



MALAWI SHS KICK-STARTER PROGRAM UPDATE: ONGOING SUPPORT

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ACRONYMS

Acronym	Definition
CRM	Customer relationship management
EnDev	Energising Development
LOI	Letter of Intent
PMO	Project management office
RBF	Results-based financing
RFA	Request for application
RTM	Route-to-market
SHS	Solar Home System
USAID	United States Agency for International Development
USAID SAEP	United States Agency for International Development Southern Africa Energy Program

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1. INTRODUCTION

The objective of this document is to serve as an overview of key activities undertaken by the United States Agency for International Development Southern Africa Energy Program (USAID SAEP) in the ‘operational support implementation phase’ of the Kick-starter program between January and March 2020.

The focus of this report is on USAID SAEP’s collaboration with multiple stakeholders in the Malawian solar home system (SHS) market, including: (1) **Energising Development (EnDev)** and Maeve; (2) **local banks, lending institutions and international financiers** that provide working capital loans to SHS companies; and (3) the **World Bank**. The report also discusses the transition of key relationships from outgoing team members to the new incoming off-grid team members within USAID SAEP. This document is split into three sections: introduction, context and collaboration with stakeholders.

2. CONTEXT

In July 2019, USAID SAEP launched the Malawi SHS Kick-Starter Program to incentivize market entry and scale-up of SHS companies through results-based finance (RBF), operational support and access to working capital. USAID SAEP has committed up to USD \$5 million of support to the Kick-starter program, with USD \$2 million allocated to RBF grants for SHS companies. Four companies have been awarded RBF grants: Solar Works!, Vitalite, Yellow and Zuwa Energy. A wide range of partners are supporting the program, including local banks and lending institutions (FDH Bank, Kuwa Capital, National Bank of Malawi and Standard Bank), international financiers (Lion’s Head Global Partners and SunFunder), industry associations (EnDev), and awareness-raising institutions (Maeve).

In July 2019, USAID SAEP started preparations to deliver operational support to the Kick-starter awardees by developing an operational support plan for each of the awardees. In addition to operational support, USAID SAEP is providing “ongoing support” throughout the grant period (July 2019 – March 2021). This includes support to the wider industry through a collaboration with EnDev and providing support to the non-awardee companies by connecting them with financial institutions for working capital loans as well as providing them with training on how to use the route-to-market (RTM) tool.

This report covers these ongoing support activities between January and March 2020.

3. COLLABORATION WITH STAKEHOLDERS

3.1 ENERGISING DEVELOPMENT

USAID SAEP and EnDev signed a Letter of Intent (LOI) at the end of September 2019 to formalize collaboration for the period July 2019 to July 2021. The objective of the collaboration is to leverage synergies with the aim of increasing the impact of the two programs. The synergies to be realized include: 1) the Kick-starter benefitting from EnDev’s experience in Malawi, 2) Kick-starter awardees targeting areas where EnDev is active and vice versa and 3) combining efforts in advocacy and coordination of the SHS sector.

USAID SAEP and EnDev were engaged on two initiatives to drive and support the industry:

1. **Organizing a co-branded workshop on the route-to-market (RTM) tool:** To grow and develop the SHS market in Malawi, USAID SAEP Kick-starter program is also providing industry-wide support (through solar awareness and fiscal exemptions). The USAID SAEP team recognizes that direct support to the wider industry (SHS companies beyond the Kick-starter awardees) is required to drive connections and secure attributions beyond the Kick-starter awardees.

Therefore, USAID SAEP and EnDev made plans to host an interactive workshop on the RTM tool on 24 March 2020 where SHS company representatives were to work along the presenter during a demonstration of use cases and ask their questions and challenges in real time. After the session, 1-on-1 company sessions were planned to provide more company specific assistance. Unfortunately, due to the COVID-19 outbreak the workshop had to be postponed however all the necessary materials (agenda, invitation letter, presentation material and potential use cases of the RTM tool) were prepared to enable the delivery of the workshop at a later stage.

As an alternative, an RTM tool training video has been developed and will be shared with the wider industry. Additionally, Arthur Wengawenga, the USAID SAEP Country Manager for Malawi has been upskilled on the tool so that he can assist the SHS companies and answer any question that might arise regarding the tool.

2. **Supporting EnDev to better target solar awareness campaigns with the route-to-market (RTM) tool:** EnDev conducts nationwide umbrella campaigns through Maeve, its implementing partner. Maeve currently carries out campaigns in several districts and informs the SHS companies of these locations, without having sufficient information on which locations SHS companies are already present in and with what resources available. This poses a challenge as the SHS companies may not have presence or enough resources (agents or stock) available to serve the newly interested communities in these districts. By using the RTM tool and coordinating with the SHS companies to understand which geographies they are already present in, Maeve could target high potential areas for campaigns. USAID SAEP has published the updated RTM tool on the USAID Development Experience Clearinghouse (DEC) and shared the links directly with EnDev. The RTM tool training video will also be shared both with Maeve and EnDev to deepen their knowledge on the tool (NB USAID SAEP already provided an in-person demonstration of the previous version of the RTM tool to EnDev). In case of any questions following the RTM tool training video, Arthur Wengawenga, USAID SAEP Country Manager for Malawi will be best positioned to answer, as he is on the ground in Malawi and has been trained to use the tool.

Beyond the above initiatives, USAID SAEP had two key meetings with EnDev. The first focused on sharing perspectives on the difficulties in Malawi relating to sales force effectiveness and awareness raising. During this meeting, one of the incoming USAID SAEP team members was introduced to Mr. Mathias Stumpf, Team Leader of EnDev. Mr. Stumpf shared some experiences regarding reactions of female customers on the security of solar home systems. He was interested in a more structured approach to exploring the role of gender in selling and buying solar systems. During the second meeting, both the outgoing and incoming USAID SAEP team members met Gift Chunda, Program Advisor of EnDev who is taking over until Mr. Stumpf is on leave. The discussion focused on EnDev's efforts to

facilitate the SHS industry, including their quarterly working group meeting with many of the companies. EnDev planned the next meeting to the end of March, however, it had to be postponed due to the COVID-19 outbreak.

3.2 LOCAL BANKS, LENDING INSTITUTIONS AND INTERNATIONAL FINANCIERS

USAID SAEP has collected updates from the financial institutions on the current status of the working capital loans to the awardee companies and the wider SHS industry. The supporting financial institutions are the following:

- Local banks and lending institutions: FDH Bank, Kuwa Capital, National Bank of Malawi and Standard Bank
- International financiers: Lion's Head Global Partners and SunFunder

The incoming USAID SAEP team members were introduced to these financial institutions so they can continue the engagement with them on a regular basis.

Since the launch of the Kick-starter program in July 2019, working capital partners have been in discussions with the various SHS companies in Malawi with regards to providing them with working capital loans / facilities. The total funding amount under discussion from working capital partners is approximately USD \$ 5.35 million to the four Kick-starter awardees and one non-awardee. This is an indicative figure as the SHS companies are in various stages of negotiation and approval processes, so this number may change. As of March 2020, one of the Kick-starter awardees had already received funds from their working capital partner to purchase inventory, another awardee is expected to receive funds the latest in the beginning of April and one non-awardee company has also started to withdraw tranches from their available working capital loan.

3.3 WORLD BANK

The World Bank is preparing to launch the Off-grid Market Development Fund (US\$30 million: US\$24 million credit and US\$6 million equivalent grant) which is a component of the Malawi Electricity Access Project. This Fund includes a results-based-financing grant which serves as a second phase to the USAID SAEP Kick-starter program. The World Bank is now ready to recruit a fund manager. The Terms of Reference for the fund manager were to be launched in early 2020, with an expected 6-month timeline for the selection process. This fund manager will then prepare the operations manual for the Off-grid Market Development Fund.

Lara Born, Energy Specialist had already met Hastings Chipongwe, Director of Energy Affairs at the Government of Malawi (GoM) in mid-December to test the proposed design for the Off-grid Market Development Fund. World Bank reached out to us to discuss the views of the GoM regarding the approach to lend to the private sector, risk of market distortion and the concept of the solar home systems.

USAID SAEP and the World Bank discussed the benefits of the Fund, specifically relating to its design to support the SHS private sector, and associated messages that would be interesting and helpful to the

GoM as they consider this initiative. The benefits include the fact that SHS often acts as an entry-level power connection, creating demand for upgrades over time, thereby building the whole power industry. Creating a separate fund for this purpose and outsourcing management usually leads to more efficient disbursement of funds, whilst a private sector focus enables pay-outs to be truly led by consumer demand. This model has worked in other countries and organizations, which have used a similar approach (Togo government partnership with BBOXX, Kenya Off-grid Solar Access Project, Beyond the Grid Fund Zambia).

On 26 March, the incoming USAID SAEP off-grid team members were introduced to Mr. Paul Kagaba, Energy Specialist of the World Bank via a video conference call.