OPPORTUNITIES AND TRENDS BRIEF

March 2021

Malawi: A modest market for stand-alone solar with a working distribution model, but requires financial investment

16m
Unelectrified population

18.6m
Total population

192
people/Km²
Population density[1]

39 out of **100**[2]
RISE Score (Framework for Stand-Alone Systems)

2035
80%
35% Grid
45% Mini-grids and pico solar
Government target for universal electrification

109 out of **190**[3]
Ease of Doing Business Rank

6
Donor programmes supporting Stand-Alone Solar (SAS)

76 out of **100**[4]
PAYG Market Attractiveness Index (Score)

- The economy grew by **4.4% in 2019,** a marked increase from **3.5% in 2018.**[5] However, future growth prospects are uncertain as the pandemic continues to unfold.
- At **18%,** Malawi has one of the **lowest electricity access rates** in Southern Africa, thereby creating a potential market for off-grid solar valued at USD265 million.
- Rural customers, who form **82.8% of the population**, are a key market for stand-alone solar (SAS) products, though they typically represent lower income market segments.
- In the first half of 2020, **certified SAS sales in Malawi dropped to 37,000,** 28% less than the second half of 2019 but still a big jump year-on-year.
- SAS retailers are using agents such as schoolteachers, associations, petrol stations, community groups, agricultural stores, Malawi Posts Corporation, bus companies and last-mile entrepreneurs. However, in the wake of Covid-19 agent numbers reduced and non-performing outlets were closed as a way of managing costs.

The government has provided fiscal incentives for SAS, and

- Since 2019, solar products have import duty and excise duty zero-rated, and are **exempted from 16.5% VAT.**
- But this has also created an influx of lower quality products entering the market.
- In the National Energy Policy (NEP), 2018 mini-grids and pico-solar are expected to **contribute to 45%** of **national electrification by 2035.**

Poverty levels are likely to increase and other challenges affecting the sector

The Covid-19 containment measures may **lead to 1.1- 2.2 million people,** the majority in rural areas, temporarily falling into poverty.[6]

The **decrease in demand for SAS products** was due to households prioritizing expenditures for survival, supply chain disruptions due to closure of borders and lockdowns in major trading partner countries, and high interest rates making it expensive to source capital.

With a base **lending rate of 12.1% the cost of credit for consumers is high.** Financial institutions are therefore reluctant to provide loans for solar products.

A population density that could lower distribution costs and other trends we noted

- The relatively densely distributed population could be attractive to solar companies since itminimizes distribution and marketing costs.
- Population growth at **2.15% in urban and peri-urban areas** may put pressure on already stretched grid services. While a smaller segment, these consumers with greater ability and willingness to pay for medium-sized energy solutions present a good opportunity, particularly for pay-as-you-go (PAYG) products.
- The Energy Donor Working Group has 18 members and coordinates all funding activities within the energy sector.
- Renewable Energy Industries Association of Malawi (REIAMA) has 75 members and six paid staff. The association successfully lobbied for VAT exemption in 2019.
- Since 2018, the Reserve Bank of Malawi requires that mobile phone companies register separate entities for mobile money. This policy move is expected to enhance confidence among users of mobile money thereby increasing adoption and usage of the services.
- Most of the **47 savings and credit cooperatives buy solar products in bulk** and then sell on credit to their members.
- In response to the Covid-19 pandemic, development partners are supporting solar electrification of health clinics.

In conclusion

Malawi is using local agents to distribute SAS, a model that with more financial investment in off-grid solutions could accelerate the country's progress towards universal energy access.

References

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