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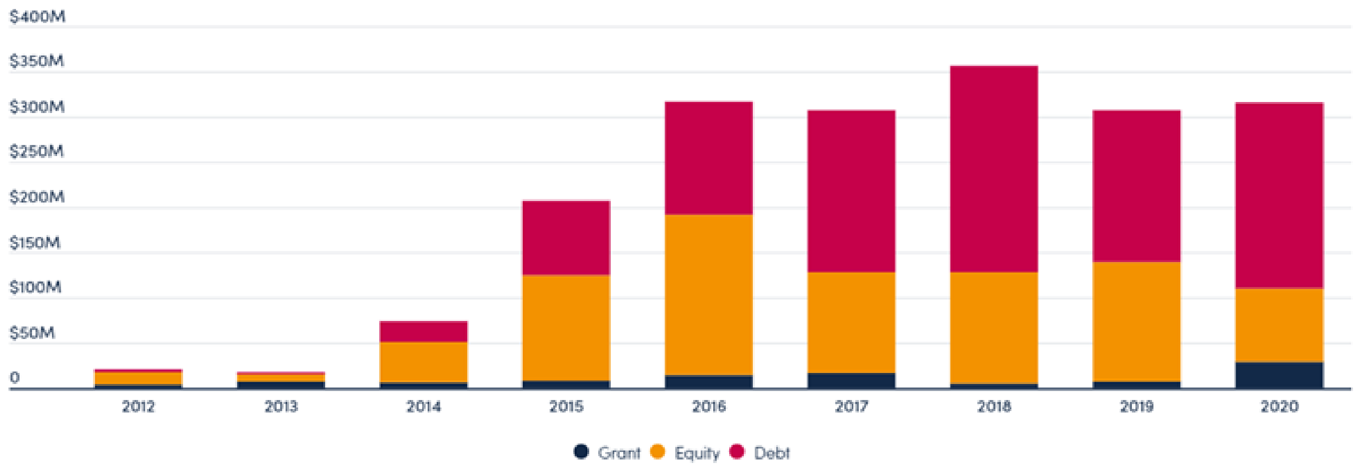
2020: Off-grid solar investment remains robust during COVID-19 pandemic

GOGLA's Investment Database finds that the total investment into the off-grid solar sector in 2020 amounted to USD 316 million – four million higher than 2019 – and shows some significant shifts in investment type and focus. Here's our seven key takeaways from the 2020 numbers:

1. Capital flows have remained stable

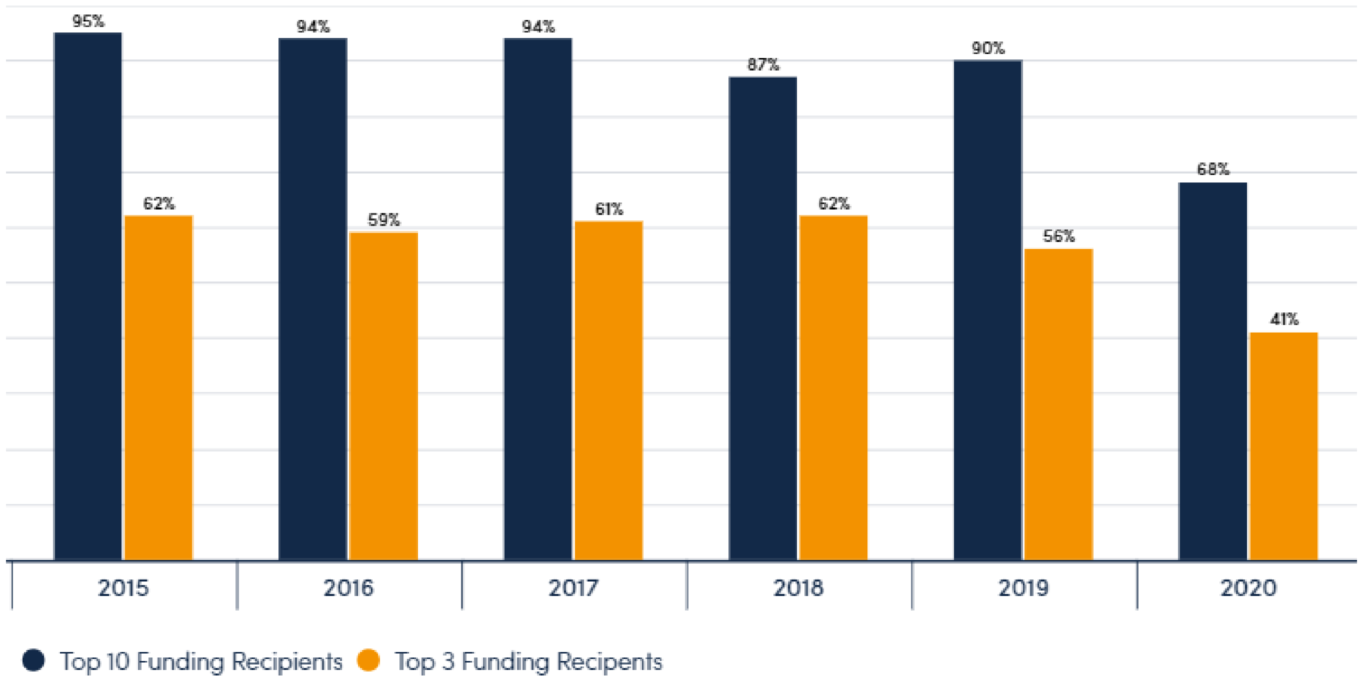
The total volume of investments in the sector has increased slightly from 2019 to a total of 316 million worth of commitments. This underscores investor confidence in the industry's business model and ability to deliver impact. As one investor stated: "The sector is still standing, and the pre-COVID optimism still stands".

However, whilst the effects of the pandemic have not been as acute as feared, investment is still far below the amount needed for the sector to deliver its part in achieving the sustainable development goals. To meet SDG7, the amount of funding addressed to off-grid companies needs to grow at least twofold per year across equity, debt, and grant funding[1]. While investment in the industry has been steady for the last five years, it is not yet showing the trends that are required to achieve universal energy access in 2030.



2. Funding concentration in the top deals has dropped

GOGLA's Investment Database reveals that the funding concentration has experienced a massive drop in comparison to the last five years. The top 10 deals in 2020 represent 68% of the total funding received by companies, compared to these deals representing 96% of total funding in 2015. This is a promising sign that we hope to see becoming a trend, as an indication of a growing industry where new companies are accessing capital and reaching scale.



3. More companies have received investment than ever before

The number of organisations receiving at least one investment has gone up from 49 in 2019 to 78 in 2020. Out of the 78 companies that have received at least one investment in 2020, 46 companies were accessing funding for the first time, most of which have been grants (35). Although, we can not claim this is a established trend yet, this is a movement in the right direction, as grants are the first step in the capital continuum and a signal for early-stage debt and equity providers to step in.

	2019	Change	2020	Change
Number of Investors making at Least one investment	46	↑	43	↓
Number of Companies Receiving at Least one investment	49	↑	78	↑
Average Investment Size	$2,3M	↓	$1,62M	↓
Median Investment Size	$250k	↓	$385k	↓
Min Investment Size	$20k	↓	$17k	↓
Max Investment Size	$50M	↑	$62M*	↑
Companies that received First time Funding	20	↑	46	↑
New Lead Investors/Funds	19	↓	18	↓

It is also a positive sign for access goals as, for the off-grid sector to help achieve electrification targets, a combination of large-scale companies reaching new underserved markets and more early-stage companies to achieving scale will be critical.

Early and later-stage companies have distinct capital needs and the sector represents a vast investment opportunity for investors: from early-stage to growing and more mature companies. Early-stage grant and equity financing, small ticket-size loans, flexible working capital facilities, and local currency financing are all in high demand by the industry.

4. Debt finance has shown the most robust investment volumes The total volumes of debt commitments in 2020 hit USD 205,7 million, a 19% increase from 2019. The 109 debt transactions recorded in the database were largely undertaken by impact investors, development finance investors, and crowdfunding platforms. Debt is a fundamental tool for off-grid companies that provide consumer financing. Although the volumes remain robust, early-stage companies seem to have a low diversity of funders to choose from and debt shows the highest investment concentration on the top deals compared to the rest of the instruments.The level of investments from crowdfunding platforms has been maintained in 2020, showing consolidation as a debt mechanism and representing 10% of the total debt commitments in the sector.

5. Equity total volume has shrunk by 46%
In contrast to the resilience of debt funding, equity volumes have shrunk by an alarming 46% compared to 2019. This is concerning as equity is essential for companies' continued growth. The drop is in part due to an absence of corporate acquisitions in 2020, which played a role in strengthening equity volumes in 2019, but predominantly linked to the difficulties of completing equity transactions during the pandemic when the ability to undertake on the ground due diligence came to a screeching halt.

Nevertheless, the equity story shows some optimistic signs: The number of equity transactions has increased to 28 from 17 in 2019, and 15 of these transactions are classified as convertible debt, which are likely to be converting to equity in the next valuation rounds.

6. Grants have hit an all-time high Grant volumes have increased significantly in 2020. Grant capital was awarded to help companies enter new markets, try new business models and products, and to fund early-stage companies. Further, COVID-19 has proven that the sector can have a significant contribution towards the electrification of rural health facilities, with some grants awarded for this purpose for the first time.Grants are usually the first step on the capital continuum of off-grid companies, so this could be a good sign for new sector entrants. However, we also see a lack of diversity amongst donors providing grants for seed investment and the demands on donor funding due to the pandemic may mean the environment for this type of capital becomes more challenging in the year ahead.

7. West Africa has attracted more investments than East Africa for the first time

Investment Deals in West Africa totaled USD 142 million compared to USD 70 million in East Africa. This is indicative of the expansion of off-grid solar companies towards the region. Of the other transactions, USD 89 million deals are best classified as Global, rather than attributed to a specific region, as these transactions are raised by companies that operate across multiple regions and generally do not raise capital on a region by region basis.

What's next?

While the investment into the off-grid sector in 2020 has demonstrated that current investors remain committed to the industry, it is important to remember that the economic impact of the pandemic have not yet been fully realized, and the road to recovery will still prove rocky. Moreover, while encouraging to see investment matching that in 2019, to achieve SDG7 and other related SDGs, the amount of funding the sector needs must be of at least 11 billion until 2030[2].

One reason for optimism is that COVID-19 relief and recovery funding in the form of debt is expected to come through in 2021 thanks to the dedication of capital providers that have been working since early last year, when committed donors, investors and associations gathered in an unprecedented effort to make available such type of capital. This funding will be essential for companies to bridge financing gaps before their next fundraising rounds.

To date, many companies have had to weather the COVID-19 storm without access to such relief funding. Even under these circumstances, the off-grid solar industry has continued to serve its customers and deliver impact to low-income communities in need.The diversity of funders in the industry shows how fundamental the contribution of donors, impact financiers and venture capitalists that have impact at the core of their investment thesis is to the industry's stability and growth.

We call on them to help us build on these foundations to develop even more innovative financing support for the sector, and help lift millions of the world's poorest people out of energy poverty as we 'recover better'.

[1] The Market Trends report estimated that to realize the OGS contribution to SDG7 sector investors, governments, and donors will need to inject an additional US$ 6.1 to 7.7 billion, will be external investments into OGS companies in the form of debt, equity and grants. In parallel, up to US$ 3.4 billion of public funding from governments and development partners will be required to bridge the affordability gap for people without electricity access that are unable to afford a Tier 1 OGS product

[2] Market Trends Report, 2020

The database captures the investment trends over the period 2012 - 2020 and was realized with support from GET.invest, a European programme supported by the European Union, Germany, Sweden, the Netherlands, and Austria. You can further explore the Investment Database on the dashboard here.

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