

Covid-19 post-crisis recovery for the energy sector: views from decision-makers across the EBRD regions

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Overview

The EBRD, already at the forefront of climate finance, is committed to making a majority of its investments green by 2025. With the energy sector responsible for more than 70 per cent of greenhouse gas emissions, clean energy needs to be at the heart of the world's economic response and plans to “build back better” after the Covid-19 pandemic. In December 2020, the EBRD conducted a survey of senior decision-makers in the energy sector across the regions in which the Bank invests, in order to understand better how to reconcile short- to medium-term emergency pandemic response measures with the longer-term green recovery trajectory. This note summarises respondents' wide-ranging views on the impact and severity of the crisis and gives an overview of their thoughts on the prospects for recovery.

Discerning the impact of the pandemic on the energy sector

The depth of the impact of the Covid-19 pandemic on the energy sector highlights fundamental structural and policy questions. The International Energy Agency (IEA) estimates that 2020 saw a 5 per cent fall in energy demand worldwide, spread unevenly between fuels and technologies, with fossil fuels affected most. There was an even more pronounced fall in energy investment. The pace of recovery remains subject to a lot of uncertainty. Will countries merely carry out their stated plans or adopt a more sustainable policy stance to boost jobs and economic growth?¹ With renewables set to become the largest source of electricity generation by 2025 and electrification on the increase, significant investment in grid modernisation, storage and flexibility is required. According to the IEA, current policies are still not sufficient to avoid severe impacts from climate change and much more needs to be done to curb emissions, both from new and existing infrastructure.²

To discern the impact of Covid-19 on the energy sector from a sector stakeholder perspective, in December 2020, the EBRD sent a survey to all of the economies in which it invests. The aim was to get the views of senior decision-makers on the impact of Covid-19 and its severity on the energy sector. It included questions on actions taken to mitigate the impact of the crisis, lessons learned and future priorities for a green, inclusive and digital transition, in line with the Bank's new Strategic and Capital Framework. The survey was sent to nearly 200 people across the entire energy value chain, from ministries, regulators, transmission system operators (TSOs) and distribution system operators (DSOs) to state-owned enterprises (SOEs) and independent producers and associations. Around 100 responses were received from policy-makers and experts in 32 countries on three continents. The survey contained 30 questions in mixed format – multiple choice, checkboxes, dropdowns, star ratings, matrices, sliders and rankings. The survey questions and results can be found [here](#). To discuss the findings, the EBRD hosted a virtual workshop in January 2021.³

¹ Other EBRD notes provide a non-exhaustive overview of the green transition measures taken by the economies in which the Bank invests during the Covid-19 pandemic (which can be accessed [here](#)) and a snapshot of the measures adopted (which can be accessed [here](#)).

² See IEA (2021a) for the main findings of the agency's *World Energy Outlook* as they pertain to the EBRD regions.

³ The workshop featured IEA Executive Director Fatih Birol, IEA Head of Division for Energy Supply Outlooks and Investment Tim Gould, Minister of Economy and Sustainable Development in Georgia Natia Turnava, Minister of Energy and Water Resources of the Republic of Tajikistan Daler Shofakir Juma, EBRD President Odile Renaud-Basso, EBRD Vice President for Policy and Partnerships Pierre Heilbronn and EBRD Director, Head of Energy Eurasia Aida Sitdikova.

Impact of Covid-19 on the energy sector

There are wide-ranging views on the severity of the impact of Covid-19 on the energy sector in the economies in which the EBRD invests. Although the energy sector has certainly not been immune to the crisis, the impact has generally been less than that experienced by other sectors of the economy, such as tourism and services. Final customers and their suppliers felt the impact most, as the bulk of consumption shifted from industry to household level as businesses closed and most people stayed home.

The survey shows that Covid-19 hit energy investment and demand hardest, in line with the findings of the IEA's *World Energy Outlook*.⁴ The decline in gas prices proved a benefit for importing countries in the short term, as it meant lower energy bills, but it also reduced the incentive to move to a low-carbon economy. Security of supply appears to have survived relatively unscathed, as systems operators were able to manage the power grid and keep the lights on. Nevertheless, Covid-19 delayed investments in generation and network maintenance that depended on the availability of foreign expertise and/or equipment, which were restricted during lockdowns.

The negative impact of the delay to reforms due to lockdowns in some countries may damage the future resilience of the sector. The importance of structural transformation and well-developed governance systems is apparent from the survey. European Union (EU) countries seem to have been more resilient to the crisis, with better governance and financial fundamentals in place to deal with the adverse effects of the pandemic. Some countries had to delay the development of laws, regulations and market rules during 2020, raising concerns over the resilience of the sector to future shocks.

Furthermore, the private sector is widely believed to have been more affected than state-owned enterprises (SOEs) and there are mixed views on the private sector's ability to emerge stronger after the crisis. Some respondents believe reforms will continue, but others are more circumspect, suggesting that hard-earned reforms will be rolled back and privatisations will be more difficult in future. It is, therefore, unsurprising that many respondents consider good governance to be the top priority as countries transition from crisis to recovery.

In dealing with the effects of the pandemic, the most successful actions were those taken on energy security, the safety net put in place for domestic customers and the protection of vulnerable customers. The areas considered less successful were the maintenance of energy investment and efforts to ensure a more inclusive transition (despite actions to protect domestic customers). Measures taken to protect companies were considered a lower priority and were less effective than those taken to protect individual customers. Even where funds were allocated to renewables and low-carbon energy sources, sometimes the deadlines for implementation were short, so not all of the available funds were utilised.

Overall, respondents have a positive view of the energy sector's performance in dealing with Covid-19: the lights stayed on and customers were helped to overcome the worst effects of the crisis. Performance in EU member states is deemed better than that in non-EU countries, although there were delays in exploration, construction and maintenance in some cases. The key issue in future will be the ability and desire of debt-burdened states to finance the investments required to deliver a clean energy transition.

From crisis to recovery: lessons learned

There is a degree of optimism that the energy sector can recover quickly and that the transition can be more green, inclusive and digital. Over 90 per cent of respondents think energy demand will recover to pre-pandemic levels by end 2023. One-third of respondents believe energy demand will recover fully in 2021, with some saying it has already done so in their country. The most common view (45 per cent of respondents) is that it will be 2022 before energy demand returns to pre-Covid-19 levels. Still, there is considerable uncertainty over the pace of recovery, with a lot depending on progress made in 2021. Unsurprisingly, the level of optimism is higher in EU member states than elsewhere.

Respondents say they have learned numerous lessons from the pandemic and that their priorities for the future are manifold. However, certain themes dominate, in particular, the need to "build back better" to reduce the risk of future shocks and their impact on people and economies, while maintaining a strong focus on boosting systemic resilience and advancing green and digital measures.

To achieve a speedy and sustained recovery in the energy sector, the top priority is grid modernisation, followed by investment in renewables. Clean energy and the digital transition also score highly as key priorities. Although inclusion scores highest as an impact of Covid-19, an inclusive transition is deemed less important as a priority for recovery

and seems to be viewed more as an outcome of a successful and sustained recovery than a key driver of it.

Nearly half of respondents think Covid-19 will provide greater opportunities for the development of renewables, despite it being one of the top priorities for a sustainable recovery. More than half say their country will look to "build back better" with a focus on a clean energy transition, with fewer than 1 in 10 disagreeing. Some said a clean energy transition was a country priority even before Covid-19.

Over 90 per cent of respondents consider Covid-19 to have increased the importance of scaling up digitalisation in their country, with digital tools and platforms instrumental in facilitating flexible working from home. In the energy sector, policy and regulation are considered the top priorities for the digital transition, followed by having the right information and communications technology (ICT) foundations in place, and cybersecurity. Surprisingly, perhaps, customers and the public are lower in the pecking order when it comes to priorities in the digital sphere. Three-quarters of respondents say their country will look to "build back better" with a focus on digitalisation.

Asked about a more inclusive society in the energy sector, access to finance is considered the most important factor, followed by training and skills, with employment bringing up the rear. A number of respondents also highlight the importance of policy and regulation. Nearly half of respondents

⁴ See IEA (2020) and IEA (2021b).

say their country will look to “build back better” with a focus on inclusion. In the wake of the prolonged period of isolation brought about by Covid-19 in most countries, the need for stronger economic and social cohesion will be even more pronounced.

References

IEA (2020), *World Energy Outlook*, Paris (available at <https://www.iea.org/reports/world-energy-outlook-2020>).

IEA (2021a), “Post-Covid perspectives for the energy sector”, Paris (available at <https://www.ebrd.com/cs/Satellite?c=Content&cid=1395296324503&d=&pagename=EBRD%2FContent%2FDownloadDocument>).

IEA (2021b), Presentation at the “Covid-19 post-crisis recovery for the energy sector” webinar (available at <https://www.ebrd.com/news/events/covid19-postcrisis-recovery-for-the-energy-sector.html>)

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