2015) focused on the evolving role of the Brazilian Development Bank in the country development.

Bulman et al. (2017) compared results of projects implemented by World Bank and Asian Development Bank showing that shorter and multi-financed projects obtain higher outcomes than other projects.

Yasuda (1993) examined the origins, the evolution and the contribution of development banks in the growth of the country in Japan after the Second World War. The study is focused the Industrial Bank of Japan (IBJ) and the Japan Development Bank (JDB). The IBJ was a private institution established in 1901 with the mission of to mobilizing long-term capital through bond issuances and to allocate them to the industrial sector. The JDB was a government-owned institution established in 1951 with the mission of channelling public funds into infrastructure or priority sectors. The IBJ and the JDB importance peaked around 1955, when their share, combined with five other policy finance institutions, reached 50% in a new supply of industrial equipment funds in Japan.

Birchwood (2007) continued the work of Siebel (2000) and analysed a case study of the Agricultural Development Bank of Trinidad and Tobago. Birchwood argues that development banks perform best when the targeted sector is expanding and sector demand is increasing and highlights some lessons to be learnt. One of these is that even if development banks may be necessary for the attainment of dedicated finance to a sector, it would not by itself lead to sustained sector expansion.

Öztürk et al. (2010) examine the evolution of the Turkish development banking sector. According to research results, Turkish development banks have not been active in financing development and eliminating poverty like development banks in other countries and their contribution to the alleviation of regional imbalances has been scarce. Furthermore, total fixed capital investments, which should have been the core of the development banking activity in Turkey, have been mainly financed by commercial banks. However, considering the severe recession in the global economy, through the support of industrial and social projects, the role of development banks in Turkey could be re-evaluated.

2.3. The loan appraisal process of development banks

Development banks play an unquestionable role in supporting economic activities and country development. Nevertheless, the scarce availability of financial resources points out both the challenge of the best allocation of developing capital and the maximization of non-financial returns. When capital employed for supporting development activities or projects is public, the issue of tax-payer efficiency emerges (Arvantis et al., 2015). By contrast, when capital employed are privates - for instance in the hypothesis of a development fund establishment, which leads capital to development banks/activities - the selection of the best-projects, which generate high social impact and financial returns, can attract capital of philanthropic investors or of traditional profit-oriented investors, expanding the availability of capital and fundraising for impact-activities. The Social Impact Investment Taskforce (SIIT), established in 2013 in the G8 countries, recognised social impact evaluation as one of the most important drivers for the growth of social impact investments (SIIT, 2014).

Thus, development banks should consider at least one additional element in contrast to commercial or investment banks in the evaluation process of development programmes: the social impact. We argue that traditional loan appraisal processes based on financial criteria and riskiness evaluation should be adapted in order to include the assessment of social impact or of potential benefits.

According to Burdge and Vanclay (1995), the social impact assessment is "the process of assessing or estimating, in advance, the social consequences that are likely to follow from specific policy actions or project development". Nevertheless, there is no unanimous idea about the origins of the social assessment and project appraisal process (Esteves et al., 2012). For many scholars the social assessment was born in 1969 thanks to the U.S. National Environmental Policy Act (NEPA): a number of regulatory requirements and

agencies have driven the social impact assessment process worldwide after the approval of that Act. Taylor et al. (1995, p. 143) outline the evolution and turning points of the loan assessment process, showing that despite a large number of assessments drafted since the establishment of NEPA “the social dimension, however, was rarely included in much detail in these early assessments. It can hardly be claimed that specific projects were approved, rejected or changed radically on the basis of social assessment”. Also the multidimensional feature of development – for which economic development, social development and environmental protection are strictly linked (United Nation, 1997) – strengthens the need of integrated impact assessment (Bond et al., 2001).

The compulsory assessment is established by law only in rare cases; furthermore, the establishment by law of environmental impact assessment is more common than the social impact assessment (Burdge, 2003).

Estevas et al. (2012) described several standards that can be considered within the social and environmental evaluation phases. They recognise the UN Global Compact, the Multilateral Financial Institution Standards (IFC) and the International Organization for Standardization’s ISO 26000. Moreover, they document that philanthropic and social investment entities also use social impact tools in order to evaluate benefits generated by programmes. In particular, Trasi (2015) listed more than 150 tools and methodologies used to assess social impact, representing the multitude of approaches that an organization can use to evaluate social benefits of one programme. Some international organizations (SIIT, 2014; OECD, 2015) support the idea of a ‘formal evaluation of social and environmental impact’ characterised by the definition of a specific aim as well as by the evaluation and the monitoring of social and environmental outcome. In this sense, the label evaluation process, recalled by Burdge and Vanclay (1995), is used in order to point out a series of steps that should be followed to evaluate the social and environmental impact on an on-going basis. To date, the way in which to evaluate social and environmental benefits has not been standardised.

Social impact assessment within a development bank loan appraisal process is not a common issue in the literature. Arvantis et al. (2015) evaluate the weight of development returns and credit risk within the evaluation process of the African Development Bank (AfDB), recognising the similar importance of the variables. Harrison and Mc Donald (2003) have described the implementation of social impact assessment within the Caribbean Development Bank, without paying attention to the evaluation model implemented. Taylor et al. (1995) point out that a number of development banks around the world have defined guidelines in order to incorporate social impact assessment evaluation within the project evaluation system. In particular, they recognised the World Bank (1991) guidelines, the ADB (1994) guidelines and procedures of the Development Bank of Southern Africa. Rich (1985) examined the role that the United States can have in encouraging development banks to pay attention to

the environmental impact of their actions.

With regards to variables and procedures assessed by development banks, the ADB updated its procedures in 2004. The project analysis is based on the following elements: macroeconomic, sector and demand assessment; analysis of economic rationale, project alternative analysis and cost-benefit analysis; financial and institutional sustainability; distribution analysis; risk and sensitive analysis; monitoring and evaluation (Table 1). Thus, the evaluation of social aspects is implemented assessing benefits and costs of project realisation and the distribution analysis which identifies relevant stakeholders, assesses benefits and estimates outcome on target groups.

The Uganda Development Bank (2016) assesses social and economic benefits, evaluating “employment generation, poverty reduction and import substitution/use of local raw materials, foreign currency generation, and contribution to GDP and industrialization” (Table 1). Moreover, the Uganda Development Bank analyses the environmental impact employing the environmental assessment report.

More recently, in November 2015, the AfDB redrafted the Environmental and Social Assessment Procedure, using an undifferentiated approach, according to the private or public nature of the project, and a differentiated approach, according to the level of environmental and social impact expected from the project. In particular, the AfDB (2015) distinguishes four categories of projects. The first category has the major expected adverse environmental and social impact and includes, for instance, large-scale of power transmission, urban water supply, urban sanitation and roads and railways. The second category is expected to have less impact than the first one and includes textile plants (thread making and weaving) and industry development (without toxic discharge). Within the third category of projects, the AfDB (2015) includes ‘Institutional development and capacity building, human resources projects, health programs, family planning programs, nutrition programs, educational programs, non-intrusive research projects’ (p. 38). These projects do not need environmental and social assessment because they “do not directly impact the environment adversely and are unlikely to induce adverse social impacts” (p. 38). The AfDB (2015) requires only “gender analyses, institutional analyses, or other studies on specific, critical social issues in order to anticipate and manage unintended impacts on the affected communities” (p. 38). The Category four includes “Bank lending to Financial Intermediaries (FIs) who on-lend or invest in subprojects that may produce adverse environmental and social impacts. FIs include banks, insurance, re-insurance and leasing companies, microfinance providers and investment funds that use the Bank’s funds to on-lend or provide equity finance to their clients”. Thus, the evaluation of projects and the application of a closer or not closer assessment depend on the types of activities performed by clients that receive loans. The types of activities allow AfDB to re-categorise projects within the first, second or third class.

Table 1. Project assessment

<i>Asian Development Bank</i>	<i>Uganda Development Bank</i>
<i>Macroeconomic Assessment:</i> It identifies the macroeconomic factors that affect target sector of investment (and vice-versa).	<i>Institutional Capacity:</i> It verifies the capacity of the promoters to implement the project (i.e. academic and professional qualifications, experiences and skills levels of executive management and key staff).
<i>Sector Assessment:</i> It Identifies possible constraints to the functioning of markets as well as efficient and equitable provision of public services	<i>Regulatory and Standard Compliance:</i> It verifies if the project proponent is compliant with all regulatory and statutory requirements.
<i>Demand Assessment:</i> It estimates sector demand and potential willingness to pay for project output as well as reactions to price changes.	<i>Technical Feasibility:</i> It assesses the project feasibility report which describes technical issues, technology and backup support arrangements.
<i>Economic Rationale:</i> It identifies which market failures justify the public sector interventions and what non-market or institutional failures justify policy and institutional reforms.	<i>Commercial Viability:</i> It evaluates capital budgeting (i.e. the Net Present Value (NPV), Internal Rate of Return (IRR) Debt Service Cover Ratio (DSCR) and the Pay Back Period (PBP).
<i>Project Alternatives Analysis:</i> It identifies with- and without-project scenarios and assesses project alternatives (i.e. location, scale, technology and timing).	<i>Proposed Funding Structure:</i> Funding needs must be broken down according to currency and maturity components.
<i>Cost-benefit Analysis:</i> "Measurement of main benefits and costs in with- and without-cases; establishing whether some effects cannot be quantified and where necessary using cost-effectiveness analysis; choosing numeracies and price level for shadow pricing; estimating economic NPV and IRR for each independent sub-component and for project as a whole; describing effects that could not be quantified in money terms; conclusions on project acceptability" (p. 35)	<i>Security:</i> Assessment of collateral security proposed to cover the facility applied for.
<i>Financial and Institutional Sustainability:</i> Estimation of financial IRR for revenue-generating projects; assessment of whether the financial returns to investors are sufficient to ensure their involvement; indication of expected user charges and any implied subsidies; estimation of fiscal impact of the project and its implications for government involvement; assessment of the institutional capacity of project-related agencies to meet project input and service delivery.	<i>Social and Economic Development Impact:</i> It assesses social and economic benefits. These can include employment generation, poverty reduction and import substitution/use of local raw materials, foreign currency generation, and contribution to GDP and industrialization.
<i>Distribution Analysis:</i> "Identification of key project stakeholders; assessment of benefit incidence; estimation where possible of allocation of net project income between different groups; where appropriate identification of effects on key target groups, like the poor or ethnic minorities" (p. 35)	<i>Environmental Impact:</i> Assessment of project's actual and potential impact on the environment. Supporting documentation as environmental impact assessment reports must be provided.
<i>Risk and Sensitivity Analysis:</i> Estimation of the variability of key project parameters.	<i>Implementation Progress Report:</i> Description of any performance variance in the case of on-going projects.
<i>Monitoring & Evaluation:</i> Identification of parameters used for the on-going monitoring.	

Source: Authors elaboration based on ADB (2013); Uganda Development Bank (2016)

Other models developed over the years by multilateral banks include, for instance, the Geli et al. (2014) model aimed at predicting the success or unsuccess of World Bank projects.

3. RESEARCH METHODOLOGY

For the purpose of this study, we employ the qualitative case study method in order to investigate the development banks' loan appraisal process. Qualitative methods can be useful especially when literature in the field is at an early stage of development and the priority of research is to conduct the descriptive and explorative analysis. Case studies are one of several methods used in social science research (Morse, 1991). The case study method can be used when "a how or why question is being asked about a contemporary set of events over which the investigator has little or no control" (Yin, 1994).

The Rwanda case study is useful in order to foster literature development bank loan appraisal

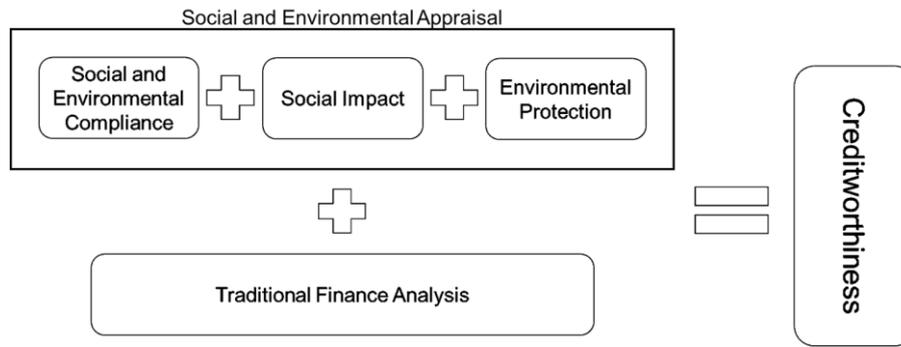
process, focusing on regional development bank, currently recognised as an under-investigated topic (Park & Strand, 2016).

4. A CASE STUDY OF BRD'S LOAN APPRAISAL PROCESS

The BRD has implemented a comprehensive and articulated loan appraisal process in which the evaluation of creditworthiness is made by considering financial aspects, CSR and social-environmental impacts of loan applicants. Traditional creditworthiness analysis is performed under consolidated financial best-practices, while the evaluation of CSR and of social and environmental impacts follows a building-block approach (Figure 1), assessing:

1. Social and environmental compliance;
2. Social impact;
3. Environmental protection.

Figure 1. Social and environmental impact: a building block approach



Source: Authors elaboration

1. Social and Environmental Compliance

Within the evaluation of social and environmental compliance, the BRD verifies that each project promoter/company: (i) respects health and safety regulations, (ii) has in use code of ethics that consider terms and conditions of work, as well as all aspects of diversity (gender, race, colour, political opinion, religion or social origin) and (iii), is compliant with all local environmental regulation.

2. Social Impact Assessment

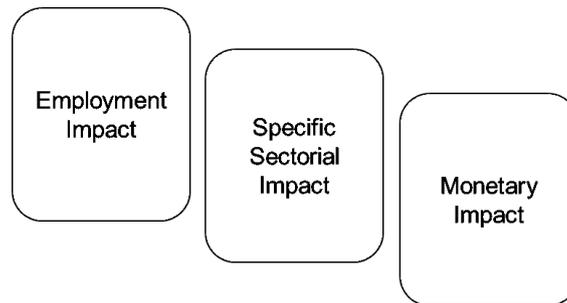
The second block includes the assessment of social impact. In this phase, the BRD applies the

criteria of proportionality: loans that exceed RWF 600mln (equal to \$720k) follow a more detailed assessment of social impact labelled as a special approach; loans under the threshold follow the so-called common approach. The threshold is fixed coherently to the loans approval procedures.

The assessment of social impact, within the framework defined by the BRD as ‘common approach’, is conducted analysing (Figure 2):

- a) the employment impact;
- b) the specific sectoral impact;
- c) the monetary impact.

Figure 2. Assessment of social impact. Common approach



Source: Authors elaboration

a) The employment impact.

The assessment of employment impact is a cross-sectorial element that allows BRD to appreciate both the number of job that the potential borrower would create and the characteristics of employees that they would involve in the activity. In particular, the BRD selected a list of indicators from the IRIS international catalogue¹², which concerns: temporary and permanent features, gender characteristics, poverty area characteristics as well as some other aspects like the healthcare benefits for employees.

b) Specific sectoral impact.

The other element that characterises assessment of social impact within the BRD model is the evaluation of sectorial impact. Some sectors can be considered impact sectors and they need a specific assessment. These are health, education, water and energy, agriculture and financial access.

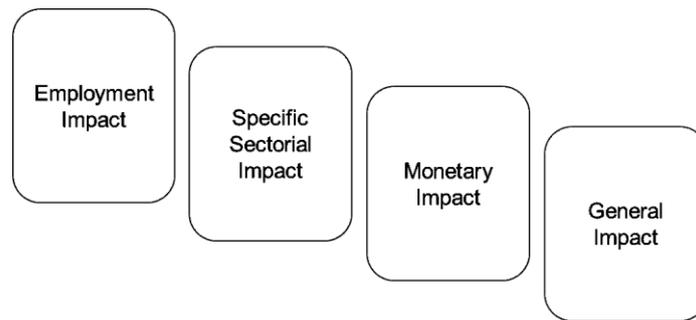
For all of these sectors, the BRD recognised a list of indicators from the IRIS catalogue that can contribute to the evaluation of sectorial impact.

c) The monetary impact.

The last element involved in the assessment of social impact is labelled monetary impact. It will be evaluated using the distribution of added value generated by the project to different stakeholders. The BRD assesses money that will be distributed to employment, central governments, suppliers and other relevant stakeholders.

When the project requires a financing that exceeds RWF 600mln (\$720k), the evaluation process includes another aspect in order to assess the social impact. This aspect is labelled general impact and it emphasizes the positive impact generated by the project on the overall community (Figure 3). In this context, the BRD uses indicators like the target of poverty reduction, the target of gross domestic product (GDP) growth, the target to improve education level or health situations.

¹² IRIS is a catalogue of social and environmental impact measures ‘selected or developed for the IRIS catalogue through a formal and open process that includes review and inclusion of existing 3rd party standards, input from expert working groups and advisors, and feedback from users and the public’. IRIS (2016).

Figure 3. Assessment of social impact. Special approach

Source: Authors elaboration

3. Environmental protection

The BRD does not finance activities that can generate negative environmental impact. Thus, in order to evaluate this aspect, the BRD required the Environmental Impact Assessment (EIA) report, in compliance with the Organic Law on Environmental Protection and by the Guidelines established by the Rwanda Environment Management Authority (2006).

Synthetic score

The BRD collects the above data from potential borrowers and categorizes them using a synthetic score for which it is possible to distinguish:

- 1) Low impact applicant: they are only compliant with regulation and policy;
- 2) Medium impact applicant: they generate employment, sectorial and monetary impacts as well as positive general impact (the latter one only for large loans);
- 3) High impact applicant: they generate the employment, sectorial, monetary and general impact certified by external evaluators.

This model does not attribute specific weight to these variables. The model assesses if the applicant gives attention to those elements. The model's set-up is based on a binary evaluation, where the BRD attributed 0 if the applicant does not give information on one specific variable and 1 if the applicant provides this information. For instance: if the applicant uses a code of ethics, it obtains 1; if it does not, it obtains 0. In some mid-point cases, the applicant can follow all regulations in terms of the environment, but it may not have developed a code of conduct. In such situations, the evaluation is 0.5, because the applicant partially respects the requirements. Nevertheless, the score is not a substitute of a point in time evaluation, thus a qualitative assessment is also carried out by the BRD.

5. DISCUSSION OF THE BRD CASE STUDY

The BRD loan appraisal process is a valuable example of how the social and environmental factors can be included in financing decision making. That process is designed with the purpose to consider all relevant information in the evaluation and monitoring loan applicant creditworthiness. Specifically, the BRD loan appraisal process combines the evaluation of typical aspects of CSR – like the firms or projects compliance to health and

safety regulations or the implementation of the code of ethics including diversity policies – with the evaluation of social and environmental impact, as well as of financial aspects.

The BRD social impact assessment is also valuable because it follows the criteria of proportionality of loans evaluation. By growing the amount financed, the quantity of information needed for the evaluation of social impact increases concurrently. The criteria of proportionality is in line with the best practices of banking regulation (as for instance regulation promoted by the Basel Committee, 2006), with the World Bank practices in the environmental impact assessment¹³ (Barrow, 1997) and also with the overall criteria of cost minimization. In fact, small financing can generate relatively small impact and the cost of social impact evaluations should not exceed the cost of the intervention. Thus, the assessment of general social impact seems coherent for the largest projects, while both for small and large requests of financing, the BRD evaluates three different elements: employment impact, outcome generated by specific sectors (i.e. education) and the monetary impact for relevant stakeholders. Employability is considered an instrument that strengthens social inclusion (Sen, 2000), while some strategic sectors for the country development require the assessment of additional social outcomes.

The monetary impact is useful in order to assess in which way the expected social value will be distributed among stakeholders like governments, service providers and direct clients. Thus, in addition to the evaluation of direct outcomes on final beneficiaries expected from the financing of a project, the monetary impact assessment provides information on the indirect social impact on other stakeholders. Indeed, the social impact could also produce indirect effects, allowing the BRD, through its financing activity, to generate indirect social value among beneficiary communities.

Through the BRD score loan applicants are classified in low impact applicants, medium impact applicants and high impact applicants. The compliance with social and environmental regulation and policies allows BRD to classify applicants as low impact because they do not proactively create a social impact: they avoid social and environmental

¹³ According to Barrow (1997) the World Bank scores development projects in relationship to: i) projects that require limited environmental assessment, ii) projects those necessitate "detailed environmental assessment"; iii) projects which do not need environmental assessment; iv) "activity concerned with reducing or countering environmental problems".

risk. By contrast, the external certification of social and environmental impact puts applicants within the high impact category. External assessment should allow for impartial certificates to portray expected or realised results. Proper weight could be assigned by BRD to score constituencies, instead of the recent financial crisis has shown how the usage of sophisticated evaluation models of creditworthiness, based on an excessive use of statistical tools, has compromised a proper allocation of financing. Thus, rating systems do not always guarantee the best allocation of funds.

Moreover, the governance of development banks and the type of donors involved can drive the choice of the weight assigned to financial, social and environmental components. In fact, an important issue is related to the policymakers' influence on development banks' decision making. The financing operations of development banks are especially important for strategic sectors of a country, as these support projects of public interest and it is unavoidable that policymakers might put pressure on development banks' investment decisions driving the weight choice. However, balancing the weight of social and environmental impact and of traditional creditworthiness features is appear essential for safety development bank management.

The BRD social and environmental assessment model shares some features with the models of other development banks. Employment generation, poverty reduction and contribution to GDP are measured both by the Uganda Development Bank and by the BRD. Nevertheless, the BRD considers macroeconomic benefits (like poverty reduction) only for large financing. Also, the BRD environmental impact assessment appears to be in line with the Uganda Development Bank best-practice, which requires the production of environmental impact assessment reports.

Comparison of the BRD social and environmental assessment with the ADB process displays some similarities and differences. First of all, the ADB uses the Cost-Benefit Analysis for which a project can be financed when benefits overcome costs of realization. According to Devarjan et al. (1997) and Kirkpatrick and Weiss (1996), starting from the 1970s, scholars supported the introduction of cost-benefit analysis in the financing decision-making process. Nevertheless, this practice shows limitations in the evaluation of gender diversity or poverty reduction as well as methodological difficulties.

The BRD model results in line with the AfDB attributes the same importance to development outcomes and credit risk in the evaluation of a development project, as described in Arvantis et al. (2015).

6. CONCLUSION

Development banks cover a central role in developing countries. Currently, one of the most important activities supported by development banks is to reduce the social gap between developing and developed markets, providing both financial support and professional advice.

Activities of development banks can be distinguished from that of commercial banks mainly because development banks: (i) support a range of risky activities that no other bank would support; (ii) provide financing at more favourable terms than commercial banks; (iii) should explicitly consider social and environmental impact.

One of the main steps of the development banks' lending activity is the loan appraisal process. The credit evaluation is essential for every bank, even more for development banks that should assess both social impact and credit risk linked with financing operations.

This research contributed to the existing literature on development bank's loan appraisal process giving an overview of best practices with a special focus on Rwanda. The methodology applied is a case study of BRD.

The BRD loan appraisal process provides a valuable example of how development banks can incorporate social and environmental considerations within the traditional evaluation of projects because the loan appraisal process incorporates a mixture of qualitative and quantitative variables, without generating the paradox that the assessment process may cost more than the financing. Thus, the BRD model guarantees a balance between completeness of assessed information and cost of the assessment is necessary.

The plurality of models used by development banks is linked to the heterogeneity of methodologies developed by practitioners in order to assess social and environmental impact identified by the governance of development banks. Social-political priorities drive the definition of social-environmental and financial aims, the set-up of model's variables and weights attributed to each aspect. For instance, according to country priorities and political-sentiment, the scoring model can privilege some specific sectors, discouraging the investment in others. The BRD model pays attention to some specific sectors (such as health, agriculture, education, energy and water, housing, microfinance) that are essential for the country's development.

Future research should investigate the model effectiveness of assessing social and environmental impact and the relationship between variables included within a set of models and the impact generated by development banks. This also represents the main limitation of this research.

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