

**Phone conversation between GiveWell (Elie Hassenfeld and Natalie Stone) and Vipani (Thomas George) on 10/28/09**

**GiveWell:** We had a chance to review the documents you sent and we are excited about Vipani. We were hoping to talk more with you about what you do and the reports you sent.

**Vipani:** That sounds wonderful. I am happy to provide you any clarifications and answer any questions you may have.

**GiveWell:** Vipani's program includes a lot of different approaches to helping farmers. Can you tell us or send us more info that has more specificity about how often each activity is going on?

**Vipani:** Our approach is to address the multiple challenges poor farmers face all at once. Vipani recognizes that smallholder farmers do not have access to tangible inputs that they need to increase their earnings. Vipani also recognizes that smallholder farmers, suppliers, and buyers do not have the leverage or incentive required to establish long-term, mutually beneficial relationships with one another. So, we work to bring all of these things together. For example, we start with helping farmers choose what they would plant. It is not all that beneficial looking for better prices at harvest time. Buyers know forward prices, but farmers don't have the same information. Every crop has decent profit margins at different times of the year; these margins are also affected by unexpected factors such as drought. We help farmers diversify their crops based on expected future prices. We distribute this information to farmers through our local Vipani Units. For example, the area we currently operate in the Central Province of Kenya is known for French beans, a crop that can be highly profitable during parts of the year. There are about 6 export companies who have been operating in the area for the past 10 years or so. But, smallholder farmers growing French beans in the area have not prospered. We look to see what future prices buyers are offering. The local Vipani Units then distribute production targets to farmers with known crop, known buyer, and known price. Once a farmer has chosen a particular crop to plant, he/she would also need a loan to purchase inputs and crop advisory to grow the crop well. All of these needs must be met for poor farmers to be able to prosper.

**GiveWell:** So you do the negotiation up front?

**Vipani:** Well, we do the research ahead and invite buyers offering acceptable future profit margins. The buyer agrees what quantity they want in the future and the specifications and we propagate that information to the local Units which distributes the production targets to farmers.

**GiveWell:** What are 'Units'?

**Vipani:** The Vipani program is provided through Local Economic Units (LEUs),

Vipani's distribution model. Each LEU offers network services to approximately 500 farming families.

**GiveWell:** How would buyers connect to farmers without Vipani?

**Vipani:** Buyers usually use brokers to procure produce for them. Some buyers use their own staff organizing farmer groups to produce for them. Farmers usually respond to price on offer at harvest and to instant cash payments from brokers. This leaves a lot of broken agreements at each crop harvest. What we are changing is that regardless of crops or the time of the year, farmers should be able to plant what would give them an acceptable profit margin upon harvest and they would keep their agreements with the buyers.

**GiveWell:** Do you have any reports that identify the crops, the terms of the agreements and what we would have expected farmers to get without Vipani?

**Vipani:** During the past five years, our focus has been on refining our approach and getting it to work more efficiently rather than expanding the farmer base or adding crop choices. Nonetheless, we had gone through about 8 crops at various times: maize, French beans, butternuts and tomatoes, for example. The area we are working in right now is a French bean area. Farmers also grow maize, beans, bananas, cucurbits and some other crops. We currently have a major French bean production program that farmers are very interested in. Now that we have shifted gears from testing our approach to expanding our farmer base and adding more Local Economic Units, we are looking to diversify crops for farmers by including staple cereals and legumes. We are just coming out of a long, severe drought; agriculture had suffered all over Kenya. But the rains have started this month, so that is a good sign to diversify crop choices. Without Vipani, farmers would continue to practice what they have been doing before, plant a bit of that crop and a bit of this crop and just hope for the best.

**GiveWell:** Do you provide all services to all farmers?

**Vipani:** We consider what we offer not as services, but a network model, where we mitigate the information asymmetry and enable farmers to access all ingredients they need – crop choices, loans, technologies and fair prices. Some of the farmers we work with don't even own land. None of them have ready cash on hand, and most have a hand-to-mouth existence. Most would want access to all of the ingredients the network offers. Very rarely farmers want to finance their own crop and usually only when they had accumulated some assets. Also, when farmers finance their own crops, some tend to bypass the agreements and cut corners on good agricultural practices. Some farmers have done this in the past and then tried to sell a crop to a Vipani-arranged buyer. But, buyers would not want crops of unknown history that these farmers offer. So, in principle, farmers need not access all the ingredients the network offers, but in practice they do. And, from the buyers' perspective, it is better that farmers access all ingredients so that there are no compromises made on inputs

and good agricultural practices.

**GiveWell:** Do you first identify a buyer or do you start with farmers?

**Vipani:** We recruit farmers and validate their ability to participate in the Vipani program. Separately, we invite buyers and find out what they need. Then, we match farmers with buyers..

**GiveWell:** Do you ever have farmers without buyers?

**Vipani:** Yes, we always have farmers in our system. And, we also have buyers. We match them as needed. It is not necessary that all farmers must grow crops. There are sometimes farmers in the system who are inactive because of a variety of reasons. Some farmers might break their agreements, for example, sell fertilizers bought on credit instead of applying to their crops or sell produce to brokers who come with ready cash at harvest time. These farmers will be stopped and will stay inactive. There is a process for reincorporating these farmers.

We stop farmers from further participation when agreements are broken. Many farmers will come to our Unit coordinators to join the program because they see that we make it possible for them to access loans, technologies, good prices and so on. Some farmers are happy to just avail these facilities and not follow through with their agreements. This is exactly what Vipani is working to change. It is easy to give capital, technologies and the like to a farmer, and he/she will certainly gain in the short term. What is difficult, but a must for economic empowerment, is a change in behavior towards honoring one's contracts to others.

**GiveWell:** How often does it happen that farmers do not plant the first crop as agreed?

**Vipani:** When we started testing the method, it happened almost 100% of the time. Some will plant later than agreed, some will plant in poorly prepared land, and some will not plant at all. Over time, things got better. The message is that "to prosper, one has to keep one's agreements." We do not expel farmers from the program; we just ask them to remedy their broken agreement.

**GiveWell:** Do you have any thoughts on the fact that many microfinance institutions report very high repayment rates while yours are so low?

**Vipani:** As I mentioned before, we have spent the past five years refining our method to get farmers to change their behavior towards honoring their contracts. As such, we cannot expect high repayment rates during this testing phase. Over time, the repayment rates have increased significantly. Our approach can now produce average repayment rates well over 90%. About microcredit, as you already know, it relies on peer pressure from group members for repayment. This works well and keeps the repayment rate high. Our approach is to change the underlying

behavior of the individual so that he/she repays on his or her own.

**GiveWell:** Is that why Vipani doesn't use a group repayment scheme?

**Vipani:** Exactly.

**GiveWell:** Could you tell us more about why MoneyMaker pumps did not benefit your pilot farmers as expected?

**Vipani:** MoneyMaker pumps were already in use by some farmers in the area we chose for the field test of our method. We found that only 8% of the pilot farmers we recruited in to the program owned a MoneyMaker pump. We thought, wrongly, that pumps would accelerate the process of getting more people out of poverty if loans were offered to all farmers to purchase pumps. Most of our pilot farmers took advantage of this and purchased pumps. But, the pumps benefitted only those who did everything else in addition to irrigating their crops correctly including keeping their agreements. Offering loans for pumps before the other elements were in place was a mistake.

**GiveWell:** What happened that didn't allow the farmers to be successful with the pump?

**Vipani:** Now, remember that we are talking about pilot farmers at an early stage in the field test of our method. For irrigation to work, the farmer must plant and manage his/her crops well. If the farmer did not plant the seed to begin with or failed to apply fertilizer at the right time or missed controlling pests, or missed irrigating at the right times, the pump will not be of that much benefit to the farmer. But, even if the farmer had a bumper crop with the high quality inputs and the pump, it still does not guarantee that he/she will prosper. Some farmers chose to side sell produce to brokers at prices way below what they could have obtained from the Vipani-arranged buyer. They did so to avoid or delay repaying their loans. So, they were left with a debt and a pump with no ability to purchase inputs to continue farming. Also, some of our pilot farmers never had the opportunity before to farm properly. So obviously, they have some learning curve to climb before irrigation can be of major benefit.

**GiveWell:** What do the 'quartiles' in your impact report mean?

**Vipani:** These are the top and bottom 25% for each category.

**GiveWell:** Is the \$150 baseline an average of farmers' income before the project?

**Vipani:** Yes, it is an average, which shows that we were working with very poor farmers. Over time, though, we have added some less poor farmers as well because our aim is to create local economies where most, if not all, smallholder farmers in the area would be participating.

**GiveWell:** How do you calculate farm profits?

**Vipani:** Revenues minus all costs of production including the cost of loan. We have this information for all farmers in our system.

**GiveWell:** Do you only collect information on participants, or on other members of the community as well?

**Vipani:** We only collect data from participants, but we recruit farmers in a way to saturate each geographical area. Thus, our data represent most farmers in the area.