Non-rated Impact Bonds on the Austrian Capital Market: The Example of the Don Bosco Ecuador Bond

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History of Don Bosco Non-rated Impact Bonds

The organisation *Jugend Eine Welt* has been active in the field of impact investing since 2006 as one of only a handful of organisations in Austria. In that time, it has experimented with a number of different forms of funding. In particular, it is in the issue of non-rated impact bonds that the organisation has done pioneering work. With the aid of several individuals from the financial and banking sector who supported Jugend Eine Welt's efforts it was possible to achieve an impressive track record. The financial crisis of 2007, the most significant event in recent history, promoted awareness and acceptance of this type of investment on the market.

The Beginnings Before the 2007 Financial Crisis

Jugend Eine Welt was founded in 1997 with the aim of supporting the projects run by the Salesians of Don Bosco and the Don Bosco Sisters all over the world. Reinhard Heiserer, one of the founder members and Director of Jugend Eine Welt, had previously worked for four and a half years as a development aid worker on a

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project for street children run by the Salesians of Don Bosco in Ecuador. There, the order is known first and foremost for its schools and social facilities. The current president, Rafael Correa, was also a volunteer for the Salesians of Don Bosco on the *Zumbahua* project in the Andes (Presidencia República del Ecuador 2016).

The order's founder and patron saint of the young, Giovanni Melchiorre Bosco (1815–1888), lived and worked in northern Italy, especially in the city of Turin, an up-and-coming industrial city that found itself faced with a growing problem in the form of street children as a side-effect of industrialisation. *Don Bosco* devoted himself to these children and adolescents, giving them an education and looking for potential employers. His activities initially met with disapproval on the part of the Turin authorities. But over the course of the years he succeeded in establishing links with many parts of society, including the business and political sectors. This broad base of supporters enabled him to conduct bigger projects such as construction of vocational training institutes and churches (Birklbauer 2015). In 1859 he founded the *Society of St. Francis de Sales*, an independent congregation, also known as the *Salesians of Don Bosco*, which today ranks among the three biggest Roman Catholic religious orders for men along with the *Jesuits* and the *Franciscans* and, with its approximately 15,000 members, currently ranks second (Ordensgemeinschaften Österreich 2016; Deutsche Provinz der Jesuiten 2016; Franziskaner Österreich und Südtirol 2016). As of the end of 2015, the order of the Salesians of Don Bosco was divided into 84 regional provinces and active in 133 countries. The order's head office, the Generalate, is in Rome (Salesians of Don Bosco 2016).

The first Salesians of Don Bosco began working in Ecuador as early as 1888 (Salesianos Ecuador 2016). The private university *Universidad Politécnica Salesiana* (UPS) was founded by the order in 1994 pursuant to the Ecuadorian act no. 63, since demand for tertiary education was very high. Buildings and facilities were already available for this university because the order already owned technical and academic schools thanks to its past activities. Article 1 of its statutes describes the UPS as an autonomous educational institution of higher education that has a Catholic background and is co-financed by the government of Ecuador. It has the form of a legal person under private law pursuing non-profit objectives. According to Article 2 of its statutes, the Province of the Salesians of Don Bosco in Ecuador is the patron of the UPS, and the Provincial (head and authorised signatory of the province) selects a rector from among the Salesians of Don Bosco in Ecuador and a management team for the University as well as the vice-rectors and general secretary (Article 69 of the statutes, Universidad Politécnica Salesiana 2015).

In the 2006/2007 academic year, the number of students at the UPS had already reached 13,130 and a first major phase of expansion was planned because the capacity of the existing buildings was no longer sufficient (Jugend Eine Welt 2009). Since its foundation in 1997, Jugend Eine Welt had been in contact with the Province of the Salesians of Don Bosco in Ecuador and had played an ever-increasing role in providing funds for its projects. In the context of the university, however, it was clear that a soft loan could have greater impact than a donation. Specifically, the objective was to establish an economically sustainable structure by means of financing so that the order's activities in the social sector, hitherto conventional donation-aided projects and as such subject to a certain *donor-dependency*, could be sustained autonomously. At the same time, the UPS had already started supporting students with scholarships and access to loans and subsidised accommodation. When planning the timetable, the needs of students who worked during the day were taken into account, and a conscious decision was taken not to build new buildings in upmarket parts of the city, but in areas inhabited by low-income residents to facilitate their access to the university (Calle Ramírez et al. 2011).

As a private university, the UPS obtains income from tuition fees. Furthermore, it has direct connections with a well-know religious order, and this can give potential creditors additional security over and above the institution's economic viability. The difference in interest rates between Ecuador and Austria allowed the assumption that it would be possible to obtain a loan from an Austrian bank at a favourable rate of interest. In 2006, Jugend Eine Welt began negotiations with Investkredit Bank AG, which has since become part of Österreichische Volksbanken-AG. The chairman of the time, Dr. Wilfried Stadler, who is also one of the publishers of the weekly newspaper *Die Furche* which adopts a Catholic stance, was willing to listen. That same year a bank loan of over USD 5.2 million was granted. Regarding the basis of this cooperation, Dr. Stadler says:

> In the group we had an older employee who had specialist knowledge in the field of international schools. (. . .) He was well-versed in this field and I knew Mr. Heiserer owing to my esteem for what Don Bosco does for young people, from public events that interested me and from conversations we'd had in connection with the weekly newspaper Die Furche (. . .) and we started talking about funding this school in Ecuador which is the subject of your bond. Following a fairly lengthy process of trying to convince the committees responsible for granting loans at the former bank group, ÖVAG-Investkredit, a positive decision was fortunately reached and a loan of over five million US dollars approved. By the way, this was also the first promise to grant a loan that the bank had made that was countersigned by the head of the order in Rome on behalf of the borrower. A highly unusual procedure, so to speak. Only a short time later, such a thing would no longer have been possible because one year later the financial crisis broke out. (. . .) From that point of view I'm very glad in retrospect that this initiative was a success, and all those involved behaved with absolute integrity which culminated in complete repayment of the loan. (. . .)

Investkredit Bank AG granted the loan on the basis of an efficiency audit of the UPS. The project was nevertheless an exceptional case since the bank's remit, as a specialised commercial bank, was to ensure the long-term funding of industry (Investkredit 2003). The loan to the UPS was the only one that Investkredit Bank AG ever granted outside Europe. Says Dr. Stadler:

> In this case it wasn't a sponsorship project, but had passed through all the usual commercial banking procedures with the sole exception that the extra premium that should have been stipulated as a premium for risk on a project in South America owing to the country risk (...) was deliberately waived. So that was the only exceptional and sponsor-like aspect of the transaction. (. . .) Nowadays, any bank funding such a project with a loan would probably have to justify waiving the difference more explicitly than we were able to do at the time.

Dr. Stadler reports that the bank's decision-makers were convinced not just by the feasibility of the project, but also that they were making a useful contribution:

> There was a conviction that this was a cause worth supporting outside the usual rules and constraints, that one could do something special. (. . .) So all those involved were simply convinced they were doing something useful, although no one did it without giving it careful thought.

Following the outbreak of the financial crisis, new regulations made it increasingly difficult for banks to become involved by means of impact investing the way Investkredit Bank AG had done. As a result, Jugend Eine Welt deemed it necessary to look for new forms of financing. At the same time, SMEs and start-ups were receiving fresh impetus because until the new Alternative Funding Act was passed in the autumn of 2015 alternative forms of financing and above all collecting capital from several individuals had been a legal grey area that had become the centre of public attention in 2012.

The First Don Bosco Ecuador Bond 2009–2015

When people in Austria do not give away capital they have received from various sources, but invest it in projects with an environmental or social impact, without interest or in anticipation of a return to cover the costs, they quickly come up against legal limitations. For this reason, it is necessary to examine closely at least two legal pitfalls in Austria in the field of impact investing: *deposit business for which a licence is required*, and *credit transactions for which a licence is required*.

Organisations that accept capital from several natural and legal persons come into conflict first and foremost with the Austrian Banking Act (BWG) which stipulates in § 1 Section 1 Item 1 that such transactions are deposit business for which a licence is required and may be carried out only by financial institutions authorised to conduct bank business. This restriction in the BWG came to the public's attention thanks to Heinrich Staudinger, an Austrian shoe manufacturer, who collected money from private individuals to finance his business. When the Austrian financial market supervisory body, FMA, threatened legal consequences in the Staudinger loan case, the industrialist went public, triggering widespread discussion of crowdfunding in Austria. The lawsuit was settled by converting the loan contracts to subordinated loan contracts, which, however, treated the creditors as subordinates in the event of insolvency. This was felt to be an acceptable solution in the interests of investor protection since a certain fundamental risk is admitted from the outset (Wilfing and Komuczky 2016).

The next problem arises when capital is to be passed on to natural and legal persons. Extension of at least two loans constitutes a so-called credit transaction, which under § 1 Section 1 Item 3 of the BWG is likewise reserved for banks with appropriate authorisation, especially when this is carried out over a sustained period with the intent to generate revenue (Wolfbauer 2013).

In 2009, Jugend Eine Welt and Raiffeisen-Landesbank Tirol AG prepared the issue of a bond with a view to being able to name church investors in Austria specifically and clearly as lenders of capital. By issuing a bond it was legally permissible to collect capital from several investors, a procedure which, outside the context of securities, is permitted solely to banks with the appropriate licence (§ 1 Section 1 Item 3 BWG). Again the aim was to provide capital for further expansion of the UPS, and to this end Jugend Eine Welt founded *Don Bosco Finanzierungs GmbH* which was given the role of issuer. Raiffeisen-Landesbank Tirol AG participated as lead manager and managed the sale of the bond with a coupon of 3.875% p.a. over 6 years. The capital collected was forwarded to the university in Ecuador via Don Bosco Finanzierungs GmbH in the form of a non-subordinated loan which was at that time the only loan that the organisation had granted.

A greater obstacle facing non-profit and other organisations wishing to issue a bond is the so-called securities prospectus requirement. Under § 2 Section 1 of the Austrian Capital Market Act (KMG) a public offer may be issued within Austria only when an approved prospectus[1] has been published no later than one bank working day beforehand. Such a prospectus relates to costs amounting to a medium to high five-figure sum. Since exceptions to the securities prospectus requirement exist, the compilation of a prospectus could not be justified by Don Bosco Finanzierungs GmbH as a non-profit-organisation for reasons of cost. Several exemptions from the securities prospectus requirement are provided for under § 3 Section 1 of the Capital Market Act, two of which Don Bosco Finanzierungs GmbH gave closer consideration to:

1. The offer is made to fewer than 150 natural or legal persons per EEA Agreement signatory state.
2. With a minimum investment of EUR 100,000.00 only qualified investors will be contacted.

In the end, Don Bosco Finanzierungs GmbH chose a private placement with a minimum denomination of EUR 100,000.00 since the offer was directed at church investors who are perfectly capable of investing such a sum.

The Roman Catholic church was a pioneer in the field of ethical investment not just in Austria. In 2002, the Diocese of Innsbruck was one of the first Austrian dioceses to publish investment guidelines relating to the use and investment of funds (Hofer-Perktold 2012). Josef Brandauer, Director of Institutions at Raiffeisen-Landesbank Tirol AG and responsible for clients from the church, reports that he was already looking for a non-profit financing project to place in the form of a bond. He was aware that this could develop into an interesting product for church investors:

> I had the idea of private placement of social facilities and had been looking for about a year for a template that we could use. I wanted it to be attractive to my church clients in particular so that they could fund their projects themselves using these bonds. (...) Before oekom and sustainability ratings came into being, [my clients] had already always been careful with

[1]Public notification approved by the FMA and "containing sufficient information on the conditions of an offer of securities or investment to enable an investor to decide whether to buy or subscribe to these securities or investments" (Bundeskanzleramt Rechtsinformationssystem 2016, §1 Section 1).

> their investments and who they gave their money to. It was simply always a matter of great interest to them who they gave their money to.

With the Don Bosco Ecuador bond, church investors provided a sum of EUR 6.3 million. Bearing in mind that ethical investment is important to these clients and that they are well informed about the economic structure of religious orders, this is not surprising. Despite that, this bond was the only one at that time in German-speaking countries that helped church investors to fund a religious order's project with impact investment on a larger scale. In November 2015 the bond was repaid, marking a successful example of cooperation between the NGO sector, the finance industry and the Roman Catholic church in Austria. It attracted the attention of several people, including Dr. Klaus Gabriel, CEO of the Corporate Responsibility Interface Center (CRIC), an association that promotes ethics and sustainability in investment and is headquartered in Frankfurt (CRIC 2016). He lectures at a number of universities and educational institutions and is also active as a consultant to companies, committees, advisory boards and commissions, also at several banks. In 2011 Dr. Gabriel visited the UPS in Ecuador along with Jugend Eine Welt:

> One of the projects [of Jugend Eine Welt] that I got to know more closely was the Ecuador bond for the university in Ecuador, and I joined the group that travelled there on a project visit. We were there for 14 days during which we inspected aspects of the project very closely, and it gave me an impression of what really goes on behind the numbers. It was very impressive (. . .) and we can say that the project has been a success. A bond was issued, and a second is in the pipeline.

Jugend Eine Welt starting planning a follow-up bond to finance the UPS in 2014. Raiffeisen-Landesbank Tirol AG informed the organisation that because the legal and regulatory stipulations were becoming increasingly stringent, the bank was unable to support a further Don Bosco bond. It goes without saying that the search for a bank willing to carry out this type of project took time. In the end, Jugend Eine Welt managed to recruit Erste Bank Group AG, a leading financial services provider in Central Europe, as a partner. Starting in 2015, two new bonds—one denominated in euros and one in US dollars—were issued, both of which run until 29 June 2021 and carry an annual coupon of 1.5%.

The Don Bosco Ecuador Bond from 2015

The interest of Erste Bank Group AG in managing a second issue of Don Bosco Finanzierungs GmbH can be explained by the bank's history and its commitment with regard to the so-called *Zweite Sparkasse*. Günter Benischek, head of Social Banking at the bank, says:

> The objective was always to see where social assistance can be provided with bank services and involvement in a bank service. The objective is help towards self-help. The incentive to do this was all the greater because at the time the success of the Zweite Sparkasse was becoming particularly apparent. We have, I believe, over 400 newspaper and television reports about the Zweite Sparkasse worldwide. The press were there, from CNN downwards,

> to take a look at this experiment of a social bank. Now the Zweite (Sparkasse) is a social bank that does not need to make a profit and is run exclusively by volunteers. It's impossible to set up an ideal structure like this a second time, so we said, okay, Erste Bank is a listed bank, what can it do? And we thought, there are always smaller initiatives emerging that a large bank normally wouldn't even look at because the sums are too small, the risk is too great or the procedures can't be standardised. Normally a listed bank says, "That doesn't interest us". And that I think is the difference, that we said, 'This interests us, and we'll expend some energy on it'. That's why we've been doing work in this direction for six years now.

On 29 June 2016, a bond denominated in US dollars was issued with a volume of USD 12 million and a coupon of 1.5% p.a. In keeping with the decision to perform another private placement, the minimum denomination was fixed at USD 150,000. The issue was conducted as it had been with Raiffeisen-Landesbank Tirol except that this time Erste Bank Group AG is not lead manager but paying agent, which obviates any liability risks. Says Günter Benischek:

> Thomas Uher [CEO] said at the time that when this bond is issued the bank will participate with technical support as well as with direct subscription. What we didn't want was to be drawn into the liability risk of the whole issue.

This difference meant that Jugend Eine Welt took on the new role of actively selling the bond. For the first issue, Raiffeisen-Landesbank Tirol AG had contacted customers. Now it was necessary to invest in marketing and customer acquisition. This led to the realisation that many church investors are unwilling to take risks with foreign currencies. Consequently, the issue of 29 June 2015 was followed by a second one on 29 February 2016, this time denominated in euros, with a volume of EUR 10 million and once again with a coupon of 1.5% and a minimum denomination of EUR 100,000. Jugend Eine Welt aims to provide the UPS with capital, both in US dollars and in euros, amounting to approx. EUR 10 million.

Non-rated Impact Bonds on the Austrian Capital Market

Despite positive developments such as the introduction of a new Alternative Funding Act in the second half of 2015 to regulate alternative forms of funding for SMEs, and increasing awareness of the need for more ethics and sustainability in investment that has set in among many stakeholders since the financial crisis, our own experience seems to indicate that it is becoming increasingly difficult to place an impact investment in the form of non-rated impact bonds not covered by the securities prospectus requirement and requiring a minimum investment of EUR 100,000. These and other structural conditions constitute a relatively large obstacle, although there is unquestionably a new post-crisis trend towards sustainable investment and finance. Overall, the various pull and push factors currently appear to balance each other out with the result that impact investing has yet to find acceptance among institutional and private investors as a new asset class.

Crowdfunding: The Alternative Funding Act (AltFG)
Since autumn 2015 the Alternative Funding Act (AltFG) has brought changes with regard to capital market financing that apply only to SMEs and entail a relaxation of the securities prospectus requirement and consequently a reduction of external costs. For issues exceeding EUR 250,000, where the securities prospectus requirement begins to apply, an information sheet as described in the Alternative Funding Act (Item 2) is mandatory up to a volume of EUR 1.5 million. From EUR 1.5 million to EUR 5 million a prospectus "light" as defined in Item 3 of the Capital Market Act (KMG) must be compiled. The information sheet and the "light" version of the prospectus are to be put together externally, by a solicitor or a chartered public accountant. However, the costs of this are lower than those of creating a proper capital market prospectus. The AltFG also regulates the rights and obligations of internet platforms authorised to act as brokers between investors and issuers looking for alternative funding instruments. Under the terms of the AltFG, small investors can also be contacted for investments not exceeding EUR 5000 per project and year (Wilfing 2016).

Structure of the Don Bosco Non-rated Impact Bond

The revised bond structure from 2015 meant that new fields of responsibility were transferred to Don Bosco Finanzierungs GmbH. It now became necessary to contact clients selectively and inform them of procedures. In practice, the purchase of the Don Bosco Ecuador bond comprises nine steps which entail the following (see Fig. 1):

Don Bosco Finanzierungs GmbH (issuer) contacts potential investors and informs them about the product and the purchase transaction. Having decided to purchase the bond, investors order through their third party (depositary) bank The investor transfers money to the issuer's bank account at Erste Bank Group AG (paying agent). The issuer then transfers the bond from his own securities account at Erste Bank Group AG to the securities account of the investor. The issuer transfers the invested capital to the account of the UPS (beneficiary). At the end of the interest period the UPS makes the coupon available and this is distributed to investors by Erste Bank Group AG. At maturity, the UPS makes the total capital available for repayment and this is distributed to investors by Erste Bank Group AG. The UPS orders transfer of the annual coupon and repayment of the total capital to the account of Don Bosco Finanzierungs GmbH at Erste Bank Group. The process flow chart of purchase of a Don Bosco Ecuador bond is illustrated in Fig. 1.

Apart from the lack of a financial rating and the high minimum subscription rate, this procedure represents an obstacle because the transaction takes place between the issuer and the investor. Each third party bank fulfils the customer's wish even though they are highly unlikely to advise purchasing the Don Bosco Ecuador bond owing to

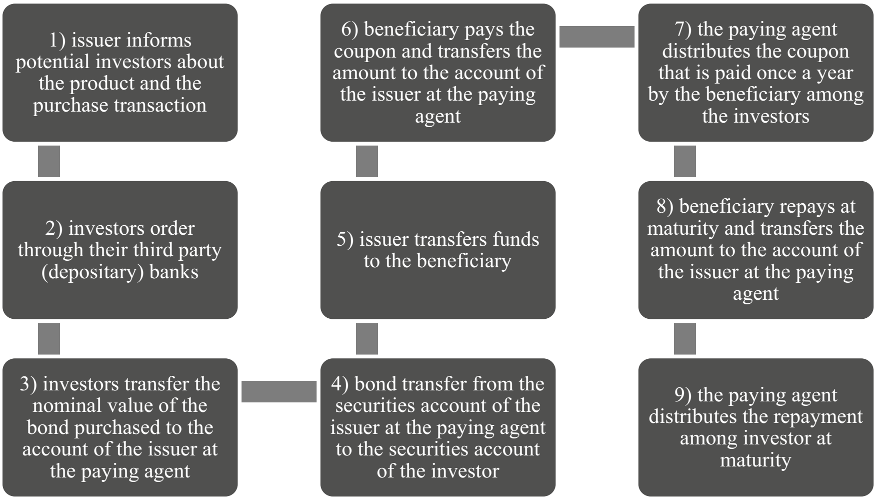

Fig. 1 Purchase of the Don Bosco Ecuador bond in nine steps

risks relating to questions of liability. Furthermore, this procedure means that the banks earn no commission since they are not actively selling, and for banks that do not support our efforts this makes the Don Bosco Ecuador bond a product that reduces returns because customers' money is lost in a completely new niche.

Sustainable Investment and Finance: A New Post-crisis Financial Trend

Despite a number of conflicting interests, Don Bosco Finanzierungs GmbH receives support from several banks and individuals in Austria and Germany who are interested in the topics of impact investing and ethics and sustainability in the financial sector. One result of this is that Dr. Herbert Ritsch, Director of Business Ethics and Responsibility for Creation at Bankhaus Schelhammer & Schattera AG, accompanied Jugend Eine Welt to Ecuador in 2015 to visit loan projects run by Jugend Eine Welt there as the second reference person. From 2008 onwards, foundations also began to show interest in the social undertakings of the order in Ecuador, and besides the UPS two Don Bosco print shops and a programme of microloans were supported with direct loans.

Dr. Ritsch describes how he moved from portfolio management to Austria's so-called church bank Schelhammer & Schattera which until the end of 2014 was majority-owned by members of the Conference of Superiors of Male Religious Orders in Austria. Following the decision to sell, the majority share was transferred to Capital Bank GRAWE-Gruppe AG (Bankhaus Schelhammer & Schattera 2014). The decisive moment came with the financial crisis of 2007:

> I've been working in the financial sector since 1997, and to begin with, ethics was not something I even thought about. My background is completely different. I carried out portfolio management examinations and was a portfolio manager, but ethics and sustainability didn't mean a thing to me until 2008, when I moved to pioneer investments. (. . .) 2007, 2008 and 2009 are well known as the beginnings of the crisis in the financial sector and it was really the provision funds that made me aware of the sustainability issue and the cause that you have embraced. Because of the severance pay reform, new criteria, in particular exclusion criteria, were introduced. (. . .) I thought to myself that that is really the issue, (. . .) to find answers for the disintegration of the financial sector that started in the years 2007 to 2009. To find answers that help us do better in future. But that is not what happened at all. (. . .) In reality there was only a small sector, the provision funds, that concerned themselves with this, and of course church organisations, as is their tradition.

In the years following the crisis, ethics and sustainability in investment has nevertheless emerged from its niche and become a trend. Intensive awareness-raising was a crucial factor in this:

> [In] 2010, 2011 and 2012 [it] was a gradual process, but it wasn't being pushed so much yet. In 2013 the trend started to be really noticeable. This is shown by the steadily growing number of applications for the Austrian Ecolabel which is granted by the consumer protection society on behalf of the Ministry of Life. To begin with there were only a few, then in 2012/13 there were about twenty. In 2013/14 there were about thirty, and then came the sudden jump in 2016 when we have over a hundred. Three years ago the figure was still around thirty. So the momentum has increased considerably and this is at least partly due to greatly increased awareness in 2015 which was brought about by well-publicised events. Publication of the encyclica Laudato si on 18 June 2015, then the G7 summit (. . .) with the resolution to abandon the use of fossil fuels completely by 2100 and to cut it by 50% by 2050, then the UN Sustainable Development Goals in September, the seventeen goals that have now been set for 2030, and then of course the big climate conference in Paris. (. . .) So a great deal has been done in this field and it has helped the concept of sustainability to emerge from being a niche issue to a mainstream one. (Herbert Ritsch)

The events of the crisis that were triggered by the upheaval on the financial market have thus been accompanied by social awareness and the realisation that investment can steer social processes and that ethics and sustainability serve as moral guides in decision-making processes. Dr. Gabriel, CEO of CRIC, who also spent the first 10 years of his working life in a bank, describes how this paradigm shift in the financial sector came about:

> The financial crisis brought about a rethink both in banks as institutions and among their employees. Many people in banks began thinking about what actually went on there and what their role in the system is. The banks realised that something had now come to an end. We have yet to overcome the financial crisis; in other words, we're still in the middle of it. (. . .) The ECB is still printing money to prevent this system from collapsing. (. . .) At this stage I think the banks realised, some earlier than others, that the business model pursued until 2007 cannot be continued as it was and that the banks need a complete overhaul and must completely restructure their business model if they want to generate revenues in future. Other, more recent developments also came along such as the zero-interest phase that we're still in. (. . .) Bit by bit people started to realise, including the banks themselves, that they would not be able to develop any further with the business model they had followed up to then. (. . .) So then many banks all over the world began studying alternative concepts and ethical banks—I wouldn't say that they appeared, because some had existed before—really gathered momentum because of the financial crisis.

Besides the upheavals caused by the financial crisis, the current low interest rates are another factor that influences the decision to attach greater importance to ethics and sustainability when investing:

> There are two reasons for this rethink: firstly, the financial crisis and secondly, interest rates. (. . .) Current interest rates are already making clients say that if they aren't getting any interest they can at least make sure that their money is doing something useful, generating social returns. This has definitely become more important recently. (Günter Benischek)

Even before the financial crisis, Jugend Eine Welt launched its first large-scale funding project and was in personal contact with several decision-makers in the Austrian financial sector who were willing to listen to new ideas. In addition, the organisation has a Catholic background which facilitated contact with people in the Church who had started thinking about ethics and sustainability in connection with investment at an early stage. From this point of view, Jugend Eine Welt was well placed when a general paradigm shift took place in the wake of the financial crisis among all stakeholders, from the banks themselves to international political strategies. At the time of the new Don Bosco Ecuador bond from 2015, the low interest rate was an additional sales argument because in the ethics and sustainability sector a coupon of 1.5% p.a. can comfortably compete with, for instance, the 10-year green bond issued by the Austrian electricity-generating company VERBUND which also has a coupon of 1.5% (VERBUND 2016). In addition, the public debate in Austria about crowdfunding that began in 2012 caused Jugend Eine Welt's efforts to be viewed in a positive light (Fercher 2012). Terms such as *impact investing*, *social entrepreneurship* and *philanthrophy* entered the discussion and a variety of events focusing on these topics have been held in the recent past.

Impact Investing: A Pull and Push Factor Analysis

The experience gained with the Don Bosco Ecuador bond and consideration of the most recent developments following the financial crisis lead to the unequivocal conclusion that the incipient impact investing market is being strongly influenced by a variety of pull and push factors. A pull factor is defined as something that draws to an action, place or investment, whereas a push factor involves a force that drives actors away from an action, place or investment. As mentioned above, these pull and push factors are currently balancing each other out. In the following discussion, the most important of these factors are brought to light. There is reason to suspect that these factors are relevant not just to the Don Bosco Ecuador bonds, but to the impact investing market as a whole and especially to smaller issues for which an appropriate legislative framework must still be created that calls for far more latitude than the relatively new Alternative Funding Act in Austria can currently guarantee.

Impact Investing in Its Infancy: Key Pull and Push Factors

Since the topic of ethics and sustainability is moving increasingly out of its niche into the mainstream, banks are becoming more willing to create new offers (pull factor no. 1). This applies particularly to securities such as sustainability funds for which there is usually also a market. However, the increasing number of offers is also creating increasing confusion as to what *ethical* and *sustainable* actually are (push factor no. 1):

> Sustainability per se doesn't exist. There are various forms and approaches. This makes it all more interesting, but also more difficult because the mainstream produces the side-effect that now everyone is entering the market, so to speak, and saying, 'Oh, we've always worked with sustainability anyway'. And they create their own definition from various perspectives (. . .) so that they can sell. (. . .) Every investment company and every bank says anything and everything on the subject and that means it's extremely difficult to make a distinction. (. . .) That's the other side of the coin as far as ethics and sustainability in the financial sector is concerned. (Herbert Ritsch)

> It used to be difficult to convince people that sustainability with the same returns is the better type of investment and that it can be used to genuinely influence the capital markets. No one believed it at the time. And now we have to convince people that not everything that says it includes sustainability does in fact include it and that products have to be examined much more scrupulously than in the past. (Joseph Brandauer)

But where exactly do so-called impact investments fit into this market? According to Loman et al. (2015) and Wendt (2016) the *impact investing spectrum is best described by the journey that impact ivnestors undertake.* Figure 2 illustrates

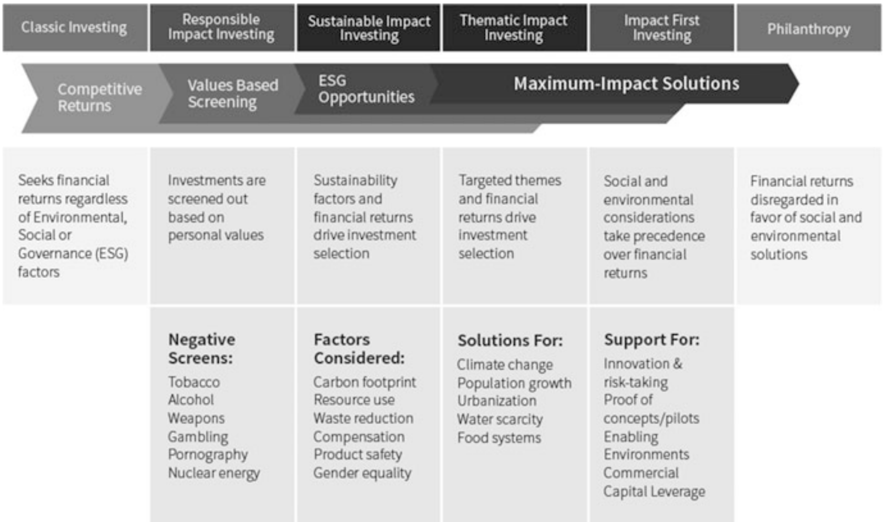

Fig. 2 Impact investing investment spectrum. Source: Sonen Capital (2016)

this journey as described by Sonen Capital, an impact investment management firm based in California that has been in the market for five decades:

The figure shows a spectrum with *Classic Investing* where profit maximization is emphasized at one end and *Philanthropy* where financial performance is disregarded in favor of positive impact creation at the other end. Between these two divisions lies impact investing consisting of four categories: *Responsible Impact Investing*, *Sustainable Impact Investing*, *Thematic Impact Investing* and *Impact First Investing*. Impact is growing from *Responsible Impact Investing* towards *Impact First Investing*.

Unlike sustainable investment funds, which fit into the first four categories (classic investing to thematic impact investing) depending on their orientation, a Don Bosco Ecuador bond is best described by the term *impact first investing*. This is because the coupon of 1.5% is not aligned to the risk, and especially the country risk, so that it must be assumed that the social yield and certainty about where and how the invested money is working are more important to the investors than financial returns.

In this particular case it must be borne in mind that the Don Bosco Ecuador bonds have so far been issued as private placements with a relatively high denomination and have been aimed solely at qualified investors who invest more than EUR 100,000 (push factor no. 2). Moreover, there is no financial rating (push factor no. 3) or possibility of trading the security in question at a stock exchange which, in a portfolio, makes the product a buy-and-hold position (push factor no. 4). These components convey an elevated risk and in many instances conflict with investor protection (push factor no. 5). The liability risks that banks would have to accept when selling a product of this type currently prevent them from actively providing support for the purchase of such impact bonds:

> This type of bond (...) as you first invented it, as it were, is a real alternative to credit financing; instead of going to a bank I go to a private investor who finances it for me by means of the bond. In reality, the parameters in which a bank operates (...) greatly restrict the kind of loans it can grant, and there is also investor protection for the other party. So I'm forced to say that we can't give you a loan because of your organisational structure and if we issue a bond with you, we have to take investor protection into account. (...) That limits us enormously. It doesn't help either if the private placement regulations have been relaxed and a prospectus is only needed if the volume is higher than a certain amount because there are always conflicts [with consumer protection]. Stipulations for banks when deciding whether to accept risks and investor protection. It doesn't leave much room for manoeuvre for this kind of experiment in bringing private capital into impact investing more directly. (Günter Benischek)

> Under the pretext of consumer protection the investor is deprived of the right to make a decision and we as a bank are forbidden from offering him products, even if he wants them, because if we did we'd assume the market risk, even if we only have it in our programme. So in my opinion, this decision is wrong because a customer can buy options, shares, hedge funds or whatever which entail far greater risks. In this respect, we in Austria are heading in completely the wrong direction. (Josef Brandauer)

What is more, it is not possible to incorporate the Don Bosco Ecuador bond in a fund. Pension funds and insurance companies are also forbidden as large institutional investors from investing their clients' money in non-rated bonds or securities (push factor no. 6). If impact investing is really to be a success, new legal provisions relating to investor protection are required in these areas. But the willingness of the people involved to do something special and give innovations a chance also plays a role:

> Investment with a purpose will come, or is already (. . .) a trend and (. . .) is growing, and we're working hard to see what can be offered in this field because there are now very many different possibilities for direct participation. (. . .) There are many customers looking for this because they're saying (. . .) the interest rate isn't so important to me. (. . .) It should be useful and a lesson learned from the financial crisis that we are already asking where exactly does the money go and what happens to it. More and more of our customers are becoming interested in this and we must try to offer them something. Possibilities do then emerge, of course, but the bonds can't be made part of a fund. These are the difficulties, because we could contact the institutions (...) the pension fund and so on. (. . .)[But the product] must be rated. (Günter Benischek)

> For it [impact investing] to be successful, the attitudes of those involved and of the decision-makers in the companies and institutions concerned [would] first [have to][change]. Of course we would wish that a legal provision could be found so that these impact bonds were tolerated, as it were, in portfolios if certain criteria were met. I don't think this will happen, because apart from the probability of default there's (. . .) also the validity, and objective criteria would have to be defined for effectively examining this validity. (. . .) Possibilities do exist, but they would have to be asked for from the legislators. How the FMA inspects this in portfolios for institutional clients, pension funds, insurance companies and so on to ensure that they are adhered to and can be reconstructed. (. . .) But it still remains difficult. (. . .) The positions are too small for companies of this size to make the effort to include them and ultimately justify them to the auditors. And that's the point. (Herbert Ritsch)

Banks currently face challenges relating to new requirements put in place following the financial crisis and the low-interest period (pull factor no. 2). Although awareness is increasing, as is banks' willingness to offer new products in the field of ethics and sustainability, it may be that the basis for making impact investing acceptable to institutional and private customers as part of classic banking in the current market environment is missing:

> For the banks it's a very challenging time because they have to fight on several fronts. One of these is the regulatory front. Here, the political will has emerged to regulate and control banks more closely in the wake of the financial crisis. (. . .) In some areas, this does in fact go a bit too far. Small banks in particular suffer from the number of regulations. These concern things like regulatory reporting and much more besides. They apply to all banks, but small ones are affected most. (. . .) It can no longer be compared to banking as it was ten years ago. (. . .) The type and quality of work done by consultants has changed enormously. (. . .) Another challenge for the financial world is the situation regarding interest rates because the classic business model of banks, generating revenue from the interest margin, practically no longer exists. (. . .) Money doesn't cost anything any more. That's the problem. As a bank, nothing can be earned from interest rate deals and that means for many banks, as can be seen in their balance sheets, that in two or three years they're heading for zero (. . .) and then into losses. (. . .) Another big challenge for banks is what is happening on the fintech market. Fintechs are new financial companies that pick out individual sectors of classic bank business and restructure them using new technologies, especially internet-based technologies, and can offer them much more cheaply and far more efficiently than banks. (. . .) These are things that are starting to replace classic bank services meaning that the banks' business model is crumbling away on all fronts. (Klaus Gabriel)

> In fact, I believe that the classic bank, whether a commercial and all-purpose bank with a conventional business model or an investment bank, is not the appropriate partner for impact investing. I believe that these activities are best conducted where capital can be used more freely and autonomously as opposed to capital in a bank balance sheet that has been entrusted to a bank by investors. So I would split these two areas. (. . .) That means that family offices would be a good target group. Foundations are a good target group, as are personal assets looking for investment possibilities. Investment banks, too, of course, which advise private individuals on which projects would or would not be suitable for this. (Wilfried Stadler)

In the past, foundations funded projects of the Salesians of Don Bosco in Ecuador by granting direct loans. One particular reason for the decision to issue a bond was the desire to attract target groups other than foundations, namely church bodies or companies that would purchase the bond using their own capital. This would also be something provision funds and insurance companies could do, since invested customers' capital in particular is subject to legal restrictions and, according to the FMA's stipulations, a financial rating is required here. A key point is the freedom to do as one wishes with the capital. However, our experience has shown us that some institutions adhere to formal procedures when taking investment decisions, and the lack of a financial rating in particular is often seen as a reason to decide against this approach. It should be noted here that it is de facto impossible for a small impact emission to be given a rating by the major rating agencies. That said, the Universidad Politécnica Salesiana was granted a sustainability rating by the Austrian sustainability rating agency *rfu—Mag. Reinhard Friesenbichler Unternehmensberatung* in September 2015. Currently, however, sustainability ratings can hardly be regarded as a replacement for classic financial ratings:

> Of course any rating is desirable, especially from Moody's, Standard & Poor's or Fitch, but this is not going to happen. To begin with, these emissions are far too small, and above all much too expensive for this type of investment. So that takes them out of the running for a start. I think that the sustainability ratings as they're applied by the major sustainability agencies oekom research, Friesenbichler in Austria and so on really speak for themselves. After all, these agencies analyse the economic side and not just the ecological or social aspects. That means that a company's stability is equally important to them, it's just that additional factors come into play. (. . .) At Schelhammer, for instance, we have made it mandatory in our terms and conditions for funds that only products with an oekom research rating can be included in a portfolio. (. . .) In this world, [sustainability] ratings are important. (Herbert Ritsch)

> Perhaps a kind of rating agency [for financial and sustainability ratings] needs to be set up first. Those that are in the best position are the existing [sustainability agencies] of course (. . .) But I think it simply depends on the financing of this kind of rating activity. Rating large companies is possible now because there is sufficient demand from investors who wish to invest in them. That of course means that this great demand isn't there for small companies. What is important about the rating is that it's not paid for by the company, as is the case with the classic financial rating, but by the investors, so the interests are kept apart and you don't get caught in a conflict of interests. (Klaus Gabriel)

> So many bonds are issued that carry far more risks and serve no useful purpose, yet are granted a rating. And every investor who represents a customer from an institution has an instruction; such and such a rating means you can invest, without a rating, you can't. And that's what's wrong, that we say we'll put everything inside a system so it can all be

> monitored, but no one has to think or take a personal decision for which he is then responsible. Those are the problems. (. . .) What is clear is that if there were a system that made it possible to obtain a rating for a private placement, which would then be backed by liabilities, the market would become much bigger. If we as a bank could offer that, the volume would already be placed. (Günter Benischek)

> It will probably not be realistic to try to secure it with external ratings, (. . .) so in the end there is no way round the element of personal trust. (Wilfried Stadler)

Church investors in particular have this element of personal trust because they know Don Bosco and are willing to invest without a financial rating and bear the default risk themselves (pull factor no. 3). This target group is also more prepared to hold a single position longer. Apart from to this group of church investors, sale of the bond has proved difficult.

Pull Factors for the Don Bosco Non-rated Bond

The following three pull factors were decisive for the successful placement of the Don Bosco bond:

(a) The increased awareness among all stakeholders after the financial crisis which led to banks' becoming willing to create offers that contain elements of ethics and sustainability.
(b) The low-interest-rate period that presents challenges to banks and prompts them to look for new business models and, at the same time, the growing feeling among investors that they can support useful projects with their money for lower returns.
(c) The profitable investment case with the connection to Don Bosco which invites trust among church investors who are also a target group that is very receptive to impact investing and, above all, has considerable resources.

All in all, the project is based on a convincing and sustainable business model that illustrates how the target groups shall be reached, which social programmes will be provided to reach desired impact goals and how revenues will be generated in order to pay back investors. Beginning in 2009, the UPS was able to offer places to 7660 additional students. At the start of the 2015/2016 academic year, 23,557 students were enrolled at three sites in Quito, Cuenca and Guayaquil. UPS's mission of making it possible for underprivileged population groups to study is implemented with sufficient management capabilities, resources and leadership. There is a well-grounded financial plan and financing model that supports this path, and a proof of concept showing that the business model and the impact work in practice.

Push Factors for the Don Bosco Non-rated Bond

The push factors cited below are unquestionably linked to the structure of this impact investment as a non-rated bond. Despite this, issuing a bond is one of the few possibilities to attract capital legally from several groups of investors in a standardised way. Chronologically following the points set out under Section “Impact Investing in its Infancy: Key Pull and Push Factors” there are six factors:

(a) Confusion as to what *ethical* and *sustainable* actually are. Since there is no legal definition of ethics and sustainability in investment, their character remains a matter of interpretation and this can sometimes lead to distrust if the product fails to provide what the investors’ own values and standards led them to expect.
(b) The high minimum subscription rate, a result of Austrian legislation, which above all eliminates small investors and consequently the entire retail market.
(c) The lack of a financial rating, which cannot be obtained for an emission of this size in any case, but is nevertheless often demanded by investors since decision-makers are unwilling to buy this kind of product on their own responsibility.
(d) The lack of a market, in other words the illiquidity of the product that is not traded and therefore represents a buy-and-hold position in a portfolio. This eliminates all investors who only hold their positions for shorter periods.
(e) The strict investor protection which makes it unattractive for banks to advertise or sell this kind of product because of consultants’ liability. Regulations imposed on and requirements made of banks have generally become more and more stringent following the financial crisis.
(f) The fact that institutional investors such as insurance companies, pension funds or other funds, which are financially very strong, are forbidden by legislation pertaining to trusts from subscribing to products of this type.

Although most of the factors are linked to the product’s structure of impact investment cases as non-rated bonds, it is difficult to find alternatives here, especially for the retail market and institutional investors. It is the combination of these factors that means that impact investing on the Austrian capital market is still in its infancy. There is reason to suspect that other non-profit organisations and even SMEs would find it difficult to put standardised products on the market that would be distributed by banks and bought both by customers at institutions and private customers. Even if private placement rules were to be relaxed or a capital market prospectus can be offered, small emissions have fewer opportunities to reach a larger market if they do not have a financial rating. Unquestionably, new legislation is required here. If the political community really wants to push impact investing, policy must focus on this field of tension, perhaps providing a rating mechanism and/or easing for advisers with respect to approved impact investing products.

Placing a Don Bosco Ecuador bond is also a challenging task and requires a great deal of persuasion and patience. The product’s success can be explained first and foremost by the fact that it serves to finance a large-scale project administered by a very well-known and socially-oriented Catholic religious order for men which is economically viable and has a track record going back years.

Summary

This paper analyses the current situation of an emerging impact investing market in Austria and focuses primarily on the efforts of smaller-scale funding projects for which there is not yet an appropriate legislative framework which would make financial products from this market wholly acceptable to both institutional and private investors. This acceptability could be achieved by the direct sale of such products by banks or financial services providers and their inclusion in funds and portfolios of pension funds and insurance companies.

The case chosen for this study was the track record of the so-called *Don Bosco Ecuador bonds* each of which was put on the market as a private placement with all the obstacles for banks and investors described here. Although an impact investment can be conceived differently, with regard to the minimum subscription rate or factors such as existing default liabilities, for instance, doubts remain as to whether smaller emissions will be able to achieve this acceptability across the board in the near future. Individual projects depend on the trust of those who support it and consciously take risks to promote a particular cause. In the case of the *Don Bosco Ecuador bonds* these, with a few exceptions, were the group of church investors who had started thinking about ethics and sustainability in connection with investment at an early stage, know Don Bosco and invest capital long-term.

Despite these difficulties, there is great potential for non-profit organisations to enter into successful cooperative ventures at the point of contact with the world of finance and business in a wide variety of areas such as development cooperation and social entrepreneurship. The international financing system sees itself in a period of transition, and not just because of recent calls for divestment. Some investors have already been incorporating ESG-based approaches into their investment decision-making for years. The economic crisis has triggered a process of growing awareness which is only just beginning. So far, methods of financing impact investments via crowdfunding platforms or fintechs have hardly been tried. The new Alternative Funding Act was introduced in 2015 on the initiative of several SMEs, start-ups and social entrepreneurs who advised political decision-makers to develop new funding strategies. In solidarity with this group, further positive legislative changes may be possible in the coming years. In Austria, a political willingness to do this is evident because apart from the so-called Alternative Funding Act a new Non-profit Act was passed and philanthropy was cited in the public debate as a means of funding social change not with state funds, but private ones. This accords entirely with the purpose of a successful impact investment.

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