Notes from call between Village Enterprise and GiveWell on August 10, 2011

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GiveWell: How are business mentors (BMs) selected?

Village Enterprise: Business mentors tend to be fairly highly educated; many of them are teachers or clergy members, or employees of social service organizations with a related mission. Some are retired business people.

This year we've introduced "employed Business Mentors," who we're hiring as full time staff members, some of whom were previously BMs and some of whom we've hired for the first time. We're currently training the new BMs and bringing them up to speed. Before this year, we used volunteer BMs, who received a stipend. We have shifted to employed Business Mentors because our program of spot-checking businesses identified more variation than we desired in the amount of mentoring the businesses received. Some mentors did a great job, but others did not have the time to deliver a sufficient amount mentoring, and as volunteers, who typically held another job, we could not require that they spend more time. We also realized that it makes sense economically to offer full-time employment to business mentors. While we pay more in salary to an individual mentor than we pay in stipends to a part-time volunteer mentor, the full time mentor can start, train, and support more businesses and business owners, making it just as economic (or even more so) than the non-staff business mentor. At the end of FY 2012, we expect that 25 of the 60 business mentors will be full time employed BMs, who will have more businesses under their purview. They're expected to visit those businesses once a month, and we've instituted some checks on that.

We've also changed our model since we were last reviewed: BMs do not handle any of the funds any more. All of the funds are now handled by the staff, and we have hired outside firms to actually deliver and disburse the funds. We have staff in each of the countries who go to the training sessions and disbursements to oversee the delivery of the funds.

GiveWell: Why do you think staff are less likely to misappropriate funds than BMs are?

Village Enterprise: Staff are less likely to steal funds than BMs because they are under more supervision. But we are not simply relying on the trustworthiness of our staff. We have paper trails and field audits to make sure that if there is any mishandling, it will be seen. A random sample of the business started by every Business Mentor will be spot-checked to ask how much funds they received and to review the quality and amount of training and mentoring they are receiving. All movement of money is documented. Our field audits have been very helpful in identifying any mishandling.

Additionally, we have changed the way that disbursement amounts are communicated and funds are distributed. When we first start to work in a village, we have a community meeting with the village leaders and anyone else interested to explain our program. The village at large is informed of our program, including the grant amounts that we disburse each business, and we encourage the reporting of any variance they hear about. The amount of the disbursals is also clearly communicated to our program participants so they know what they are to receive during the pre-disbursal trainings. Second, all disbursements of funds (the initial $100 and the follow-on $50) are done as a large group setting with all the business owners receiving funds in that area during that calendar period, so that everyone is jointly witnessing the distribution of the proper amount of funds. Another change is that the funds are delivered by an armed and insured delivery service (much like Brinks in the U.S.).

GiveWell: Have you detected any misappropriation of funds?

Village Enterprise: Yes, we found six BMs in Uganda had taken a small piece of the second grant, around $5 of the $50 second installment. The amount of money is small, but we had a zero tolerance policy, so we dismissed the six BMs.

Then we did a random sampling of businesses from all the BMs in both countries. From that, we found some suspicious instances, but nothing proven, so some people were put on performance plans. Others were asked to retire because they weren't doing their job well – they were doing poorly at targeting and weren't visiting businesses as often as we wanted. Some of those people had gone back and qualified people to start businesses and receive funding who had given grants in prior years.

GiveWell: Have you implemented any of the activities you said you were considering to prevent or detect fraud? How did you notice the six people who had misappropriated funds?

Village Enterprise: The evaluation of a conservation program we've been conducting detected the shortfalls in some of the payments in Uganda. That's part of why we feel so strongly about measurement and evaluation.

We also made the formal zero tolerance policy that we mentioned we were considering, which is emphasized in our trainings and in our HR manuals. And all of our Business Mentors are aware that we caught and fired these six who engaged in shortchanging some of their businesses.

Our auditor, conducting our annual audit, went into the field and looked at 25 small businesses she picked herself, and she felt good about them. That was done recently, in June and July.

We're also increasing the number of random audits we're conducting, by both local and U.S. staff. Every Business Mentor knows that a random selection of their businesses will be audited.

GiveWell: Could we see any reports from the annual or random audits? What is the schedule of audits going forward?

Village Enterprise: I'll look into getting you whatever the auditor shares, which should be done by the end of November. You are welcome to see the results of random audits in the field as well, which are quarterly.

GiveWell: Have you changed your targeting system at all?

Village Enterprise: Yes, we now use a process that takes it out of the BMs' hands as much as possible. We use a Progress Out of Poverty Index (PPI) derived from Grameen, with spot checks on 20% of the targeting data. Independent evaluators are hired for some of our studies, and they spot check 20% of the targeting data. We also have introduced using a Participatory Wealth Ranking

(PRW) system initially when we enter a village, which involves the leaders of a community in identifying and ranking those they think meet our measure of "extreme poverty."

We're continuing to use our Standard of Living Index (SOLI) for longitudinal tracking, but not for targeting.

GiveWell: Have the spot checks started already? Who are the independent evaluators doing the spot checks?

Village Enterprise: Yes, the spotchecks are going on.

GiveWell: Do BMs still only assess the standard of living of one member of each group? How is that person chosen?

Village Enterprise: In the field, we found that some BMs would try to pick the average, some would pick the leader (who is usually the one with literacy and numeracy). Some BMs were picking the poorest person in the group. Our training programs now have a consistent norm for how to pick who the business mentor evaluates. Our new process is to make every effort to assess two people per group.

GiveWell: The report to the Disney foundation that you shared suggests that there is a control group – can you tell us anything about that?

Village Enterprise: That evaluation should be done by the end of the November and posted on our website. The control group is a group of the people who have been identified to participate but who have not yet started the program. They're going to be participating in the future.

[From this evaluation report:

"In order to find a control group population that was as representative of the sample group as possible, the team decided to interview the chairpersons of newly formed VEF business groups. Although they knew about the VEF program, these individuals had not received any training or any grant money. Therefore, their personal profiles should be similar to the sample, but they had no program experience.

The control respondents were picked by mentors. The first group of 15 was part of January 2011 funding groups, but they had not yet been trained nor received their grants. Additional control interviewees were selected by mentors from groups that they were organizing for March 2011 funding in Kirima, Nyabigoma, and Kyempunu Villages.

The ideal sample of the control group would have been equal to the beneficiaries' sample. Due to time and resource constraints, it was not possible to interview an equal number. However, statistically, a sample size equal or greater than 30 is considered to be valid. 46 respondents were interviewed as the control group for this research project."]

GiveWell: Why did you decide not to randomize?

Village Enterprise: I think there were ethical and cost concerns and that this control group was the most like the ones who were in the program, which is important for comparison purposes.

GiveWell: Why were so many more of the randomly selected businesses located in the Longitudinal Impact Assessment (LIA) than the preliminary Impact Assessment (IA) (97% vs. 72%)?

Village Enterprise: When the initial impact study was done a lot of the businesses were in Uganda and due to the LRA and political situation, in which people in the North were in flux, moving in and out of IDP camps, they were harder to track down later. We are impressed that our evaluator for the recent study was able to find so many businesses, especially since we did not include the business mentors in the process this time, which would have made it easier.

GiveWell: In that LIA you find that most businesses are surviving for two or three years. We were wondering how you know that businesses that still exist are profitable?

Village Enterprise: That evaluation focused on whether businesses are still operating; we didn't ask the evaluators to focus on profitability. There were some question about profitability, but since that wasn't the focus, we have fairly low confidence in those results. Of course, there are different categories of "still operating," and the report discusses the different number of group members still involved.

We're trying to shift to a "business in a box" model where we get people to take on businesses that we think is likely to be profitable, rather than just doing what they've done before.

GiveWell: Have you encountered the problem of too many of one kind of business in an area?

Village Enterprise: We're developing a tool for looking at the whole village-wide picture, trying to deal with this issue. The tool will assess what kinds of businesses are already operating in the village area and define others that the community would benefit from or that have opportunities to benefit from regional trading or further processing (e.g., sunflower mills to process sunflower seeds). If everyone raises tomatoes, that's a huge problem, and we're working on that.

We've also been trying to help people move up the value chain, such as by organizing a cooperative group of farmers to negotiate for better prices with a sunflower mill. I have a two-page summary of that program that I can send you that gives an overview of the program.

GiveWell: Who goes to the village to get the "village-wide picture?"

Village Enterprise: I'm not sure. I can find out.

GiveWell: The business owners surveyed said they want ongoing/increased contact with BMs (LIA pg 14). Has that program model been changed?

Village Enterprise: We're looking at instituting a program so that when the BMs visit, they stamp a form that the owners have showing that they've been there. That's an attempt to motivate visits by the BMs. We're trying to move to more of a checklist structure to ensure that BMs are asking the right questions and giving the right advice during those visits. They go over the books.

We are also moving to our model of employed business mentors to address this issue. There is naturally a variation in the amount of time that some of our volunteer business mentors have for mentoring, whereas we can stipulate how the employed mentors spend their time.

The LIA shows that one of the biggest reasons groups break up is interpersonal conflict. One of the things business mentors do is try to resolve disputes. They have some wisdom and a lot of status in the community, so the business owners tend to listen to them.

GiveWell: Can you tell us about the new Business Savings Groups (BSG)?

Village Enterprise: In poverty alleviation, savings are really important, especially for farmers who face huge income variability. We moved our groups of five to groups of three, though we still give the same size grant. We think businesses will be more profitable with three people. The BSGs consist of ten businesses, or about thirty people, and we start them around the time of disbursement of the second part of the grant that a group would receive.

The BSGs write their own constitutions, though Village Enterprise offers a recommended structure. Some have required entry amounts; some have ongoing contribution requirements. Many are offering credit within the group to one another, and the interest paid goes back the group so they all benefit. They decide amongst themselves who gets the loans. This is part of our exit strategy from the villages, as the businesses we have started will continue to find support from each other through their savings groups

GiveWell: How many clients in the BSGs so far? How much money spent?

Village Enterprise: We piloted them last year with funding from a foundation. Every business group started at least since June 2011 is or will be in a Business Savings Group.

GiveWell: Are clients able to access their own funds when they need them?

Village Enterprise: Pretty much all of the details are left up to the BSGs themselves, because they write their own constitutions. We provide templates, but they write them themselves and set their own rules. I can send you a sample constitution from one of the groups.

GiveWell: Are those in English?

Village Enterprise: Yes. All of our training documents are too, but the people in the field translate them into the local dialects. The constitutions that I saw in the villages were in English. I'll look into whether the constitutions are translated into the local dialects so they can all understand what they're agreeing to.

GiveWell: Are you doing any monitoring or evaluation of those groups? Can you share any documentation?

Village Enterprise: While the business mentor attends the first several of these meetings after the groups are formed, the groups are fully independent once the mentor is done with the one-year mentoring part of the program. Evaluating these groups will be part of our new 5-year Measurement and Evaluation Plan.

GiveWell: Can you share a budget broken down by program type (e.g. savings, grants, conservation, etc)?

Village Enterprise: I'll look into it. The most expensive program is the conservation program, which is more intensive than our typical programs. The pump business is also more expensive because of the costs of the pumps.

GiveWell: Have you had any reports of jealousy in the community about some people receiving grants while others do not?

Village Enterprise: No, we have received no reports of jealousy. BRAC does a transparent, public process for choosing participants. We're doing that with our targeting Poverty Wealth Ranking (PRW) tool and PPI, trying to be transparent. We're also trying to keep our costs in check, though, so we're going to involve the village chiefs, invite people who are interested and explain the whole process. The goal is to take the subjectivity out to eliminate jealousy.

We're doing a PPI on the people already identified as poor by the participatory wealth rating.

GiveWell: What percent of a village might be getting grants? Are we talking 5%? 50%?

Village Enterprise: I'm not sure - I'll ask. Our goal is to stay in a village as long as it takes to serve each family who qualifies for our program, which is typically 2-4 years.

GiveWell: How do you pick the villages to go into?

Village Enterprise: I'll ask our people in the field.

GiveWell: Do you have partnerships with other organizations?

Village Enterprise: We have a small partner organization, Boma, that we're funding. They use our model up in this very arid area that we couldn't otherwise reach without starting a new office. We also have another partner, the Masai Girls Education Fund, which also uses our model, but which we don't fund. We did loan a business mentor to them. We're exploring partnership as a strategy for growth.

GiveWell: Can you walk us through your recent leadership transition?

Village Enterprise: Our founder and former executive director left a year and a half ago, in March 2010. Our new CEO, Dianne Calvi, joined in August of 2010. Board members and former board members contributed significant restricted funds to cover the costs associated with that in FY 2010 and FY 2011. It was $150K in one year, and nearly $200K the next year to cover those costs. We're paying closer to market rates for our CEO now, but our board stepped up to provide the funds for that. Dianne has done an outstanding job of ramping up very fast. She led the board and staff through a thorough and thoughtful strategic planning process and developed a new 5-year strategic plan that the Board approved in April. She has provided outstanding leadership to the staff. The transition has been virtually seamless.

GiveWell: What portion of overall funding is spent on just the grants?

Village Enterprise: I can send our budget documents for FY 2012 to get you the exact figures. We've been doing this for a long time, and we've found that just handing people money is of little value. What makes the difference is the complete package of funding, training, mentoring, and savings.

GiveWell: Looking at your 2010 audited financials, it looks likes grants ended up being in the ballpark of 20% of total expenses. In our review from late 2009, we estimated that 2010 grants as a proportion of total expenses would be about 40%. Part of that looks like it was our mistake: in the 2009 "Gap Analysis" document that you shared, there was a line item for "Grants to small businesses (including mentoring)," which we appear to have misinterpreted as just grants. In your 2012 budget, though, the percentage of all expenses going to grants goes to the mid 20s, and you've mentioned that you're planning to continue to grow. Do you know what portion of your expenses you expect to go to grants in the future?

Village Enterprise: For FY12 that number is expected to be 28%. I want to point out though, that we've learned over the years that focusing is better, and that we add a lot of value with the rest of our spending. Just giving cash isn't as good, we think. Our product is better now that we spend more money on training and other services. We're also spending a lot more on monitoring and evaluation.

GiveWell: Can you share an updated room for more funding analysis? Where would you spend additional funding?

Village Enterprise: We're just starting FY 2012, and we estimate our funding gap for the year at about $500K, spread across program and management & fundraising. We're aiming to start 2,400 businesses this year, after starting roughly 2,000 last year.

I'm not sure exactly what the breakdown for that $500K is, but if we do not raise it there would certainly have to be cuts in the number of businesses started and in staffing levels.

GiveWell: How is your model different from Trickle Up's?

Village Enterprise: We think our group model (starting businesses with at least three people per business, vs. Trickle Up's one-person businesses) leads to lower risk of failure. Businesses can be destroyed by random accidents, and groups are less risky because they share the responsibilities of running a business. We've shown in our research that each business owner impacts five people, and so we think it's good that we have more business owners. Also, we have more control than they do because we operate on the ground rather than through partnerships. We're moving a bit towards partnerships, but slowly.

GiveWell: What was the difference between what was projected for FY 2010 and what happened? You ended up spending less on grants than expected, and we're curious why.

Village Enterprise: I'm not sure. Let me look at the financial statements. We had about $212k in one-time costs associated with severance and contributed legal services for that fiscal year, which caused a one-time inflation of our management and general administrative costs, so the percentage spent on grants appears to have dropped more significantly. If we adjust for those one-time costs, for a total expense figure of $1,009,400, the percentage spend on grants alone ($249k) would be

25% of total expenses, instead of 20%. We expect for FY12 for that percentage to be about 28%.