



**REFLECTIONS ON:  
IMPACT INVESTING—THE INVISIBLE HEART OF MARKETS**

Report of the G8 Social Impact Investment Taskforce, (September 2014)

We commend Sir Ronald Cohen and the entire Social Impact Investment Taskforce for producing an extremely significant and compelling *Impact Investment: The Invisible Heart of Markets* report. It is a tribute to Sir Ronald’s personal leadership in mobilizing and motivating so many people of diverse backgrounds to come together on the Taskforce and Working Groups, to explore ways to serve the poor and the vulnerable, and to produce such concrete, practical, relevant, and actionable recommendations.

We are honored and privileged to provide specific comments on the report, demonstrating that we are in alignment with many of the findings of the Taskforce. The Catholic Church has created positive societal benefits over many centuries through our investments in hospitals, schools, orphanages and other institutions serving the poor. Though not mentioned explicitly in the Report, we believe there is a vitally important role for the Catholic Church and other faith-based organizations to play in the implementation of the Impact Investing initiatives recommended in the Report, and the development of the Global Impact Movement.

In accordance with the bold statement on page 41 of the Report: “We all have a vital leadership role to play in catalyzing the market for impact investment, through how we invest and how we participate in helping to create impact.”

Our comments are grouped into two tables reflecting three sections: (IA) Comments related to need and potential, (IB) Comments related to concerns raised by the report, and (2) Intended contributions by Catholic Relief Services.

**IA. Comments related to NEED and POTENTIAL**

G8 Report	Comments by CRS
Page 1 – “The financial crash of 2008 highlighted the need for a renewed effort to ensure that finance helps build a healthy society.”	<i>Similar sentiment from Pope Francis: “Those working in these sectors have a precise responsibility towards others, particularly those who are most frail, weak and vulnerable... I ask you to ensure that humanity is served by wealth and not ruled by it.” (Message of Pope Francis to the Executive Chairman of the World Economic Forum, 2014)</i>
Page 1 – “...a generational shift is taking place in how people, especially young people see their role in solving society’s problems. Doing good and doing well are no longer seen as incompatible. There is a growing desire to reconnect work with meaning and purpose.”	<i>Similar sentiment from Pope Francis: “Business is — in fact — a vocation, and a noble vocation, provided that those engaged in it see themselves challenged by a greater meaning in life.” (Pope Francis, Evangelii Gaudium, 2013)</i>

G8 Report	Comments by CRS
<p>Page 2 – “People in the social sector... are leading a shift in philanthropy from a focus on the act of giving to the impact it achieves.”</p>	<p><i>CRS focuses on achieving sustainable, scalable and measurable improvements in food security, maternal and newborn health, clean water and sanitation, improved resilience in both humanitarian and development interventions, movement of smallholder farmers from subsistence to formal market engagement, and other services for the poor.</i></p>
<p>Page 2 – “Impact Investing can also greatly strengthen social sector organizations... Impact Investment with its emphasis on scaling up activities that achieve measurable social outcomes can transform how social sector organizations are financed, and in so doing, make it likelier that they will succeed in achieving their mission at significant scale.</p>	<p><i>We are keenly aware that Impact Investing could help connect Catholic social service institutions to new sources of capital so as to scale, grow and enhance their effectiveness.</i></p>
<p>Page 8 – “Impact Investment moves us away from the traditional misconception that the same organization cannot pursue both profit and social impact.”</p>	<p><i>The Pontifical Council for Justice and Peace sponsored a seminar in 2011 for business men and women and produced a report titled “The Vocation of a Business Leader.” The report noted that “when businesses and market economies function properly and focus on serving the common good, they contribute greatly to the material and even the spiritual well-being of society.”</i></p>
<p>Page 10 – “...impact delivery organizations will need help in identifying opportunities to draw on impact investment and support in reaching across the cultural chasm that often divides the social sector from the finance industry.”</p>	<p><i>Our follow-up work from the Vatican conference will draw on expertise of the financial sector and explicitly engage stakeholders responsible for financial decisions.</i></p>
<p>Page 16 – “Chart B: Examples from UK Government Unit Cost Database.”</p>	<p><i>This is an extremely useful and constructive database that enables the UK Government to quantify the benefits of a “pay for success” program. It should definitely be adopted by other governments – in support of the shift from “input cost efficiency to outcome effectiveness.”</i></p>
<p>Page 20 – “The earthquake and tsunami that devastated eastern Japan prompted some of the country’s biggest companies to try and help rebuild the region’s economy, through place-based impact investing.”</p>	<p><i>CRS incorporates a market-based approach to rebuild and grow the local economy following natural disasters. Engagement with private corporations is integral to the implementation of the “Pathway to Prosperity” model for augmenting smallholder farmer resilience and capacity.</i></p>
<p>Page 20 – “Innovative businesses backed by venture capital are now an important focus of investment managers, having been small and marginalized only 40 years ago.”</p>	<p><i>We recognize that the successful growth of the venture capital industry holds great promise for the growth of Impact Investing. In particular, we hope that the innovative applications of science and technology will increase the productivity and effectiveness of businesses for the poor.</i></p>
<p>Page 21 – ...at this early stage in the development of impact investing, many of the most attractive opportunities are likely to fall into the category of “alternative investment...”</p>	<p><i>We agree and are exploring how CRS might allocate some of its own reserves to these alternative investments as well as potentially help create new funds – as part of the CRS work streams.</i></p>

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<p>Page 22 – “The duty of charity trustees when making a social investment is to obtain the best overall return from the investment and that is not limited to a purely financial return. Instead, it should be based on the combination of the financial benefit from the transaction and the extent to which the transaction achieves the charity’s purposes.”</p>	<p><i>We agree and are working to educate financial trustees in the Church to consider impact investing as a way of achieving the Church’s goals.</i></p>
<p>Page 23 – Philanthropy has another huge role to play by .... reduc[ing] the riskiness of impact assets to mainstream investors.”</p>	<p><i>The Catholic Church, with its local credibility and respect, can play an important role in mitigating the risks of investing in geographies and businesses where it has local knowledge and relationships.</i></p>
<p>Page 29 – “...some prominent companies are moving to a sustainable business model, developing detailed reporting around social and environmental issues. For example, Unilever... [is] upgrading the skills of people in its supply chain in developing countries and improving the health of 1 billion new customers. In April 2014, it reported that, among other things, 48% of its agricultural raw materials came from sustainable sources...and that it had helped and trained over 570,000 smallholder farmers...”</p>	<p><i>CRS is already working with Walmart and Ben and Jerry’s as well as other companies to improve supply chain management for smallholder farmers.</i></p>
<p>Page 33 – “Economic growth must go hand-in-glove with the rapid expansion of basic services including health care, education, water and sanitation.”</p>	<p><i>CRS has been working for over 70 years to promote the rapid expansion of basic services for the poor – to facilitate inclusive economic growth.</i></p>
<p>Page 35 – “Innovative partnerships between development agencies, large multinationals and local companies are emerging...[for example] M-PESA...”</p>	<p><i>We agree that M-PESA is a great example of partnerships producing enabling technologies that can promote inclusive access to financial and other services. CRS continues to explore other such partnerships. Furthermore, we agree with the statement on page 37, that mobile phones can generate and relay much valuable data which could empower impact enterprises in a range of activities for people at the bottom of the pyramid. Scaling the use of ICT4D (Information and Communication Technology for Development) across all programs in all 100 countries in which CRS operates is both a strategic competence and major priority for the agency. Corresponding changes in data collection, program monitoring and outcome evaluation will also be an area of focus and investment by CRS.</i></p>

## IB. Comments related to concerns

G8 Report	Comments by CRS
<p>Page 18 - "...there are significant impediments to the scaling up of impact investment by the mainstream asset management world... including a (perceived) lack of investible propositions..."</p>	<p><i>We share the concern about the PERCEIVED lack of investible propositions. We believe training and mentoring are needed to help CRS colleagues and other humanitarian and development agencies recognize and evaluate ideas that could potentially be developed into a robust pipeline of deals – with expert support from the investment world, particularly private equity managers.</i></p>
<p>Page 18 - "...there are significant impediments to the scaling up of impact investment by the mainstream asset management world... including conflict of duty, both fiduciary and in compliance..."</p>	<p><i>We share the concern about fiduciary responsibilities and will be implementing educational programs particularly targeted at Investment Committees and Treasurers of Catholic Institutions to help them better understand the risks and benefits of Impact Investing.</i></p>
<p>Page 28 - "While it is obvious that not everything that counts can be counted, principles are emerging that allow the measurement of the achievement of many kinds of social outcomes."</p>	<p><i>We are concerned that in an attempt to develop metrics that are comprehensive and standardized, not only will there be a burden imposed on the reporting businesses (as mentioned again on page 30) but the results could possibly be misleading. For example, what is the measure of one life saved versus one child educated versus one percent reduction in carbon emissions? We also think that it is important to be flexible and recognize that the metrics may change over the lifetime of an investment as people learn more about the actual impacts.</i></p>
<p>Page 32 - "An organization doing good things with one hand whilst doing far worse things with the other should not be able to use narrow data on its good activities without being transparent about the negative social impact it creates."</p>	<p><i>We are concerned that people without local knowledge of the poor might think they are helping – for example, by simply importing technologies from developed markets, that may be too expensive or may divert resources from less expensive basic services. In such cases, there may actually be trade-offs among social impacts – for different segments of the population.</i></p>
<p>Page 34 - "Chart E: Total Finance to Developing Countries by Flow Type."</p>	<p><i>It would be extremely valuable to update this chart beyond 2009 and to identify the sources of the data, because the trends are striking – with the huge growth and importance of Remittances. Agree that more of the Remittances could effectively be deployed in Impact Investing to deliver inclusive growth in the local countries.</i></p>
<p>Page 36 - "Although capital flows to the developing world are growing, especially into infrastructure projects, far too little is getting to small and medium-sized businesses, impact entrepreneurs and inclusive businesses ...that mainstream investors regard as too risky..."</p>	<p><i>We are concerned that there is a vital need for capital to reach the people at the bottom of the pyramid. We recognize that some of these risks are more perceived than real and CRS could possibly help mitigate the "real" risks through its local knowledge, credibility and relationships.</i></p>
<p>Page 39 - "Nothing less than a revolution is needed to improve the lives of millions who are being left behind."</p>	<p><i>We are concerned that there are actually BILLIONS, not millions who are being left behind.</i></p>

## 2. Intended Contributions by Catholic Relief Services

Immediate	Under Planning
1. Provide moral authority for appropriate application of Impact Investing.	A. <i>Potentially serve as an impact intermediary by providing advisory services and training.</i>
2. Enhance resilience and offer a pathway to prosperity as means to reduce vulnerability and build up the dignity, and livelihoods of people in poverty.	B. <i>Help to identify and nurture impact enterprises with the potential for success and access to impact capital.</i>
3. Build knowledge, know-how and network of Catholic institutions for engagement in impact investing.	C. <i>Engage in “aligned capital” partnerships with development agencies, multinational and local companies to promote enabling technologies and innovative business models that can deliver inclusive access to financial and other services for the poor.</i>
4. Build capacity of Catholic dioceses, religious congregations, partners and staffs for impact enterprise start-up and management.	D. <i>Engage Catholic institutions to allocate an increasing share of their assets to impact investing funds.</i>
5. Commit portions of CRS reserves for impact investing.	