

SOCIAL VENTURE FUND



2018
ANNUAL IMPACT REPORT

ACKNOWLEDGMENTS

Today's toughest challenges demand the boldest ideas. But pioneering these new solutions is risky and difficult—as is finding partners who share our belief in possibility. We are fortunate to be among an amazing group of partners who dedicate their capital, time, advice and resources to the idea that social entrepreneurs have the talent, drive and technical skills to design products and services that positively impact millions of people in fragile places and frontier markets. And these partners know that an INGO such as Mercy Corps has an important role to play in supporting these entrepreneurs. As we reflect on the third year of the Social Venture Fund, we are eternally grateful to all our partners who make our work possible, and we dedicate this report to you all.

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Rippleworks

Vitol Foundation

Mercy Corps Country Teams

Ventures is built on a wider collective of Mercy Corps team members and is only possible because of their expertise, networks and talent. We feel privileged to work alongside these amazing teams to benefit marginalized farmers, youth and communities around the world:

Jen Bielman, Andi Ikhwan and the Indonesia team

Provash Budden, Hugo Gomez and the Colombia team

Sean Granville Ross and country directors throughout Africa

Leesa Shrader and her AgriFin Accelerate team in Kenya, Tanzania and Zambia

Ed Brooks, the Ag Technical Support Unit and Ag Working Group

Josh Ling, the Financial Inclusion Technical Support Unit

Thank you and dozens of others at Mercy Corps who have been critical to this work, including our regional program directors, Technical Support Unit, Resource Development team and senior leadership.

WELCOME

In 20th-century business, bigger was almost always better. It was smart to get big so you could take advantage of classic economies of scale. To beat competitors, you had to “own scale” (equipment, infrastructure, fleets, customers, etc.). Now, owning scale can be a liability or a burden, and upstarts are disrupting longtime players through a new competitive edge—“renting scale” (to borrow a term from Hemant Taneja). Think Airbnb, Tesla, Uber and Dollar Shave Club, to name a few.

Where traditional business is disrupted by this “unscaling,” nonprofit organizations are benefitting. Unscaling, coupled with new technologies, is allowing for the creation of new models for change. Models can quickly scale impact without scaling the size of an organization.

Now, a rural Tanzanian farmer living 500 miles from the city can easily access educational information that helps him understand how to use fertilizer to bolster his crops and his earnings. A coffee farmer upended by conflict can roast the beans she grows, sell them directly to customers in the U.S., and multiply her income in the process. A small shop owner in the informal settlements of East Africa can order inventory on her phone to ensure she has contraceptives, pain relievers and healthy products on the shelves, get the goods delivered on demand, and take advantage of credit terms for the first time, all without closing shop.

The companies making this possible—Arifu, Vega Coffee and Sokowatch—and their visionary founders are at the frontier of what is possible. Mercy Corps Ventures is working alongside them and the other exceptional entrepreneurs highlighted in this report on a shared quest to deliver impactful products and services to millions of people living in underserved communities.

In this report, we humbly present our successes, challenges and failures on this quest and the insights we’ve gathered along the way. Since the inception of the Social Venture Fund we’ve grown a portfolio of (in our admittedly biased perspective) 12 of the world’s top social entrepreneurs. Almost across the board, we have seen positive growth, early impact validation and even a few prospective liquidity events. We have also logged our first failures, which is always disappointing but also an opportunity for reflection and humility.

We hope you enjoy the stories of disruptive business models with amazing impact and how Mercy Corps uses its global resources as a launch pad for high-impact business solutions.

This is just the beginning,

The Mercy Corps Ventures Team
Scott, Tim, Amanda, Chris, Carol and Hetal

TABLE OF CONTENTS

01	Welcome	06	Impact Themes
02	About	14	Collaborations for Impact
03	Impact Management	16	Recent Investments
04	By the Numbers	20	Fails, Lessons & The Future

ABOUT

Social entrepreneurs around the world are harnessing novel business models to fuel widespread social change. By linking profit with purpose, they are creating solutions with the potential to scale and solve entrenched development challenges. But these ambitious innovators often don't have access to the right capital and support that they need for their ventures to first survive and then thrive.

Mercy Corps Ventures is committed to supporting these bold enterprises. Our **Social Venture Fund (SVF)** makes equity or convertible debt investments of up to \$300,000 in early-stage ventures operating in agriculture, frontier fintech, youth employment and last-mile distribution and logistics.

After we invest, we are high-touch. Our post-investment support focuses on helping entrepreneurs develop their business models, hone their product or service, and de-risk their impact. While common challenges exist, each enterprise is unique, and we tailor our approach to fit, acting as a consultant, sounding board, partnership creator, active board member and impact anchor. We forge catalytic partnerships within Mercy Corps' global network that comprises over 5,000 staff members in 44 countries, large-scale programs, technical experts, and long-term partners from the public and private sectors. These connections help our ventures gain credibility and trust in communities, attract customers, professionalize faster, and scale smarter.



POST-INVESTMENT SUPPORT SPOTLIGHT SUYO



Everyone deserves a place to call home. Unfortunately, in 140 countries, low-income people lack formal title to their land. **Suyo** fixes this by making the land-titling process transparent, efficient and affordable for low-

income Colombian households, immediately increasing property values, providing piece of mind and security, and unlocking access to home improvement loans and other beneficial programs and services. Suyo has already provided property diagnostics and formalization services to more than 7,000 low-income individuals, generating \$3.3 million in property value for people living at the base of the income pyramid (BoP).

As part of our post-investment support, we linked Suyo with Mercy Corps' corporate partner Mastercard to help the startup refine its cash transaction strategy. Then we connected Suyo with financial consultant EY (formerly known as Ernst & Young) to work on Suyo's fixed cost structure, service costs and unit economics to ensure a stable cost structure as sales grow. These exceptional partners provide Mercy Corps Ventures with generous support that helps our portfolio companies scale their impact.

"Mercy Corps' Social Venture Fund stands out as one of our top investors and partners in terms of the value they bring to our company. Their experienced team possesses an in-depth understanding of the challenges of scaling social enterprises and provides practical support in a range of areas, from financial modeling to governance to operations."

MATT ALEXANDER, FOUNDER OF SUYO



IMPACT MANAGEMENT

We believe that if we identify high-potential startups and provide them with the right capital, support and partnerships, they can overcome barriers to growth and design more effective models that will positively impact underserved populations at scale. This is our route to impact.

We strive to be an impact anchor for our investees—assessing impact throughout the investment cycle and aligning to the standards our industry has been pioneering—while sticking to our ethos of being entrepreneur first. We invest in four impact themes, but most ventures cut across themes instead of fitting squarely into one. We work with ventures to define their route to impact and assumptions they are making, hone their customer value propositions, and create impact metrics that matter and impact-management processes to track them. Impact is baked into all our investment processes, and we strive to help ventures bake it into their business models. It's a dynamic process that evolves as the venture does.



IMPACT MANAGEMENT CALLOUTS

Understand the Problem: Leverage Mercy Corps' global resources, technical experts and local teams to gain the market intelligence we need to hone our investment thesis, vet emerging models and contribute to the development community's shared understanding of the problem.

Assess the Impact Risks: Look at multiple dimensions of impact, and assess the likelihood that impact will differ from expectations ([see Impact Management Project](#)).

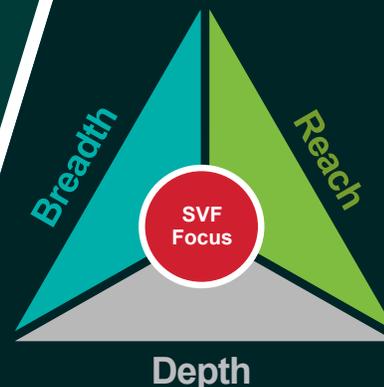
Refine the Route to Impact: Work with investees to refine their Route to Impact (Theory of Change), and tease out assumptions and current customer touch points.

Create the Metrics: Define key performance indicators related to assumptions, and decide how best to gather the data through customer feedback loops; back engineer metrics into SVF's impact assessment framework, and check for [IRIS alignment](#) and how the ventures contribute to the Sustainable Development Goals.

Analyze and Revise: Assess what has happened, whether new risks have arisen, and whether changes to hypotheses, metrics or practices are needed or should be addressed with the leadership team head-on.

SVF Impact Framework

SVF wants to impact underserved populations (Reach) in significant numbers (Breadth) and in meaningful ways (Depth). We look beyond the number of people reached when conducting due diligence and supporting investees.



BY THE NUMBERS



\$1.5M

INVESTED IN **12**
EARLY-STAGE
VENTURES



7

VENTURES HAVE
RAISED SUBSEQUENT
ROUNDS OF FINANCING



\$9.4M

IN CO-INVESTMENT CAPITAL



SINCE INVESTMENT, VENTURES HAVE RAISED

\$13.1M

IN FOLLOW-ON
FINANCING



5

FEMALE-
FOUNDED
VENTURES



47

STRATEGIC PARTNERSHIPS FORGED TO HELP
VENTURES SCALE SMARTER AND FASTER

[see story on page 14](#)

VENTURES DIRECTLY
CONTRIBUTE TO
13
OF THE
17
SUSTAINABLE
DEVELOPMENT GOALS



POST-INVESTMENT SUPPORT SPOTLIGHT

The vast majority (80 percent) of Africa's labor force functions in an informal economy, obtaining ad hoc work through networks, dealing with substandard wages and finding little opportunity for growth. Lynk directly addresses this fragmented system by using technology to build an entrepreneurship infrastructure so that laborers can access a broader and more equitable market. Lynk creates value for the worker and client alike, going beyond reducing cost through shared work.

We connected Lynk with Impact Labs, a Google-sponsored Mercy Corps initiative. This relationship unlocked additional funding that Lynk used to deepen its understanding of its customers, prepare for product standardization and expand its platform. We also conducted direct support to Lynk in a rapid deep dive that assessed the product, unit economics and market options, clarifying its growth strategy as it prepared for Series A investment.





1.5M

CUSTOMERS SERVED WITH BENEFICIAL PRODUCTS, SERVICES OR FINANCING

1.2M

SMALLHOLDER FARMER CUSTOMERS

OVER

600k

FARMERS ACCESSING INSURANCE FOR THE FIRST TIME



\$40.9M

IN INCOME FOR SMALLHOLDER FARMERS, LAST-MILE AGENTS AND INFORMAL WORKERS



\$3.3M

IN PROPERTY VALUE CREATED FOR LOW-INCOME COLOMBIANS



OVER

27,000

EMPLOYMENT OPPORTUNITIES FACILITATED

Heya! Heya has improved the lives of over 85,000 customers and provided over 900 sales agents in rural Kenya with part-time income-generating opportunities, allowing them to make an average of \$38 in additional income per month selling beneficial products, such as solar lights, in their communities.

Lynk's job matching platform has matched over 1,000 people in urban Nairobi with almost 20,000 short-term gigs earning an average of \$160 per month and generating over \$1.2M in total income



\$3.5M

IN TOTAL ANNUAL SAVINGS FOR LOW-INCOME MOM AND POP SHOP OWNERS SELLING HEALTHY HOUSEHOLD PRODUCTS IN COLOMBIA AND KENYA



CUSTOMER SPOTLIGHT

"My life changed the moment Suyo handed me my title," says Natalia Tamayo, an employee at the Flores El Trigal flower farm in Antioquia, Colombia.

Natalia is one of millions in Colombia whose house is not formally registered. As her two children grew older, she became increasingly concerned about her home's informal status and the possibility of one day losing it. Last year, Suyo reached out to Natalia's employer about providing land-titling services to its employees and, in a short time, formalized Natalia's property, demonstrating the value to Flores El Trigal and compelling the company to cement the partnership and expand it to the more than 14,000 flower farm employees under the same umbrella business group.





IMPACT THEMES



Agriculture

The world's 500 million smallholder farmers grow 70 percent of our food, yet most live on less than \$2 a day.

Our vision is that smallholder farmers have agency over their livelihoods. They have access to the financing, insurance, transport, knowledge, information, mechanization, and storage they need to feed their families and generate enough profit for them to thrive. They are resilient in the face of inevitable shocks and empowered to take control over their livelihoods and break the cycle of poverty.

We believe social ventures are critical for driving change in agriculture. They are best positioned to capitalize on the opportunities that stem from market inefficiencies or farmers' lack of access to financial services, productivity-improving technologies, information and advisories, and equitable markets.

SVF invests in emerging technology-enabled models in AgriTech, AgriFin and Inclusive Market Access with the potential to scale.



AGRITECH

**Precision agriculture,
Remote sensing, big data
analytics, productive assets**



AGRIFIN

**Digital financial services
Ag microinsurance
Land mapping and formalization
Asset financing
Digital identity**



INCLUSIVE MARKET ACCESS

**Vertically integrated services
Access to market services
Farmer capability training**

SVF INVESTMENTS IN THIS AREA:

Vasham – vertically integrated model in corn value chain

Vega – vertically integrated model in coffee value chain

Agruppa – streamlined supply chain from farm to city

Suyo – lower-cost and transparent land formalization and titling

FarmDrive – credit profiles to enable mobile money loans

Arifu – mobile learning for farmers

Pula – mobile microinsurance and tailored advisory

Impact Highlights



Over 1.2M smallholder farmer customers in East Africa, Indonesia and Latin America



Almost 24,000 farmer partners in the corn and coffee value chains



37% income increase for over 18,000 smallholder farmers in Indonesia



\$1.6M in insurance claims paid out to 28,000 farmers in East Africa

Insights

Farmer Trust:

Earning farmers' trust is critical to a startup's success. Farmers are unforgiving customers who face many challenges and have little money to spend. To establish and maintain their trust, entrepreneurs must understand farmers' pain points and cultural context. Startups can draw in and maintain customers only by offering an affordable product that is effective from the get-go. Because farmers might plant and harvest only a few times per year, startups face relatively long customer engagement cycles. If a new agricultural product or service does not make a notable difference for farmers or meet their expectations, they will return to their former behavior. Getting farmers' feedback as quickly as possible is critical to quality control, customer satisfaction, and iterating on the model, approach, product or service.

Integrated Solutions:

Farmers face many interwoven challenges, so they need holistic, bundled solutions. Moreover, in many value chains, there are actors that already provide multiple services to individual farmers (e.g., credit and inputs). From our vantage point, companies that aim to simultaneously solve multiple pain points are better at attracting and retaining customers and are poised to make a greater impact. To address smallholder needs holistically and gain their trust, ventures can start upstream, providing a bundle of high-touch products and services—such as inputs, microloans, insurance and advisory—all in one platform. Alternatively, startups can start downstream, offering one low-touch product or service that relates to a major pain point and has a clear and immediate impact (e.g., significantly higher yields for the farmer). The venture can then begin to layer in other services to further differentiate itself from alternatives and build economies of scale. Both strategies are valid, but the key is to eventually address multiple smallholder needs (check out the story of DigiFarm on [page 15](#)).

Proximity Is Paramount:

To be a true value-added investor in agriculture, you need a deep understanding of the context. The nuances and dynamics of the market are often not apparent, and a startup can go belly up fast by underestimating or miscalculating how farmers' behavior will change. What looks sexy on paper, or even in a small pilot, often falls apart when one tries to operationalize it at scale. We also see startups building business models that extend and tailor existing technologies and market intelligence to smallholder populations. This farmer-first focus has the potential to be a highly efficient scaling pathway.



CUSTOMER SPOTLIGHT

ARIFU

Gladys is a mother, farmer and entrepreneur. She grows and sells fruits and vegetables in Baringo County, Kenya, and is an Arifu customer. During a two-month span in 2018, she interacted with 437 educational messages through an SMS-based chat with Arifu. Before Arifu, Gladys struggled to afford the fertilizer necessary for improving her soil and plant health. Fortunately, she learned about Arifu's free financial management and agronomy training that was offered as part of MobiGrow, Kenya Commercial Bank's digital financial services package. After registering for MobiGrow, Gladys learned alternative, low-cost techniques for improving her yields, and her vegetables are now flourishing. And because of Arifu, she is financially savvy, "no longer scared of loans" and investing in growing her business.





IMPACT THEMES



Frontier Fintech

The financial system excludes or underserves over 2.5 billion people, limiting their ability to build assets and secure their economic futures.

In our vision, all people can access and use financial services that enable them to fully participate in the economy. They have the knowledge and tools they need to ensure their own security, growth and resilience, and they are empowered to build on a foundation of financial inclusion and create their own pathways out of poverty.

We believe social enterprises are critical for creating an inclusive economy. Such businesses can see how emerging technologies and increasing mobile phone penetration could potentially create new models that disrupt how money changes hands. They are innovating ways for the underserved to gain access to the affordable and responsible financial solutions that are crucial to improving their livelihoods. As they grow, these pioneering ventures are de-risking inclusive models so that financial institutions (or, in many countries, mobile network operators) can mainstream them.

SVF invests in emerging ventures, creating new Pathways to Inclusion, Digital Credit and Finance offerings, and Payments and Remittances solutions.



PATHWAYS TO INCLUSION

- Digital ID
- Mobile, adaptive learning
- Big data analytics
- Machine learning



DIGITAL CREDIT AND FINANCE

- Mobile credit
- Tech-enabled financing of productive assets
- Digital finance for small businesses



PAYMENTS AND REMITTANCES

- Mobile payments
- Digital currency
- Distributed ledger tech
- Digital savings, insurance and remittances

SVF INVESTMENTS IN THIS AREA:

- NewLight Africa** – sales and financing of beneficial products in rural communities
- Vasham** – financing and bundling of services in corn value chain
- Wobe** – sales of digital products through microentrepreneurs
- FarmDrive** – credit profiles to enable mobile money loans
- Sokowatch** – sales and financing of beneficial products for small urban shopkeepers
- Suyo** – lower-cost and transparent land titling with financing
- Pula** – mobile microinsurance and tailored advisory
- Arifu** – financial capability training via mobile phone

Impact Highlights



Over **435,000 beneficial products** (e.g., solar lights, medicines, and contraceptives) were sold on credit to low-income consumers and shop owners.



Almost **30,000 youth farmers** got a credit profile for the first time—a 230% increase from last year—and over **25,000 smallholder farmers** in East Africa received microinsurance payouts.



223,000 low-income Kenyans received digital financial capabilities training.



CUSTOMER SPOTLIGHT

PULA

Catherine Bertha Chitamyia, 25, lives with her mother in the Masaiti district of Zambia. Catherine has been farming for three years and is the only source of livelihood for her household. When Pula connected Catherine with seed supplier DeKalb, she decided to plant it on her farm as a trial for the farmers in her area. To her disappointment, the first attempt was foiled by drought. But, because she had a Pula insurance policy, DeKalb compensated Catherine for the initial loss and restored her confidence in its seed. Catherine now has a well-established crop.

Insights

Financial Institution vs. Startup:

There is a growing tension between fintech startups and financial institutions. Most startups serving low-income communities know (or learn) that end consumers need access to credit to afford their product or service. Because financial institutions are often slow or unwilling to create new financial products to make this possible, emerging companies attempt to do the lending themselves, disrupting the status quo. This forces startups to develop the required expertise and systems to effectively lend. Although startups may see related revenue growth opportunities, this can also be a burden or a distraction from their core business and can lead them into a regulatory grey area. We believe that financial institutions and mobile network operators do have a critical role to play in serving the BoP, that the knowledge they have built up over decades is incredibly valuable to startups, and that financial inclusion can be accelerated through partnerships between the two. These partnerships are more doable now than 10 years ago and are the future for financial institutions that want to build out new product verticals or reach new customers.

No Blanket Approach:

Related to the point above, financial institutions have spent hundreds of years figuring out how to determine whether customers are creditworthy and then providing them with an appropriate amount of credit. While such institutions are prime for innovation, completely throwing out what they've learned and creating access to large amounts of unsecured credit can have negative effects. Some people shouldn't or don't need access to credit. For some smallholder farmers who are not working commercially viable plots (i.e., producing enough yields to cover the costs of production), providing access (or increased access) to credit will only deepen the cycle of poverty. Many microentrepreneurs or small shop owners access informal credit that seems to have a high interest rate, but the credit provider may be solving another pain point for the business (generating sales opportunities), and it is more valuable for the business to keep that relationship. The bottom line is that startups need to deeply understand the needs of each customer segment and to look at the positive and potentially negative effects of credit.

Alternative Data Sets:

A lot of startups are experimenting with using alternative data sets to evaluate creditworthiness. It makes sense. If someone doesn't have a credit history but needs credit, you need a method for establishing how much that person should responsibly get. Entrepreneurs are tapping into massive new data sets—social media, phone usage, mobile money transactions, remote sensing data—to inform credit decision-making. While it sounds like a silver bullet, it is still in the early stages. These companies are working fast to optimize their algorithms, but the cycle of data collection varies depending on the sector (e.g., it's slower for agriculture than for fast-moving consumer goods), and getting enough data and then understanding it takes time. Although we're optimistic about the space overall, we recognize that we need to be in it for the long haul. We expect a good amount of learning—and failing—along the way.



IMPACT THEMES



Youth Employment

Almost half of all youth in sub-Saharan Africa experience long-term unemployment, and young people of working age are three times as likely as adults to be unemployed. By 2040, Africa will have 1 billion people of working age—the largest labor force in the world—in need of sustainable employment. Presently, traditional job growth is lagging, and the future of work opportunities for young people is in flux.

Our vision is that youth will benefit from this changing world of work by gaining access to income-generating opportunities that provide a means for improving their livelihoods and security over time. Young people will also be able to develop the skills that employers demand in the emerging 21st-century world of work and craft working futures for themselves that unlock their energy and productivity.

We believe social entrepreneurs are at the forefront of creating innovative approaches to provide youth with the training and credentialing that is linked to employment opportunities and growing industries. They are also building businesses that facilitate the matching of workers with jobs, or gigs, that help youth improve their livelihoods now, as they build toward more meaningful work opportunities in the future. And social entrepreneurs are launching ventures focused on micro-work, distributed manufacturing and digital livelihoods, opening new avenues for youth to deploy their skills and engage in emerging work opportunities.

SVF invests in emerging ventures that provide Training, Job Matching to connect employers with formal and informal markets, and Digital Work to create new pathways for income generation.



TRAINING

Skills development, including technical and soft skills
Credentialing



JOB MATCHING

Online matching platforms
Gig economy facilitation



DIGITAL WORK

Micro-work and freelancing
Distributed manufacturing
Online marketplaces



SVF INVESTMENTS IN THIS AREA:

Lynk – work-matching platform that connects workers with employers

Impact Highlights



Almost 500 youth completed short-term gigs (100% growth since last year) earning an average of \$163 per month

Insights

Opportunity in Platforms:

Job-matching platforms are creating efficiencies for informal workers by removing (or greatly reducing) the cost of searching for the next gig, but some critics argue that they are also eroding traditional employment. When platforms are thoughtfully designed, however, they can create new opportunities to bring people into the formal sector or formalize their current entrepreneurial activities. By nature, platforms provide education, skills development, credentialing and even supportive infrastructure (e.g., finance, e-commerce, marketing) for people trying to build a small business. Platforms are not just about finding the next gig. Over time, the data gathered on an individual's work history could be used to provide that person with access to financial services and other resources (provided by the platform or by others). As we seek to address the coming youth bulge, scalable platforms must be part of the solution, and we must consider how we can maximize their potential.

Agent Models:

One of our initial investment hypotheses was that companies serving hard-to-reach communities would generate employment (or income-generating opportunities) for youth by creating vast agent networks. But we've found that these models eventually come under pressure to find cost efficiencies and ways to leverage mobile or other technology to streamline operations, which can reduce opportunities for youth to be employed as agents. Agent models are important for the last-mile distribution of products and services, but we have yet to prove in our portfolio that they can be large employers. So, we've refined our investment thesis to what you've read in the section above and recategorized investments from this area into impact themes that are more aligned with the core business model as it stands today. Now we are working to generate pipelines in the areas above and work with partners who can help us bring in the right capital.

SVF's Value Proposition:

Many exciting startups are developing new solutions to youth unemployment. Early-stage capital from SVF is filling a crucial financing gap. However, we are seeing that SVF's offering of equity financing is not always the appropriate type of capital, especially for businesses targeting youth with low incomes. A blended capital approach may be better suited for this sector, so we are working to bring new partners to the table. We are also working with Mercy Corps' teams to design new large-scale youth initiatives that will benefit from a connection to social enterprises and that will allow us to deliver on our value proposition of forging strategic partnerships within Mercy Corps to help ventures scale.



CUSTOMER SPOTLIGHT

LYNK

Anne Christine was 34 and on the verge of giving up on her passion of designing and tailoring clothes.

Then one of her clients recommended that she join the LYNK platform. Within a year, Anne completed 75 jobs and earned over \$1,500. At the same time, she achieved an impressive rating of 4.8 out of 5 stars, growing her profile and helping her secure future jobs. Anne says she's now reached a turning point and doesn't have to give up on her dream. She no longer has to worry about where her next client will come from and can even market her designs for free on LYNK.





IMPACT THEMES



Last-Mile Distribution & Logistics

Almost half the world's population lives in last-mile communities, where goods, services and information can be inaccessible or unaffordable.

Our vision is for all people to have access to the products, services and markets they need to thrive, regardless of where they live. Consumers who live in remote rural areas or marginalized urban and peri-urban communities can access beneficial goods and services with agency and ease. Last-mile producers can access the logistics services and sales channels needed to reach markets, sell their goods and generate greater income.

We believe social enterprises are critical for bridging the last-mile distribution gap. Technology is enabling the development of new sales, distribution and logistics solutions—ones that would have been impossible a decade ago—and social enterprises are jumping on the opportunity, creating stand-alone last-mile solutions or embedding them within businesses better known for their goods or services.

SVF invests in emerging ventures that create Physical Access to goods or services, enable Digital Access to markets and information, or generate Supply Chain Efficiencies that benefit last-mile producers.



PHYSICAL ACCESS

- Consumer finance
- Agent network models
- Shared economy models



DIGITAL ACCESS

- E-commerce
- Digital connectivity



SUPPLY CHAIN EFFICIENCIES

- Brokerage
- Transportation
- Vertically integrated business models

SVF INVESTMENTS IN THIS AREA:

- NewLight Africa** - sales and financing of beneficial products in rural communities
- Wobe** - sales of digital products and services through microentrepreneurs
- Sokowatch** - sales and financing of beneficial products for small urban shopkeepers
- Aggruppa** - streamlined supply chain from farm to city
- Liftit** - optimizes cargo shipments to and from last-mile communities
- Vega Coffee** - vertically integrated business model in the coffee value chain
- Vasham** - vertically integrated business model in the corn value chain

Impact Highlights



Over **430,000 beneficial products** were sold in last-mile communities.



Almost **12,700 low-income last-mile shopkeepers** benefitted from lower operating costs.



More than **8,000 employment opportunities** were created to serve last-mile communities.

Insights

Sometimes You Have to Start Urban:

The go-to-market strategies of many logistics platforms we have reviewed focus exclusively on piloting in the hardest, most marginalized geographies. To realize the ultimate objective of streamlining logistics and driving value, platforms will need to gain efficiencies through backfilling and route optimization. To do so, companies need to reach critical mass in terms of drivers, routes and load data. This is often most effectively and quickly done in urban and peri-urban zones, where the volume of loads is higher. Our first pure logistics investment, Liftit, launched as an open platform and let the market dictate where it started. As it built out a robust last-mile network within and between cities, it organically started adding additional secondary routes that emerged within its growing customer base. This strategy enables the company to reach critical scale and achieve efficiencies that will help it in serving the hardest-to-reach consumers as it grows.

In-house Tech Pays Off:

Building tech in-house for core operations instead of outsourcing that function has paid off for several of our ventures. A company's own tech team is more agile and responsive to the demand of the market and changing customer needs. And because the tech team is embedded in the business, it understands the nuances of what's needed and can help the business stay ahead of its competitors.

Logistics is Crosscutting:

Last-mile distributors and marginalized consumers face multiple interconnected pain points. Like others, we've seen that bundling or channeling product financing with logistics can be particularly catalytic to a venture's growth. For instance, providing appropriate financing to last-mile shopkeepers so that they can purchase products for resale can unlock the growth of these businesses, enabling them to earn a higher income while giving consumers access to a greater variety of goods. Last-mile distribution is a crosscutting issue for business models in financial inclusion, agriculture and youth employment—our other three investment themes. It's integrated into most of the ventures we invest in, and we've made only one pure logistics investment (see Liftit on page 16). We are considering not calling logistics out as a specific area that we invest in; rather, we may focus on helping ventures improve the distribution or logistics operations they have along with their core business model.



CUSTOMER SPOTLIGHT

SOKOWATCH

Emily is the owner and operator of Wamekana Shop, one of 10 million informal shops in African cities that combined sell over \$180 billion in goods each year. Despite their importance to local economies and the communities they serve, these shops routinely run out of products, have limited access to financial services, and lack proper business management tools. Sokowatch's mission is to address the needs of these entrepreneurs and provide them with services to drive growth and improve livelihoods. Emily started ordering from Sokowatch in April 2017. Since then, she has placed over 200 orders for beneficial products at a combined value of over \$7,700. Emily was also selected for Sokowatch's credit program, which she used to grow her orders such that her monthly volumes are now 234 percent higher than they were prior to credit access. She says, "Thank you, Sokowatch, for extending credit to help grow my business. Now I do not have stock-outs in my shop. I appreciate Sokowatch's app and delivery service that allow me to continue selling to my customers without ever closing my shop to source products from wholesalers. It has saved me time and money that I can use to grow my shop."

COLLABORATIONS FOR IMPACT

Vega Coffee and Mercy Corps Colombia

In Colombia's southwestern region of Cauca, coffee farming creates a pathway out of illicit crop harvesting and armed conflict. Yet coffee's fragmented supply chain excludes growers from its most profitable parts—value-added processing included—keeping farmers in a cycle of poverty and threatening their link to the dynamics of sustainable and peaceful development.



Through a partnership forged by SVF, Mercy Corps Colombia and SVF investee Vega Coffee (Vega) are making coffee farming a profitable, productive activity for female farmers in Cauca. Vega's unique model pushes the value (and profit) in the coffee supply chain down to the farmers by paying a guaranteed premium price and by hiring farmers to process, roast and directly ship the beans right where they are picked. In turn, this allows U.S. consumers to meaningfully support farmers while getting some of the world's finest freshly roasted microlot coffee delivered right to their door.

SVF invested in Vega in Spring 2018 and immediately partnered the company with Mercy Corps Colombia to plot out Vega's expansion into Colombia from its base in Nicaragua. For the past five years, Mercy Corps Colombia has provided needed services to coffee farmers across the country, building up a network of over 80,000 farmers. With this infrastructure and its deep knowledge of the coffee sector, Mercy Corps could connect Vega to its first cooperative, help it to acquire operational machinery and navigate the legal logistics of export. These activities greatly lowered Vega's costs of expanding into a new country and allowed Mercy Corps to leverage spent grant dollars to increase its impact on farmers.



Mercy Corps Colombia and Vega's budding collaboration is just starting to bloom. The partners have begun training women in the processes from which they were historically excluded—roasting, packaging and administration—and anticipate engaging hundreds more in revolutionizing the Colombian coffee industry, helping to bring peace to a region ravaged by decades of conflict.

Guatemala, Indonesia, Kenya and Uganda are all home to great coffee, and all are places where Mercy Corps operates programs that support farmers in similarly broken supply chains. Perhaps this is just the beginning, and we can take our partnership with Vega to new continents to increase income for farmers.

FAST COMPANY

Mercy Corps supported Safaricom in Kenya to design and scale DigiFarm, an impactful bundle of products for farmers that provides e-learning, high-quality inputs and digital input credit—all on a simple feature phone, all in one place. In its first year, DigiFarm reached over 700,000 farmers and was the winner of Fast Company's 2018 World Changing Ideas Awards (developing world technology category).

A World Changing Collaboration

In sub-Saharan Africa, owning a mobile phone can be the difference between poverty and prosperity. Rural smallholder farmers make up almost 70 percent of the population, grow 80 percent of the food, and typically live on only \$2 a day. Farmers live without access to financing, information, productivity-improving technologies (fertilizers, improved seeds) and markets. They are stuck. Saying that a mobile phone can solve those problems may sound naive, but it isn't: that idea is changing the world.

Mercy Corps, with its deep market intelligence gained from working in farming communities, its experience in adapting technology for development, and its trusted relationships with the public and private sector, was determined to catalyze the development and delivery of digitally enabled products and services for smallholder farmers. Two internal initiatives led the charge.



SVF chose the strategy of identifying startups that were creating new solutions to address farmer challenges and then supporting these businesses so they could overcome early growth barriers and develop their business models. SVF made one of its early investments in FarmDrive, a venture that uses alternative data to develop credit profiles for farmers and then delivers loans via mobile phone for inputs such as seeds and fertilizers. SVF also invested in Arifu, a personalized learning company that offers agronomic advice and financial skills training to farmers through mobile phones, giving them access to much-needed information.



Meanwhile, Mercy Corps' AgriFin program adopted a complementary systems-change strategy. AgriFin approached Safaricom, Kenya's largest mobile network operator, to leverage the new possibilities for mobile phones to transform small farm businesses and create a mobile solution to reach millions. DigiFarm was born.

With so many strong innovators in the Kenyan market, Safaricom elected to work with emerging fintech companies in agriculture instead of building the same functionality in-house. Typically, it would be almost impossible for an early-stage company to partner with a large mobile network operator, but AgriFin and SVF collaborated to provide critical support to the selected young companies, including Arifu and FarmDrive, as they refined their models to execute the partnership.

DigiFarm has now reached almost 1 million farmers and is well on its way to meeting Safaricom's goal to raise income and productivity for 3 million to 5 million farmers across Kenya. The DigiFarm partnership has also put Arifu and FarmDrive on a transformative pathway toward accelerated impact and scale. As FarmDrive Co-founder Peris Bosire says, "Successfully financing smallholder farmers is not a winner-take-all market. The Safaricom network is critical to significantly increasing the percent of commercial loans going to farmers. We're excited to be the lending engine of the platform."



RECENT INVESTMENTS

liftit

Website:	liftit.co
Year Founded:	2016
Location:	Bogota, Colombia
Founders:	Brian York, Felipe Celis, Angel Botto
Round Size:	Undisclosed
Mercy Corps' Share:	Undisclosed
Type:	SAFE (Seed Round)
Date:	September 2017
Exit:	October 2018

Market Need

Due to highly fragmented, inefficient and informal trucking industries, companies of all sizes struggle to ship their products from rural producing regions to end markets. The cost of logistics in some developing countries can be up to 40 percent of the product value, compared with about 8 percent in OECD countries. This ultimately results in lower margins for rural producers, lack of access to markets, or potentially uncompetitive prices for export-driven products (e.g., coffee and cacao).

The Liftit Solution

Liftit is a platform that makes it simple for individuals and businesses to schedule cargo shipments of all sizes throughout Colombia. Liftit provides quick and transparent quotations, real-time tracking of shipments, full-value insurance, and guaranteed same-day delivery. Liftit believes its drivers are the foundation of its success, and it carefully selects, trains and incentivizes its pool of drivers to ensure consistent service quality and shipment security. By leveraging Colombia's network of 500,000+ registered independent truck drivers, Liftit endeavors to both increase drivers' incomes and improve logistics services for companies reaching last-mile communities.

The Investment Rationale

Improving the existing inefficient logistics system has a huge potential upside. An IDB report entitled Too Far to Export argued that "Colombia emerges as the country with the most to gain from improvements in transport infrastructure and services: a 1 percent reduction in ad valorem transport costs can increase exports by as much as 7.9 percent in agriculture, 7.8 percent in manufacturing, and 5.9 percent in mining." We were also impressed with Liftit's team, technology platform and drive to make logistics work. (More on [why we invested](#)).

Liftit Exit

We're thrilled by the tremendous success of Liftit in such a short time frame and have profitably exited this investment. The company is fundamentally altering the quality, cost and availability of logistics at scale, and we're excited to have played a part in its critical launch stage. We're still hard at work building connections between Liftit's Colombia team and cooperatives and farmer groups in our network. We'll continue to be a supporter from afar as we try to better understand the ultimate impact that streamlined logistics can have on marginalized communities.

"We're on a mission to provide technology driven and affordable last-mile cargo transportation throughout all of Colombia," said Brian York, Co-Founder and CEO of Liftit. "With Mercy Corps' experience in rural logistics they greatly help us with our strategy and obtaining customers with rural farms, co-ops and associations."





RECENT INVESTMENTS



Website:	vegacoffee.com
Year founded:	2015
Location:	Nicaragua/Colombia
Founders:	Robert Terenzi, Noushin Ketabi, William DeLuca
Round Size:	\$400,000-750,000
Mercy Corps Share:	\$100,000
Type:	Equity
Date:	March 2018

Market Need

In the coffee supply chain, the profit is captured by the processors. Middlemen buy raw, green coffee from farmers at a pittance—despite the years of work and the high risk farmers take on to produce it—all while expecting traceability, specialty blends and a romantic story. Then the coffee is shipped to the U.S., where 90 percent of the profit is realized, and no sale prices are communicated back to farmers. This system creates a cycle of subsistence farming that keeps most farmers well below the poverty line, bound to their land by a broken supply chain.

The Vega Solution

Vega is fixing coffee's broken supply chain. Placing farmers at its core, Vega pushes value-added coffee processing (cupping, selecting, roasting, etc.) down to the farm level, allowing farmers—the majority of whom are women in post-conflict zones—to increase their incomes fourfold. Vega then manages the sales, marketing and logistics to ship the roasted coffee from the farm directly to U.S. consumers within five days of roasting—at the height of freshness. Vega's model allows consumers to meaningfully support farmers while getting the finest coffee varietals, at a fair price, delivered right to their door.

The Investment Rationale

Based on Mercy Corps' extensive experience in Colombia, we immediately saw the potential of Vega. The model isn't new—there is a graveyard reserved for co-ops, NGO programs and businesses that attempted to roast at origin and forge market access for farmers on more equitable terms. What attracted us to Vega was its humility and record of working in deep collaboration with Nicaraguan farmers. Vega listened, adjusted and built a strong operation from the ground up. Most importantly, Vega had the grit, hustle and tenacity to create a demand for the coffee among a growing set of monthly subscribers and, increasingly, corporate customers.

"We believe that only through direct transparency can we achieve our vision of transforming a historically antiquated and opaque supply chain into one that is transparent, equitable and sustainable and, damn it, produces excellent coffee."
— Vega Co-founders





RECENT INVESTMENTS



Website:	www.pula-advisors.com
Year Founded:	2015
Location:	Nairobi, Kenya
Founders:	Rose Goslinga, Thomas Njeru, Fritz Brugger
Sectors:	Agriculture; Financial Inclusion
SVF Investment:	Undisclosed
Type:	Convertible Note
Date Invested:	April 2018

Market Need

Smallholder farmers in Africa and Asia produce 80 percent of the food supply and face a 90 percent probability of crop loss due to factors such as pest outbreaks and severe drought. But most African farmers do not have any form of crop insurance. For them, buying insurance on an unlikely future event is a difficult decision because they have little or no discretionary funds to spend and the providers in the market are limited. Without insurance, farmers are less likely to invest in farm equipment or better inputs to increase their yields. They shoulder all the risk and are caught in a low-investment, low-yield, low-income trap.

The Pula Solution

Pula is radically restructuring agricultural insurance, using technology to help insure the previously unbanked, uninsured and untapped market of smallholder farmers. Pula provides farmers with insurance that is bundled with inputs and farmer advisory to help farmers increase yields and protect their income. For the farmers, the insurance is free. Agricultural input companies pay the premium to differentiate their product from their competitors' products, and the insurance is underwritten by third-party insurers/reinsurers. Pula's understanding of smallholder risk allows it to be the intermediary, collecting data that is used to serve farmers and providers alike. Additionally, Pula uses proprietary data sets to synchronize local advice, helping farmers achieve higher yield and income every season.

The Investment Rationale

We immediately saw a distinct advantage in how the Pula model addresses many of the core challenges microinsurance providers face in reaching sustainability, such as the high costs of educating consumers about complex insurance products, overcoming related stigma, and the added expense of incorporating insurance education at the center of the product. Josh Ling, one of Mercy Corps' financial inclusion experts, says that Pula's "key strength is that they build value for their distribution channel by helping them understand their customer base better. Insurance is a data business, and they collect the data at registration to create business insights for the distribution channel (e.g., seed company). The channel then becomes a champion for the insurance product and, in most cases, willing to subsidize it." This model, combined with the potential for impact, strength of the team and traction in the market, compelled us to jump in.

"To state that the weather and our climate is important to farmers is a gross understatement. The climate determines everything. At Pula we insure farmers, or to be more specific we insure the rains. We started Pula because we wanted to build the tools and the company that would enable farmers to take control of their own destiny."

—Rose Goslinga,
Co-founder and CEO, Pula



PREVIOUS INVESTMENTS



Colombia



Suyo: Public benefit corporation that unlocks the transformational impact of secure property rights by making it easier and more affordable for low-income families to formalize their property.

Bogota, Seed Round, convertible note, April 2017



Agruppa: Mobile technology streamlining the complex supply chains of key food items in Colombia by connecting produce farmers directly to mom and pop shops in low-income neighborhoods.

Bogota, Seed Round, convertible note, March 2017

Kenya



Arifu: Mobile training solution that provides people at the BoP with access to needed information, skills development and products.

Nairobi, Seed Round, convertible note, June 2017



Sokowatch: Last-mile distribution company that makes it possible for people in underserved communities to affordably access the health, sanitation and everyday household products they need to live healthy, productive lives.

Nairobi, Seed Round, SAFE investment, February 2017



Lynk: Two-sided online marketplace connecting youth in the informal sector with skill training and job opportunities in East Africa.

Nairobi, Seed Round, convertible note, August 2016



FarmDrive: Expands access to credit to underserved smallholder farmers by providing partner financial institutions with analytics and risk profiles used for real-time underwriting.

Nairobi, Seed Round, convertible note, June 2016



NewLight Africa: Direct marketing and distribution company that sells socially beneficial products to the rural poor and increases affordability through pay-as-you-go financing.

Nairobi, Angel/Seed Round, equity investment, September 2015

Indonesia



Wobe: Digital platform that enables anyone with a smartphone to become a sales agent for prepaid phone credits, utilities and other offline-to-online transactions.

Jakarta, Seed/Angel Round, convertible note, March 2016



Vasham: Provides Indonesian smallholder farmers with the input and working capital loans, advisory, and market linkages they need to achieve higher standards of living.

Jakarta, Series A, equity investment, March 2016

FAILS, LESSONS AND THE FUTURE

Investing, like entrepreneurship, is a process of continuous improvement. It is in that spirit that we share with you our failures and lessons learned as well as what's next for us in the coming year.

Failures

This past year, SVF hit an important milestone for a fund: its first fail. And then it experienced a second one. Although we invest early and expect company closures along the way, it does not make it easier to help dedicated entrepreneurs through the mentally and sometimes financially burdensome process of shutting down. Our hats are off to the founders of both Wobe and Agruppa for handling a tough situation with courage and fortitude.

It's impossible to do these stories justice in a short space, but these points from the Agruppa fail jumped out as ones we needed to share.

- } **There are layers to knowing your customer.** Value propositions may be perfect in theory, but it's crucial to learn how to test the roles that culture and behavioral idiosyncrasies play in their actual rollout. Agruppa was regularly surprised by the often uninformed or seemingly irrational behavior of farmers and shop owners—and the many factors that could influence their behavior—despite having a randomized control trial (RCT) that demonstrated its impact. In reality, the decision-making was more nuanced, and there was a disconnect between perceived and actual value created. Bottom line is that as investors, we gave too much credence to the RCT, and Agruppa wasn't asking its customers the right questions.
- } **Unfortunately funders, including SVF, can get in the way (Part 1).** Agruppa was our first investment in Colombia, and it took the founders and our fund longer than anticipated to get the documents done. It also put the company in a cash crunch that caused it to temporarily slow growth and lose some momentum. While legal due diligence and final document negotiation usually takes longer than expected, we're taking steps to ensure that our prospective investees and our fund align timing expectations for a smooth close.
- } **Unfortunately funders, including SVF, can get in the way (Part 2).** We took a major leap of faith and invested our funds before other investors, which were in varying stages of due diligence. Ultimately, Agruppa spent a lot of time fundraising instead of running the business. The consistent feedback was to come back when the business was at breakeven. We knew that we were investing early and that doing so was a risk, but we underestimated how shallow and fragmented the capital pool for agriculture-focused investments in Colombia was—in particular for a business with verified impact via a RCT and solid unit economics.
- } **The direct-from-smallholder model may not be the solution.** Others are developing versions of the Agruppa model. But it's likely they will hit a point where it makes more business sense to do their own centralized farming, in an effort to achieve economies of scale, smooth prices and costs, and maintain quality control. For investment funds interested in smallholder farmer livelihoods, this would then compromise the original impact intent of increasing smallholder farmers' incomes. It remains to be seen whether any macroeconomic benefits (e.g., stabilized prices for produce) will result in the wider ag markets or if a new iteration on the model can eventually incorporate smallholders at a certain scale.

Lessons

‣ **The juice is worth the squeeze.**

Since the start of SVF, we've been able to forge some catalytic partnerships between Mercy Corps and our ventures—you've read about two of them in this report. But we fail at doing this as often as we succeed. Brokering partnerships can be difficult, even from the inside. The incentives, funds, personalities and opportunities all must align. This can take time and sometimes does not come to fruition. Mercy Corps and our portfolio companies, like all organizations, change staff, which can result in changes in priorities. But when partnerships are formed (like that between Vega and Mercy Corps Colombia), they are transformational on both sides and ultimately help us all achieve our goal of positively impacting underserved communities sustainably and at scale.

‣ **We have to be even more thoughtful about learning.**

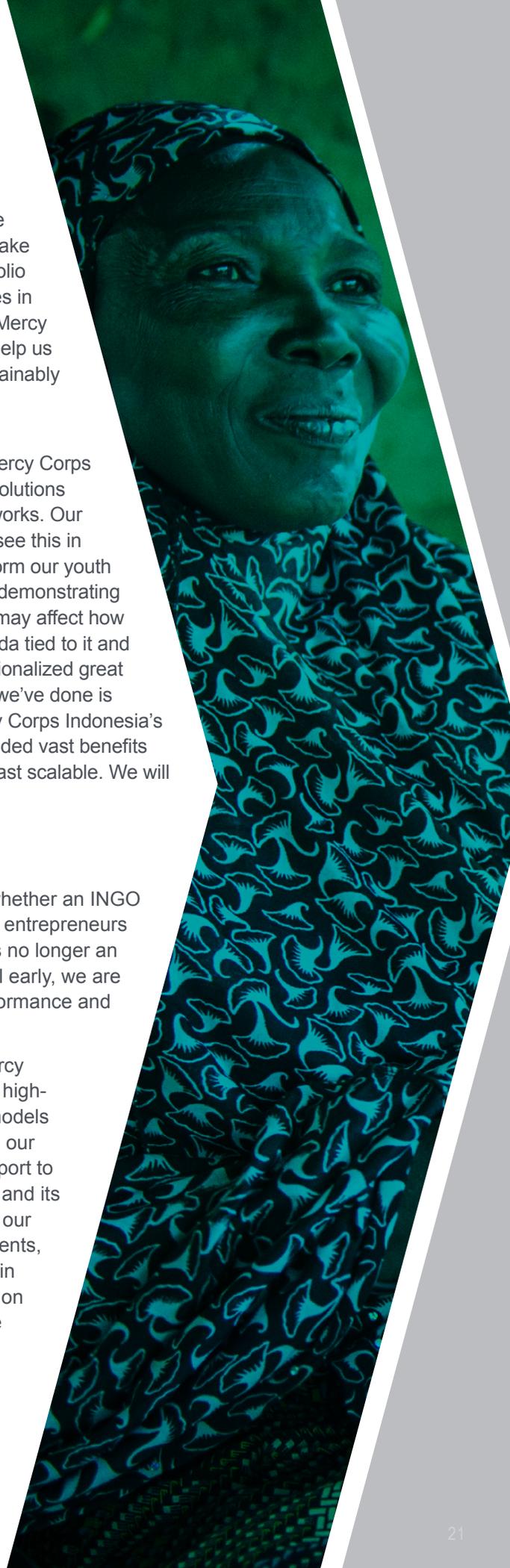
Similar to a corporate venturing approach, one of the reasons that Mercy Corps Ventures exists is so that Mercy Corps can deeply learn about new solutions that may be widely applicable across many of the fragile places where it works. Our ventures have informed and inspired our work across the globe. You can see this in Lynk's job-matching platform and entrepreneurial infrastructure, which inform our youth employment work in East Africa and the Middle East. Or in Arifu, which is demonstrating new ways to reach refugees in Tanzania's largest camp and whose work may affect how we work in Jordan. Although each of our investments has a learning agenda tied to it and we try to disseminate information as much as possible, we haven't institutionalized great systems to capture and share learnings. One of the most effective things we've done is bring strategic Mercy Corps team members on as board observers. Mercy Corps Indonesia's country director sits on the Vasham board—an appointment that has provided vast benefits both ways. These high-touch interactions are the most valuable but the least scalable. We will challenge ourselves in this area in the year to come.

The Future

When the SVF launched, it was an experiment—an experiment to see whether an INGO could play a role in impact investing and use its global resources to help entrepreneurs scale their ventures smarter and faster. Now, almost four years later, it is no longer an experiment. It is part of how Mercy Corps does business. Though it's still early, we are cautiously optimistic about our portfolio in terms of impact, financial performance and market positioning, and we all agree it's time to expand.

Over the next year, we will lay the foundation for the next iteration of Mercy Corps Ventures. We will focus on expanding our portfolio of early-stage, high-impact enterprises that align with our investment theses for innovative models in agriculture, financial inclusion and the future of work. We will enhance our post-investment support offerings to not only provide more strategic support to ventures but also create more catalytic partnerships within Mercy Corps and its global network of partners in the public and private sectors. We will take our impact management advisory to the next level through tailored assessments, design sprints and consistent follow-up. And we will share learnings within Mercy Corps and with the broader ecosystem. We will be more rigorous on gender and how we help investees grow with a gender lens. In short, we will systematize what's working, make key improvements, and position ourselves to reach our goal of supporting ventures to impact 30 million people by 2030.

We will make some more announcements about the future of Mercy Corps Ventures in the coming months. Hear the latest from us on [Medium](#) or through our [newsletter](#). Until then.





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