Demand-Side Subsidies in Nascent Markets: Building Markets Beyond Subsidised Demand

endev



Key Messages

- In nascent markets, the main risk is not market distortion, but market discontinuity.
- In nascent markets, DSS can catalyse market development when demand stimulation if combined with supply-side support and customer awareness.
- Product availability can constrain the conversion of subsidised demand into actual sales, particularly where supply chains are still developing.
- Predictable and sufficiently stable support can give companies the confidence to invest in nascent markets.
- In nascent markets, RBFs require careful calibration of targets, in-depth onboarding, business development support, and close follow-up, especially where companies are less experienced and awareness of certified products is low.
- Advance payments can be critical to enabling delivery through RBFs in low-liquidity, high-risk markets.

What the DSS Component did

The EnDev Energy Access through Demand-side Subsidies (DSS) component tested demand-side subsidies in different market contexts. Liberia and Niger were particularly relevant for understanding the effects of DSS in nascent markets.

In Niger, sales of certified off-grid solar product were low and mostly limited to Niamey. The target regions Maradi and Tahoua were characterised by low consumer product knowledge, underdeveloped distribution chains, and a high number of vulnerable households, including refugees and internally displaced persons. Limited company capacity to expand operations into remote areas and absorb the long reimbursement cycles of RBFs was a further barrier. To reach the intended target group, the pilot combined a DSS RBF with broader market-building measures. These included e.g. advance payments, monthly verification cycles to support company liquidity as well as business development support with a focus on logistics, marketing, and training of local agents to help companies improve rural delivery channels.

In Liberia, the market was more developed but still in its early stages. The pilot was launched as a joint demand- and supply-side RBF for Tier 1 solar home systems in partnership with Liberia's Rural and Renewable Energy Agency and the World Bank. The main pilot targeted households in counties with higher multi-dimensional poverty levels compared to other counties, while a separate sub-pilot targeted vulnerable women through partner-supported lists. Sales remained very low during the first months as companies lacked in-country stock, working capital, and experience serving remote areas. In response the demand-side subsidy was increased from 20% to 40% to better address affordability constraints, geographic coverage was expanded to facilitate company participation, and additional support (e.g. advance payments

against inventory, business development support, etc.) was offered to address supply-side barriers.

Beyond supply-side interventions, EnDev supported demand creation and trust-building. In Niger, EnDev worked with community agents, sales pavilions, energy kiosks, local authorities, and other communication channels adapted to rural and displacement-affected communities. In Liberia, awareness activities included radio, door-to-door campaigns, women's groups, and local agent networks. This helped explain the subsidy, build trust in certified products, support customer education, and create a local presence for companies new to the target areas. While local company agents had the most significant reach, a layered communications approach proved more effective and sustainable. In this approach local agents focused on product awareness, while actors and other channels built trust and emphasised eligibility criteria as well as the temporary nature of the subsidy.

What we learned

In nascent markets, DSS should also be designed to activate markets, not just to improve affordability for vulnerable populations. Improving affordability is only one condition for market development: where supply chains and company capacity are weak, subsidised demand will not translate into sustained sales. Thus, another key design question is whether existing markets and companies have the capacity to deliver products at a subsidised price and what flanking measures are needed to address key supply-side aspects, including supplier relationships, import flows, working capital, distribution capacity, after-sales systems, etc. Data and market intelligence are especially important where formal market information is weak. Market assessments and consultations with companies, local authorities, and customers provide vital information for programme design.

Distribution infrastructure may need to be supported to enable DSS delivery before operations can be commercially sustained. In very thin markets, companies may not have agents, shops, warehouses, service points, or trusted local representatives in the target areas. Expecting companies to build this infrastructure based on uncertain subsidised demand is unrealistic, especially where customer density is low and transport costs are high. Programme-supported agents, sales points, kiosks, and local partnerships can help activate the market, but should be geared at being self-sustaining after the subsidy ends.

The pilots also reinforced a broader lesson from market-based programmes: import delays and stock shortages persistently limit the ability of companies to meet targets. In Liberia and Niger, local distributors keep small stocks due to limited working capital, while international suppliers have little interest in penetrating small, high-risk, remote markets. Minimum order quantities, container costs, upfront payment requirements, foreign exchange exposure, and uncertain sales timelines expose companies to significant financial risk. This risk increases further in a DSS intervention which requires companies to front the subsidy for customers. Where subsidy levels are high, the unpaid portion of each sale can represent a large share of the product value, so mechanisms to reduce financial risk are key.

RBF can be useful in nascent markets but is also demanding. Working in nascent markets often requires working with less experienced companies. Complementary business development support, in depth RBF onboarding, close follow-up as well as careful calibration of realistic targets are therefore crucial to harness company potential without jeopardising programme objectives. However, whether a competitive mechanism like an RBF is suitable should be assessed carefully. If the number of active companies or product variety are too low, tendering, lot allocations, or other contracting options allowing fewer companies to serve areas at scale should be considered.



Advance payments are an additional essential risk-reducing mechanism for companies in nascent markets but should be designed carefully. If the advance is intended to unlock stock, it needs to be large enough to support actual procurement. A small contract may produce an advance that is too low to finance a meaningful stock order, while a larger allocation can give companies more room to negotiate with suppliers. But advances also create programme risks and need strong controls, such as links to purchase orders, stock documentation, repayment rules, and monitoring of sales progress. Depending on the chosen modalities, programme administrators may be required to actively coordinate advance payments with manufacturers or suppliers and build relationships, as opposed to simply transferring funds to participating companies.

RBF reimbursement speed is critical to ensuring company participation and ability to maintain continuous sales. Slow verification or disbursement may delay restocking, reduce sales, limit expansion into remote areas, or pause company participation. Frequent verification cycles can help, but only if the full claim-to-disbursement chain functions. It is important that companies understand claim and verification requirements well to avoid delays due to claim rectifications. Similarly, verifications should adhere to a strict timeline to ensure payments are done within a reasonable period.

In nascent markets, awareness-raising is about demand generation, but largely also about trust. Customers may have prior negative experience with low-quality solar products, limited knowledge of certified products, or wrong expectations

from development projects. Communication needs to be clear about product quality, the reason for lower prices, the temporary nature of the DSS, and after-sales conditions. Working with community leaders, radio, women groups, local authorities, and trusted intermediaries is key to building trust.

Overall, this raises an important point specific to nascent markets**: the main risk is continuity rather than crowding out**. The most relevant concern is whether the programme creates a distribution system that can continue once DSS are reduced or removed. It is, thus, important to design DSS as an integrated market-building instrument and to have an exit strategy differentiating parts of the market with the potential to become commercially viable from those requiring continual public support.

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Registered offices Bonn and Eschborn, Germany
Dag-Hammarskjöld-Weg 1-5
65760 Eschborn, Germany
E info@giz.de
I www.giz.de

Contact:
Energising Development

E endev@giz.de
I www.endev.info

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