# Demand-Side Subsidy Disbursements: Balancing Financial Risks



endev

### Key Messages

- Disbursement design needs to account for companies' increased liquidity burden created by demand-side subsidies delivered through e.g. results-based financing (RBF) or vouchers.
- The timing of disbursements shapes the incentives for companies to sustain customer service beyond the initial sale.
- Advance payments can be critical to enabling company participation in nascent markets, as they facilitate the financing of stock, transport, and sales while reducing liquidity risks.
- More frequent or performance-linked disbursements require stronger systems and longer implementation timelines, as they increase verification and administrative requirements.

## What the DSS Component did

The EnDev Energy Access through Demand-Side Subsidies (DSS) component delivered subsidies through participating companies using a results-based financing model, under which companies typically sell eligible products, submit claims, and receive reimbursement after independent verification. However, selling products at a subsidised price carries a substantial financial risk for participating companies which requires a more careful design of reimbursement options under an RBF scheme.

In Liberia, Niger and Uganda, advance payments were offered at or near the start of contracts to address company liquidity constraints. They initially consisted of a once-off payment corresponding to 30% of the contract value. In Niger, the advance was later increased to 40% to support additional inventory shipments given persisting stock shortages and long lead times. In Liberia and Niger, these funds were directly tied to stock orders and could only be used for inventory procurement. In Uganda, the advance was made at contract start and was not tied to any specific conditions, providing companies greater flexibility in early implementation stages. Malawi offered advance payments while submitted claims underwent verification rather than at contract start. The different approaches reflect the specific market conditions of each country as well as the companies' working-capital needs.

Given the component's short implementation period, the need to avoid further liquidity pressure on companies, and the additional cost of increasing the frequency of verifications, the full subsidy was disbursed after a sale had been concluded and verified rather than e.g. through staggered instalments over the lifetime of the product or the pay-as-you-go repayment period for solar and cooking products.

## What we learned

**Disbursement design has a direct effect on whether companies can serve subsidised demand.** Under an RBF scheme designed to deliver DSS, companies sell at a reduced customer price and wait for reimbursement of the subsidised amount. This generally differs from RBF models targeting the supply-side, where companies sell at commercial prices and receive an additional incentive.



**Pure post-sale reimbursement is difficult where companies have limited working capital.** Under this model, companies carry the subsidised share of the sale until claims are verified, approved, and paid. Where demand-side subsidy levels are high, companies incur a significant financial risk. Complex, long and delay-prone reimbursement processes can thus directly affect company cash flow, delay restocking, reduce geographic expansion, and may cause temporary interruptions in sales.

**Advance payments can help to keep delivery channels functioning, especially in nascent markets.** In Liberia and Niger, they supported stock purchases by solar companies that did not have enough capital to import or procure products before sales. The advance payments reduced the pressure on companies to pre-finance the full value of subsidised sales and helped address one of the main constraints of RBF-based delivery.



**The design of advance payments needs to balance operational benefits and financial risk to the programme, as funds are paid before all corresponding sales have taken place or have been verified.** The risk can be managed through company due diligence, supplier-linked payment arrangements, small initial contract values, and close monitoring of sales progress. Contract structure also matters. If companies receive small rolling contracts, the associated advance may be too small to finance meaningful stock orders. If companies receive larger contract allocations, the advance can better support inventory procurement, but the programme carries greater exposure if companies underperform.

The Malawi approach - where companies received an advance linked to claims already submitted and undergoing verification - reduced risk to the programme but did less to support stock procurement and implementation prefinancing. In practice, sales were closely tied to disbursement cycles, as companies slowed or paused sales while waiting for payment. Where companies already have some stock and sales capacity, claim-based advances may be sufficient. Where companies need capital to import products or enter new areas, they may not address the binding constraint.

**A once-off post-sale disbursement is often the most practical and cost-efficient choice.** It reduces costs and is easier to administer, especially within a short implementation period. It also reduces the time companies have to wait for the full subsidy amount, which is particularly relevant for subsidies that covered a large share of the product price. For lower value products with lower subsidies, the cost associated with multiple disbursements would be disproportionate.




**However, once-off disbursement provides fewer levers after a sale has been concluded, which is particularly relevant for higher-value products with warranties or payment plans.** Once companies receive the full subsidy, the programme has less financial leverage to encourage payment collection, continued customer engagement, warranty fulfilment, and after-sales service. This is particularly relevant where residual payment balances are small, customers are remote, and the cost of follow-up visits is high. In these cases, companies may have limited commercial incentive to return regularly for payment collection or maintenance. So, while once-off reimbursement with advances can be appropriate for short pilots and liquidity-constrained markets, staggered or recurring disbursements are more suitable for longer programmes, higher-value products, or contexts where after-sales performance is a central concern.

**The main lesson is that disbursement design needs to carefully balance the financial risk carried by both the companies and the donors.** Companies need enough liquidity to procure stock, continue selling, and expand into target areas. Programmes need enough control to protect

public funds, confirm that sales are eligible, and encourage continued service to achieve sustainable results.

Funded by:

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DEUTSCHE ZUSAMMENARBEIT

Ministry of Foreign Affairs of the Netherlands

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Confederaziun svizra

Swiss Agency for Development and Cooperation SDC

Coordinated by:

giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

Netherlands Enterprise Agency

**Published by:**
Deutsche Gesellschaft für
Internationale Zusammenarbeit (GIZ) GmbH
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As of: 26/10/2026

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