



# SILC Innovations

## LEARNING UPDATE

### Paying for PSP Services—The Journey Towards a Sustainable Fee-Based Approach



#### *Introduction*

When CRS and its partners launched the Private Service Providers (PSP) pilot in August of 2008, one of the goals of the project was that of building a market driven model to ensure the sustainable delivery of SILC services to communities in need. The idea behind testing a market driven approach was to determine whether communities interested in SILC services would be willing to pay for the services of a certified PSP. This paper highlights some of the findings from CRS and its partners in the three countries as they work with PSPs and communities in understanding the market value for SILC services through a fee-based approach. It should be noted that the information being provided in this paper is qualitative and is reflective of some of the early learning gleaned from initial observations. A more quantitative analysis is currently underway and involves the collection of data from partners in three countries on a quarterly basis. Once sufficient data has been collected to facilitate a comparison, a subsequent paper will be developed. In the meantime, the findings shared in the paper are designed to highlight some of the early lessons learned from the communities and the PSPs as they seek to negotiate the payment of their services.

#### *Embracing Certification and the Willingness to Pay for PSP Services*

The idea of the certification of PSPs and the movement toward a fee for service approach has been met with mixed reviews. Community leaders have been open to the idea as they see this as a way of building capacity within their community for the improved delivery of SILC training. SILC members however have expressed mixed feelings about the PSP approach. On one hand they anticipate increased benefits from receiving support through a qualified PSP. The SILC groups seem to understand and appreciate the importance of the certification process as it would ensure the quality of the SILC training and supervision received. On the other hand SILC groups have been concerned about the costs involved in retaining these services. While community members see value in a service, they are often hesitant with regards to paying for it.

In many of the communities where CRS and its partners operate, community members have been accustomed to receiving certain social services free of cost or at a subsidized rate. In countries such as Tanzania and Uganda, there are a number of other savings-led service providers including CARE and Oxfam that are operating in some of the same communities or close to where the SILC innovations pilot is taking place. Some of these other service providers are supporting savings groups with subsidized cashboxes, stationery, training and supervision. CRS' model is that of encouraging groups to pay for their own kits, stationery and training through the support of certified PSPs. The dilemma between subsidized services and services offered at a cost has raised some concerns among PSPs regarding how best to deal with the competition and be effective in a distorted market.

### ***Working in Communities Where Other Service Providers Exist***

The issue of competition from other service providers as stated before is a reality that all three countries are facing. In situations where this is occurring CRS and its partners have had to be more intentional in engaging these competitors in dialogue to understand the various methodologies that are being promoted in the shared communities. In Tanzania for example, CRS has frequent meetings with CARE to map communities where their operations are overlapping. CRS has also invited CARE staff to participate in sensitization meetings with communities. While this dialogue does not eliminate the element of competition, it is helping to mitigate potential conflicts that may arise from a lack of knowledge of each of the various methodologies.

In addition to competition from external practitioners, there are some internal discrepancies that are being resolved with CRS and its partners that are not currently participating in the SILC innovations pilot or had worked in communities prior to the launch of the pilot. For example, some PSPs in Mombasa, Kenya, had experienced challenges in negotiating payment with their SILC groups based on the group's assumption that CRS would continue to pay the stipends of the field agents (FAs) as it had done in past projects. While there were communications made with the community regarding the intention of moving to a fee for service approach, SILC groups were still holding on to the hope that CRS would change its mind.

Regardless of whether competition exists from external providers or internally during the transition to a new model, what has been noted is the importance of consistent and clear messaging to community members that outlines the differences and benefits of the PSP approach.

### ***The importance of messaging***

Despite some of the initial hesitation that has been experienced in communities in all three countries, one of the ways that PSPs have been able to encourage payment has been attributed to their messaging. Initially PSPs did not have strong enough marketing skills to promote the PSP model to communities and expected CRS and its partners to promote the approach on their behalf. Given the importance of promotion in ensuring buy-in and credibility within the

community, PSPs have been encouraged to work more intentionally at enhancing their engagement with the communities through sensitization exercises. This is helping ensure stronger support for the value of the PSP services and better position PSPs for price negotiation and payment in the future.

In Uganda, some of the new PSP networks are helping to support their PSP members with marketing, promotion and community sensitization. In a few instances, rather than having one PSP conduct the sensitization exercise with the community, a number of PSPs within the network have been engaged in promotion at the community level. This group engagement has helped to reinforce the credibility of the PSP to the community.

As stated earlier, the actual messaging of the value of paying for services of a PSP is important. In communities unaccustomed to paying for social or even savings services, trying to convince them of the value of the PSP's services can be a challenge. This challenge however is not insurmountable. In Uganda, PSPs have been able to think creatively in their messaging campaigns to communities. PSPs have been able to encourage payment by drawing correlations between paying for a PSP's support and the payment of certain other important services. For example, many households are often willing to pay for certain fees related to child education, veterinary services, and health services which they consider important. PSPs are educating households on the importance of paying for SILC services by helping households see the value it provides in improving access to financial services, smoothing consumption, and growing their income. One of the strong selling points for SILC members is the dividends that are being earned at the time of the group share-out. Many groups need the technical support of a PSP at the share-out. By explaining that paying for SILC training is an investment particularly in ensuring they receive their fair share at the end of the cycle, a SILC member may be more inclined to pay for the services of a PSP.

### ***Building the Marketing Skills of PSPs***

Given the need for PSPs to negotiate payment with the groups, equipping them with marketing skills has been essential. While some PSPs have managed to successfully negotiate payment with their groups, others are still struggling to secure payment particularly with groups that they were supporting prior to being certified as PSPs. Some of the ways that PSPs are working to mitigate these challenges include:

1. Conducting regular meetings with other PSPs and CRS to discuss challenges and map our strategies to address issues.
2. Facilitating exchanges between PSPs being paid and those that are not so that they can share experiences and help each other improve their negotiation skills.
3. Sensitizing the community on the benefits of receiving SILC support through a certified PSP.
4. Engaging the PSP network (where networks do exist) to support group promotion and sensitization to communities in helping to build the credibility of PSPs.
5. Promoting SILC to newer groups rather than simply trying to encourage

payment from older groups. This is seen as important as older groups tend to have a stronger capacity toward operating independently and may have less of a need for a PSP's services. By focusing on newer groups, a PSP is able to expand outreach of SILC services to underserved communities.

### ***Does Training Currently Exist for PSP Negotiation?***

To date, no standardized training exists to support PSPs in building their negotiation skills. This however has been identified as a gap and is being demanded by PSP. In countries such as Kenya, CRS and its partners have organized informal training initiatives to build the confidence of PSPs. While no formal curriculum has been used, the demand for additional skills has highlighted the importance of perhaps focusing more time on building the negotiation skills of PSPs in an intentional way. As the project progresses, project staff will work to develop further guidance to support the capacity building of PSPs in this area.

### ***Negotiating Payment with Newer Groups vs. Older Groups***

Based on the experience in the three countries, PSPs have had more success in negotiating payment with newer groups that did not have prior experience with receiving their SILC services for free, than existing groups. With these groups it was easier to incorporate discussions on the fee structure along with the type of services they could anticipate from the PSP over the course of their SILC cycle. While PSPs are having success with newer SILC groups, many have experienced some resistance in dialoguing with older groups that were not accustomed to paying for their SILC services. Some of these groups are still in need of additional SILC services and have not been willing to pay the necessary fee. The strategy for engaging these older groups was to talk to them and explain why payment was important and specifically what services they were paying for. In many cases PSPs had to negotiate the costing of these services so that it would not be seen as a burden. Additionally it is expected that older groups that are more mature will not necessarily need PSP support. The intention of the PSP model is to create sustainable SILC groups and not create a sense of dependency for groups that are capable of operating by themselves.

### ***Working with Poorer Groups***

One of the concerns that FAs and PSPs had with regards to SILC groups and their willingness to pay has to do with the poverty levels in certain communities. Some FAs at the start of the project had expressed concerns that SILC groups in certain communities may not willingly pay for their services due to their poverty levels. As the project has progressed however PSPs have noticed that many involved in SILC have already demonstrated their capacity to repay their loans, contribute toward savings, and contribute towards their social funds, and as such should have a reasonable capacity to pay these fees. While the fees negotiated with a PSP are likely to vary from group to group there have been strong trends in the willingness of a group to pay something for the services they are receiving. What remains to be seen is whether the amounts paid to the PSP will cover the PSP's opportunity cost.

Additional concerns include the possibility that PSPs may be more inclined to work with groups that demonstrate a stronger ability to pay in cash as opposed to those that are likely to pay in kind or can't afford any kind of payment. Given that the SILC is an appropriate financial mechanism for poor communities, program staff will need to keep this concern in mind to ensure that very poor households are not alienated from participation in SILC activities and the support of the PSP.

### ***How is payment being calculated?***

Currently, the pricing structure is being freely negotiated between the PSP and the group. While there is a need to set a base price it is important that PSPs are sensitive to the economic status and ability of each group to pay the fees. Payment and pricing structures tend to vary based on a number of different factors. These factors may include:

- 1) The distance to the SILC group.
- 2) The location of the group (urban vs. rural).
- 3) The training that needs to be covered.
- 4) The level of supervision and services that are needed e.g. conflict resolution, support for record keeping, and support during share out.
- 5) The size of the group.

Project staff have been giving further thought to possibly establishing some guidance for PSPs to help them better calculate and negotiate their fees. While this guidance would be helpful for PSPs to better bargain with groups, what is most important is that of ensuring that the PSP and groups come to a mutually agreed upon fee and fee structure for payment.

### ***Means and Timing of Payment***

The means of payment and timing of payment for PSPs tends to vary from group to group and is contingent on the agreements established between the PSP and the group. While some PSPs are able to receive cash payments from their groups, others are receiving payment in kind such as food, produce or labor. For example in a community in Shinyanga, Tanzania, a SILC group has been paying for the support of their PSP through a labor exchange on his farm. The trends of payment in-kind seem to be more common in rural communities or among SILC groups with poorer participants.

Regarding the timing of payment, there are a number of approaches that are being observed. These include:

- 1) *Receipt of payment at the end the month.* In this scenario groups may choose to collect the fees of the PSP monthly from their members or accumulate payment on a weekly basis which is then set aside for the PSP for the end of the month.
- 2) *Receipt of payment at the end of a cycle.* Some groups find it easy/convenient to pay the PSP during the time of share-out. This approach however may prove less convenient for PSPs in terms of the timing of their income.



Finally groups have been discussing different ways of accumulating the fees of a PSP. In Kenya, some groups have come up with the idea of establishing a training fund to pay the PSPs. As such each member would be required to contribute an agreed amount at each SILC meeting. This fund would be separate from the savings and social fund of the group.

### ***Looking to the Future—Moving toward a Standard Market Rate***

As stated in the introduction, CRS and its partners in the three country programs are currently engaged in data collection to better understand trends as they relate to a SILC group's willingness to pay and the amounts that are being compensated to PSPs. As partners accumulate data on actual payments, this will help PSP networks to provide guidance and recommendation on appropriate pricing structures that are informed by the market and what customers are able to bear.

While this pricing structure is being developed, CRS and its partners will also remain mindful of the importance of ensuring that the poorest SILC members are not excluded from receiving services based on their inability to pay recommended fees.

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