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## The energy end user: patron saint of the global 'Energiewende'

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# The Current Column

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## The energy end user: patron saint of the global 'Energiewende'

Bonn, 27 January 2014. Around this time, New Year's resolutions begin to fade, challenged by long-standing habits. Whether it was to bike to work, install efficient lighting, or eat less chocolate, present comfort often beats out long-term wellbeing. In economics this is a market failure known as dynamic inconsistencies: While we may know what is best for us in the long run, our desire to stick with the more certain comfort of the status quo often supersedes change.

This has big implications for energy efficiency, where implementation is sorely lacking, sometimes as a result of non-technical barriers. Too frequently, the focus in the energy transition falls on the supply side. More must be done to ensure the demand side, namely the energy end user is prepared to adopt new technologies, innovations and behaviours.

### Fruit picking and policy making

Energy efficiency is not a low hanging fruit. Rather, it's very ripe for the picking, but not always easily reached. Market failures, behavioural anomalies and other barriers stand in the path of energy efficiency implementation.

A pillar of the EU 20-20-20 targets, energy efficiency is found in national flagship energy efficiency programmes such as the German KfW energy efficiency standards and the Green Deal in the UK. The 2013 Coalition Agreement in Germany highlighted the role of energy efficiency and individual actors in the scale up of the *Energiewende*. Yet the plans lack details on how behaviour change will be addressed. Incorporating behavioural insights into policy making is still a relatively new feat, so the Coalition is not alone in the oversight.

The field of behavioural economics was popularised by the award of the 2002 Nobel Prize for economics to Daniel Kahneman. Since then, governments have been on the gradual uptake of behavioural-influenced policy making. UK Prime Minister David Cameron's establishment of a "Nudge Unit" in 10 Downing in 2009 has been widely hailed as the primetime debut of behavioural economics in the policy world. David Halpern, director of the Nudge Unit, notes a motivating factor for behavioural insight influenced policy making: "people like shortcuts." Behavioural insights can take many forms, such as defaults or nudges, which make the "smarter choice" more immediately in reach.

### Translating and creating new evidence

While developed economy policy makers have a wider body of research conducted in their home countries to turn to, research on energy efficiency

and behaviour in developing economies is sparse. Different contexts for energy efficiency implementation, such as limited household or enterprise resources to purchase more efficient but perhaps more expensive technologies make the energy efficiency implementation challenge still greater in developing economies.

Although energy efficiency does not always require substantial investment, it typically tends to be associated with the Prius owning crowd for financial and environmental status reasons. However, the economic opportunities presented by energy efficiency make its application in a low income context of utmost concern at the intersection of sustainable and inclusive policy making. A review of the existing evidence from a developing economy perspective is now necessary to inform the design of policies and programmes which will contribute to the UN Sustainable Energy for All initiative targets, for example. Behaviour-informed policy and programme tailoring could include displacing upfront costs on a greater time horizon, distributing energy efficient technologies through appropriate vendors, offering product guarantees, or fostering social frameworks which make energy efficiency the norm.

### Reaching higher, smarter, sooner

Along with continued technological advancement, non-technical barriers must be confronted to achieve energy efficiency scale up. Policy makers need to incorporate research-based evidence to make the value of energy efficiency to the end user today greater than delaying implementation to an ever-distant tomorrow. Similarly important roles remain to be played by civil society, energy service companies and providers. All have important inputs to provide in creating enabling frameworks, communicating the value of energy efficiency, and assisting along the implementation chain.

Although behavioural insights are not a panacea, consumer decision making must be taken into account when designing policies and programmes. This could for example include requiring energy labels which "translate" energy efficiency labelling to "consumer-speak" or offering one or a few "home energy efficiency" days of leave a year to make it easier to carry out more extensive upgrades. Behavioural insights can help to overcome psychological footprints and ease implementation challenges. Policy makers should draw on evidence to develop frameworks which account for sub-optimal decision making and support the energy end user, patron saint of the *Energiewende*, in the quest to be more efficient.