I.3. FINANCIAL INCENTIVES

EVEN THOUGH IT IS NOT THE ONLY BARRIER, THE HIGHER UPFRONT COST OF EFFICIENT EQUIPMENT, DIFFICULTY IN MOBILISING FINANCING, AND, IN SOME CASES, THE LOW RETURN CAN DETER CONSUMERS FROM INVESTING IN ENERGY EFFICIENCY. FINANCIAL INCENTIVES CAN MAKE THESE INVESTMENTS MORE ATTRACTIVE. AT THE SAME TIME, THEY ARE ALSO A WAY TO ATTRACT CONSUMER ATTENTION, RAISE AWARENESS OF BENEFITS, AND DEMONSTRATE A GOVERNMENT'S COMMITMENT TO IMPROVING ENERGY EFFICIENCY.

Especially in developing countries, where the cost differential between conventional and high-efficiency equipment may represent a higher proportion of consumer's disposable income, financial incentives aimed at reducing the upfront cost will generally bring more benefits than incentives spread out over the lifetime of the investment.

To operate properly, financing mechanisms to encourage energy efficiency investment must include efficient and cost-effective arrangements for assessing the technical aspects of projects. Experience has shown that this is often critical to the success of the scheme. Project proponents will be scared away by excessively burdensome procedures but public and private investors demand a high level of confidence in the projects' reliability.

I.3.1. Energy Prices

The price of energy is a key factor determining the profitability and feasibility of energy-saving measures. When subsidies keep energy prices very low, energy-saving measures are unlikely be profitable, and consumers will have little financial incentive to change their behaviour or to buy energy-efficient equipment.

However, economists differ on the precise role of energy costs in consumer decision-making on energy efficiency. Some economists consider it critical, while other analysts insist that energy consumers, especially households, do not base their investments and life choices on purely rational economic calculations and are generally more influenced by the level of upfront costs than by long-term savings. The UK study[16] referred to above even found that future energy savings did not appear to be an important factor in household decisions whether to invest in efficiency investments are concerned. That said, the lack of profitability can nonetheless be a foil to any energy efficiency investment.

Therefore, adapting energy prices to reduce subsidies to the lowest possible level and give consumers the correct signals should be encouraged. The signal given to consumers can be both economic and political, showing the importance given to energy efficiency in a government's agenda. In countries that have started to implement energy efficiency programmes without first adjusting energy prices, results have been disappointing.

Overall, consumption subsidies have been falling since the 1980s. According to the World Bank, global consumption subsidies dropped by more than half in the 5 years to 1996. The biggest reduction has occurred in the transition

Capacity-Building

Germany, China, Singapore

Financial incentives, information campaigns and capacity buildings can promote energy-efficiency building design.

Proving financial in

Energy efficiency in

Saving energy

Reducing GHG

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