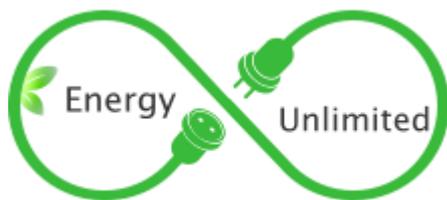


Household Solar Products Business Dialogue Forum

Summary Report

16 / 06 / 16

Participants:



Clean. Smart. Renewable!



Introduction

The household solar product Business Dialogue Forum convened key businesses in the market, with the purpose of:

- Sharing information about the Energy Africa campaign
- Gathering insights and understanding of the opportunities and challenges facing the market
- Sharing preliminary findings of an off-grid lighting demand-side survey
- Assessing interest in production of a household solar supply-side study
- Considering the value and design of a focused household solar industry group

This Summary Report captures the key discussions at the event. The accompanying Forum presentation is also available.

The Business Dialogue Forum was convened by the Business Innovation Facility (BIF). BIF aims to support the development of a vibrant commercial market for quality solar products to increase access for people living in poverty.

The event was held at the Imani Development office in Blantyre on 16th June 2016.

Energy Africa Campaign

The [Energy Africa Campaign](#) seeks to accelerate the expansion of the household solar market in 14 countries across Africa, and help achieve universal energy access by 2030. It seeks to achieve this by aligning supportive policy with co-ordinated donor support, to improve market conditions and increase investment. The President of Malawi, HE Professor Peter Mutharika, signed the Energy Africa Partnership with the Government of the United Kingdom, represented by the Department for International Development (DfID).



The Energy Africa Compact represents the further development of the Partnership. The Compact is an agreement – currently in draft form - between the Government of Malawi (GoM) and DfID that sets out commitments on Policy Actions and Donor Support Interventions to accelerate the development of the household solar market in Malawi. Policy actions focus on tax, quality standards, business licensing and targets. Whereas the support interventions relate to business development, access to finance, consumer awareness and industry coordination.

The Energy Africa Campaign also consists of other DfID programmes that align with the objectives, notably the Africa Clean Energy (ACE) Business programme. ACE will consist of a technical assistance facility and a significant competitive funding window to support businesses access finance. The programme is under development and expected to be online towards the end of 2016 and open for the 14 countries signed up to the Campaign.

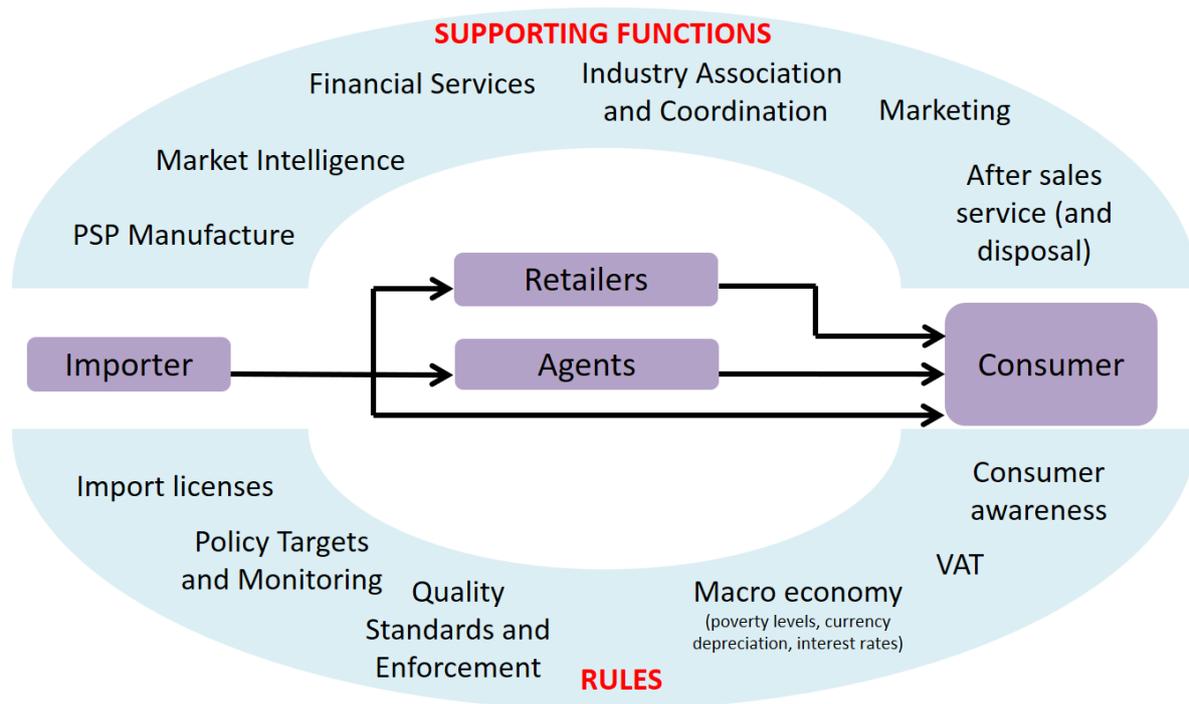


Figure 1. Household solar market map - the features of an effective market.

The Forum discussed the content of the Compact and the related challenges and opportunities, as captured in the notes below. BIF committed to share the dialogue with the GoM, DfID and other development partners (DfID will convene a meeting in July of donor partners with an engagement or interest in the household solar market in Malawi).

Policy Actions

Quality standards and enforcement

Malawi Energy Regulation Authority (MERA) briefed the participants on the relevant product quality standard and license framework (available at www.meramalawi.mw). The group was informed that all household solar importers need to register with MERA.

There are specific pico solar standards introduced in 2011; it was not known if the standards aligned with the Lighting Africa / IEC standard. Additional technical details can be obtained at the Malawi Bureau of Standards. MERA are planning a public sensitisation campaign to raise awareness.

The Lighting Africa (LA) standards are broadly appreciated by participating businesses, and a critical determinant for some in selecting their product and supplier. One participant stated that LA qualified products are very expensive and unaffordable for many. Another participant conversely said that LA is not a high enough benchmark for quality and standards should be higher.

There are a lot of poor quality products on the market – “the counterfeit issue has to be taken seriously!”. They are damaging consumer confidence and undermining market growth; many customers that have a bad experience and conclude that “solar doesn’t work!”.

MERA are working with MBS and Malawi Revenue Authority (MRA) for improved border controls. A participant shared that there is not a strong mechanism for border officials to return or dispose of

non-conforming shipments. Furthermore, there were concerns whether MBS have the capacity to assess products and distinguish good quality.

Warranty and its management was mentioned as a key area of concern because it's often difficult to identify which business sold a product to a customer. Some businesses have even gone to the extent of developing own warranty cards.

Import licenses

MERA stated that PSP importers and distributors need to be licensed. Though one company has had an experience of being informed by the agency they do not need to apply, as 'plug and play' products are outside the mandate.

Obtaining a license requires approval by two committees. The license criteria include components on pricing, warranty and staff technical qualifications. It was noted that a license can take up to six months to obtain from MERA; the question was posed whether this can be streamlined.

MERA stated it should only take three months for the Board to approve. Renewable Energy installers are assessed by the Installations Permits Committee and later approved by the MERA Board. Importers and Sellers can only register with MERA to obtain permits if their samples conform to required standards. However, discussions are underway on how best MERA can work with Malawi Bureau of Standards to enforce the standards.

VAT and other taxes

Quality products are considered expensive for the target market and the application of VAT further exacerbates this problem – "VAT is a killer".

The national provider – ESCOM – is unable to serve the masses. In recognition the Government should support with VAT removal to promote access for the off-grid poor for improved education, health and well-being. Furthermore, these products stimulate economic growth by extending business hours, enabling increased mobile communications and creating jobs in the supply chain.

The recent Government Budget made it clear that VAT exemption and zero ratings across the board were to be scrapped. Despite this being a core element of the Energy Africa Compact, it is felt to be unachievable in this political climate. The Budget commitment to not apply duty and excise to solar products is welcomed.

Given the unlikely short-term change in VAT application, companies need to be working all the harder to demonstrate product value to customers. Marketing strategies should be aware that consumers are not rational; purchasing decisions are emotional responses. Pay-as-you-go is another model that can enhance affordability.

The margin on entry-level lights is so low; VAT exemption would not necessarily lead to reduced retail price but to enhance commercial viability and boost working capital for accelerated business growth. This strategy could be misunderstood by Government who perceive that the businesses are profiteering at the expense of the consumer.

Policy targets and monitoring

The GoM has committed to a National Target for household solar product, for example '*XX% of the population has access by 2030*'. Though the target value and process for setting this remains undefined.

The question was asked: "What is the purpose of a target? If government wants us to achieve a target, then it needs to properly incentivise!"

A target can act as a shared vision for different stakeholders – industry, government, donors and NGOs. And be a basis for influencing – i.e. remove VAT and targets can be achieved. It needs to be ambitious yet achievable, and have intermediate milestones.

Malawi has a target in the cookstove market – 2 million sales by 2020 – that is felt to be valuable (and offer important lessons for solar). It is monitored by the Cookstove Taskforce multi-stakeholder forum (chaired by Department of Energy).

Development Partner Supporting Actions

Financial Services Support

Improved access to finance is needed all along the supply chain – importers, agents and customers. It is difficult to raise investment and this stifles risk-taking and innovation.

One participant stated that a grant for revolving funds and patient capital would be helpful. Another suggested a “Solar Development Fund” to kick-start the market.

Consumer Awareness

Product awareness amongst the rural masses is still low. One company stated that 60% of their budget is exhausted on marketing. There are no big product manufacturers in Malawi, so distributors have to invest in brand development – a costly and slow process.

It was felt more can be done in this area - Government public health and awareness campaigns were suggested. “Solar needs ambassadors!” Local chiefs, Headteachers, etc.

The EnDev awareness campaign was highlighted as a valuable support for companies. More partnerships were required to raise the overall awareness especially through media campaigns.

Business Development Services

Development partner support would be useful in helping businesses launch new products and improve business skills.

It was suggested that local manufacturing or assembly would enable reduced costs and enhance affordability – perhaps an area for donor support.

Market Intelligence

There is very little market data available to inform the industry. It is estimated that some 200,000 products have been sold in the last four years – roughly equivalent to 80% of ESCOM’s customer base – though this figure is conjecture without a structured approach to compiling and analysing data.

A market trends report with the following indicators were of interest to some participants:

- Total volume of imports
- Retail price trends
- Product feature trends
- Average volume per import (to assess opportunity to bundle / aggregate orders)

BIF proposes to produce a supply-side study. Commercially sensitive information will be protected through aggregation of data. BIF will speak to MERA (who routinely collects company sales data as part of the license requirements) and share a proposal with private sector players.

Donor and NGO engagement with the market

NGOs have good membership, and can be an opportunity for channel development through:

- Access customer and agent networks

- Training company sales agents
- Volume purchasers (buying large volumes in one order)

Some Donors and NGOs “get” private sector, but many do not and can actually damage market growth – “Hand-outs killed the market in Chikwawa!”. The upcoming IrishAid project in Balaka was mentioned as a concern. The situation is made worse when lamps are ‘damped’ without a clear sustainability plan.

Donors/NGOs should buy local – they often get quotes from local companies that compare unfavourably when they realise they can import VAT free from international companies. Donors need to be consistent - procurement guidelines would be useful.

It would be useful to know donor / NGO plans and programmes (current and future).

Demand-side survey

BIF presented preliminary findings of a lighting demand-side study – charts showing the acceptance of household solar vs other lighting technologies, and lighting expenditure habits. The survey is a national snapshot taken from 500 respondents in six districts across the country. The full lighting demand-side study will be published soon.

Participants expressed the need for regular studies and market knowledge sharing. They suggested that BIF should take the lead in coordinating the process by receiving views and knowledge needs from members.

The future for industry coordination and collaboration

There was a general sentiment that a household solar business group was of value and something worth continuing. “There is value in focus, there is specificity in the PSP market” – said an advocate of a group focused on businesses targeting poor customers with household solar products.

It was suggested the group could act:

- As a pressure group (for Government, donors, NGOs, etc.)
- To share grievances and issues facing individuals and the broader market
- To discuss aggregating container orders.
- As a coordination and consultation body for Government and Donor initiatives

It was noted that REIAMA (Renewable Energy Industry Association of Malawi) exists as a platform, though appears dormant again after efforts to rejuvenate it by a donor (REIAMA was invited but was unable to attend). REIAMA is mandated by Government.

It was suggested the PSP Business Dialogue Forum could be affiliated under REIAMA, as was intended with the different technology sub-sectors of the association, and that the PSP group could be an inspiration for other groups.

The two principles of effective and sustainable industry groups are:

1. Issue-driven
2. Tangible results

BIF can help facilitate a group, but the demand and leadership needs to come from the private sector – only if it is valuable for businesses.

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