



**mouvement
écologique**



A more targeted and well-thought-out approach to the design of subsidy programmes in Luxembourg

The Chamber of Deputies recently voted on the 'Klimabonus Wunnen' bill, which provides state aid for the installation of heat pumps, solar panels and so on.

Mouvement Écologique welcomes the passing of the law in principle – as this programme must absolutely be continued.

However, this law serves as a prime example of the fact that there are currently significant methodological – and perhaps also socio-political – shortcomings in the way such programmes are implemented in Luxembourg.

The Mouvement Écologique commissioned the Öko-Institut to carry out an analysis of the current subsidy programmes in Luxembourg, assessing their strengths and weaknesses and identifying potential for improvement in the future. The analysis was made possible thanks to financial support from the Ministry of the Environment.

Below is a brief summary of this analysis by the Mouvement Écologique. The detailed study by the Öko-Institut is available at www.meco.lu and can also be sent free of charge on request: meco@oeko.lu.

1. Environmental funding policy – a more systematic approach / placing greater focus on people with fewer financial resources

The Ministry of Health advised people living in homes that became particularly hot to spend time in supermarkets, shopping centres, cinemas and libraries during the heatwave ...

The fact that it had to come to this is an admission of failure on the part of this government's climate protection and adaptation policies to date, as well as those of the Ministry of Health!

The results of the study on living conditions in Luxembourg also show just how vulnerable people with fewer financial resources are to this situation: in 2023, 37.4 per cent of households stated that they were unable to cool their homes (compared with just 10.7 per cent in 2012). The EU average stands at 26 per cent.

The fact is that it is precisely those with fewer financial resources (low-income households, tenants, older people or students, who are regarded by banks as less 'creditworthy') who are particularly vulnerable to the climate and biodiversity crisis and its consequences.

- The rise in energy prices, for example, places a disproportionately greater burden on them than on households with greater financial means. (Although Luxembourg has social support mechanisms in place, the disadvantage persists);
- They lack the financial resources to make investments in line with the energy transition, such as installing heat pumps or renovating their homes (they also tend to live in rented accommodation to a disproportionately high extent). The latter means that they live in homes that, amongst other things, heat up more quickly and to a greater extent (poorly insulated houses, attic rooms, etc.).
- Furthermore, they often live in homes that are more likely not to have a shaded garden. As there is still a severe lack of public green spaces, it can be assumed – as was the case during the Covid pandemic – that they also have less access to green spaces in their immediate neighbourhood.

A more consistent climate and greening policy is therefore also a key issue of social justice! Luxembourg has a considerable amount of catching up to do in this area.

The measures mentioned in points 1, 2 and 3 – climate protection policy and a reorientation of the planning of our towns and villages – are therefore essential measures, not least from the perspective of a coherent social policy.

However, subsidies to promote the energy transition also play a key complementary role. And there are certainly shortcomings in the current approach in Luxembourg in this regard!

An analysis carried out by the Öko-Institut on behalf of the Mouvement Ecologique – with financial support from the Ministry for the Environment – highlights clear shortcomings

and considerable scope for improvement in the design of funding schemes from a social perspective.

But there is also considerable scope for improvement in terms of general goal-orientation, technical expertise, etc.

2. The Öko-Institut Berlin's assessment of current instruments and recommendations

Based on an analysis of 17 policy instruments in the climate and energy sector in Luxembourg, the Öko-Institut has reached the following conclusion (the detailed analysis contains specific findings on the policy instruments – www.meco.lu):

“The main potential for further development lies not so much in the creation of additional instruments as in a stronger focus on objectives, social differentiation, predictability and strategic coordination of existing measures.”

The Öko-Institut's analysis reveals fundamental shortcomings in the way subsidies are structured: from a social perspective, but also in the technical approach, as the following quotations illustrate (bold text by Mouvement Ecologique):

- **Regarding the objectives to be pursued / interaction with other instruments**
 - *“The analysis suggests that one challenge lies in the **targeted design of the instruments and their coordination with other instruments**. For many instruments, there is a need to examine more closely **what specific emission reductions** are expected, what **contribution the instruments** are intended to make **towards the objectives of the National Climate and Energy Plan**, and on the basis of which **indicators** success will ultimately be measured.”*
- **Regarding the target group**
 - *“The analysis reveals **differences in the (vulnerable) target groups addressed**. In the buildings sector in particular, many instruments are aimed at property owners and thus presuppose **the ability to invest**. This is particularly relevant because vulnerable groups often have no direct means of taking action or making decisions regarding energy-related investments. This creates **barriers to access for low-income households, for households without sufficient own funds or with limited creditworthiness, and for tenants**.”*
 - *“Looking ahead, consideration should be given to how **social aspects** can be **integrated more effectively right from the design stage of new schemes, rather than having to compensate for disadvantages only afterwards**.”*
- **Regarding the level of funding and social banding**

- “Furthermore, consideration should be given to whether the **specified funding levels are sufficient to achieve the necessary renovation rates**, or what level of funding would be required to actually enable vulnerable groups to make investments. There is a lack of instruments that are **more socially tiered** in terms of funding and support intensity, and which thus take account of **different financial starting points**. Measures are needed, particularly for lower-income or less creditworthy households, to break down existing barriers to access. Otherwise, there is a risk that the benefits of the transition will be reaped primarily by households that already have sufficient financial resources.”
- “We must also discuss how **different levels of funding** affect **the achievement of objectives**. In this regard, a stronger link between climate targets, social objectives and the level of funding could be beneficial.”

- **Regarding predictability and planning**

- “Most of the instruments examined have **long-term effects**. This applies in particular to building refurbishments, heating system replacements, the installation of photovoltaic systems and the adaptation of charging infrastructure. At the same time, the analysis shows that **it is often unclear how long funding programmes will continue, whether and how funding levels will be adjusted, and what long-term strategy underlies the instruments**. For households and businesses, however, **reliable framework conditions and planning certainty** are important for making **investment decisions**.”
- For households and businesses, **reliable framework conditions** (clear timetables, stable funding levels) are crucial for being able to make **long-term investment decisions** ...

- **Regarding socio-economic impacts**

- “In addition to environmental impacts, particular attention should be paid to the **assessment of socio-economic consequences** in all measures.”

- **Regarding the need for a mix of instruments**

- Effective policy management can only be achieved through the strategic coordination of policy instruments. Price-based instruments must be embedded within a mix of targeted support schemes, social compensation and infrastructure development in order to guarantee both environmental effectiveness and social justice.

Side note: Lack of technical expertise in determining subsidy levels

It is, unfortunately, a sad fact that the setting of subsidy levels in Luxembourg is based on very little technical expertise.

The Tripartite's decision simply to contribute an additional 2,000 euros per heat pump for all households is evidence of this. No attempt whatsoever was made to investigate whether this additional flat-rate increase in the subsidy would actually encourage more people to buy a heat pump, whether there might be more appropriate measures, or whether, instead of a flat-rate increase, more targeted support for specific households would have made more sense (in this context, the question arises as to why – if this increase is effective – the subsidies were set 'too low' when the draft bill was tabled).

Furthermore, the level of funding for heat pumps in multi-occupancy dwellings appears to have been based primarily on the level of funding approved in previous years. However, according to information from the Mouvement Ecologique, only three blocks of flats received support! Deriving the future subsidy level from this, capping it at five residential units – and, in the view of the Mouvement Ecologique, setting it far too low – does not constitute a technically sound basis, and the effectiveness of this method must be questioned.

It also appears that, particularly in multi-family dwellings, hybrid systems might still be useful for a few more years under certain circumstances. Why these subsidies have been completely scrapped is incomprehensible and has not been justified.

At the same time, the state continues to subsidise fossil-based insulation materials, namely, in some cases, recycled polystyrene. On the one hand, this amounts to an absolute fiscal policy blunder; on the other, it is also a complete mistake from an environmental perspective. After all, there are plenty of alternatives that are genuinely worthy of support. Here, too, there is a complete lack of any technical justification.

The 'Klimabonus Wunnen' draft bill is certainly welcome in essence, but it contains key shortcomings due to an unsatisfactory technical approach.

With regard to specific support for heat pumps, the Öko-Institut also puts forward the following additional proposals:

- *'Reducing electricity prices for heat pumps, e.g. by lowering VAT to zero'*
- *Increased funding for refurbishments in social housing to create energy-efficient and renewable-energy-heated flats (e.g. with social housing or rent control)*
- *Advance or instalment payments, as well as supplementary loans to cover remaining personal contributions*
- *Improved creditworthiness criteria for certain target groups, e.g. older people*
- *Establishment of a support programme that obliges owners not to raise the rent above a certain level following refurbishment."*

and further (excerpts)

- Subsidy levels must be more strongly means-tested to actually enable lower-income households to make investments.

- Approaches to the direct pre-funding of grants, guarantees or interest-free loans should be

consistently expanded to protect low-income owners from energy poverty.

- As tenants have little influence over the heating system but bear the rising CO₂ costs, social compensation mechanisms such as the CO₂ tax credit and an energy bonus should be regularly evaluated and, where necessary, adjusted in line with price trends. It must be examined whether vulnerable target groups, such as students or apprentices, are also enabled to participate.

Key demands: Introduce greater technical rigour and social impact assessments

- **A more robust analysis as a basis**

Future support programmes must be defined on the basis of far more robust data and objectives.

The Öko-Institut recommends the following evaluation categories for a funding measure:

- *Reduction of greenhouse gases*
- *Scope of the target group addressed*
 - *Is the vulnerable target group affected?*
 - *Is energy poverty prevented?*
- *Duration of impact*
- *Employment effects*
- *Investment incentive*
- *Is technology transfer / innovation supported?*
- *Incentive for behavioural change*
- *Administrative burden on the target group and the administration.*

- **Greater technical rigour, more selective and targeted social focus**

According to the Öko-Institut, a prerequisite for better (social) support programmes is: **‘the establishment of a structured socio-economic impact assessment, carried out both *ex ante* – that is, before a measure is introduced – and *ex post* – after its implementation – or concurrently, in the form of monitoring.**

In the Öko-Institut’s view, these offer the following advantages:

- **“... clear and verifiable objectives should be set and appropriate indicators defined right from the planning stage of a measure. (...) During implementation, it is necessary, amongst other things, to regularly assess whether the *intended target groups* – in particular vulnerable households and people with limited capacity to adapt – are *actually* being reached, what the *take-up* of the measure is, and to what extent the *living and income situations of those affected are changing in line with the intended objectives.*”**

- *“**Impact assessments** are necessary to **evaluate** the **effectiveness of energy and climate policy measures**. It is recommended that, in addition to setting clear objectives, **the potential impacts** of the measures be assessed at an early stage. This applies in particular to possible social consequences. Where necessary, accompanying measures should be identified and assessed to determine whether any potential negative social consequences can be prevented or mitigated. Furthermore, it should be outlined how the **expected outcomes** will be **systematically monitored, measured and evaluated**.”*
- *“The advantages of an early and systematic social assessment of measures lie in **highlighting potential social and, in particular, distributional effects at a preliminary stage**. On this basis, the measure can be further developed in such a way as to reduce, or in the best-case scenario avoid, adverse impacts.”*
- *“To continuously monitor progress towards achieving climate targets and the effectiveness of the measures implemented, it is recommended that **a systematic impact assessment** be carried out **at least every two years**. This should cover both the status of implementation of the measures and their social, environmental and economic impacts, and compare these with the originally defined targets.”*

Furthermore, the greatest possible transparency is needed to ensure planning certainty, both for private households and for economic actors (e.g. how long will a support programme ‘run’, when will it be adjusted, etc.).

To effectively accelerate the transition, **a package of regulatory, market-based, funding policy and information-related measures** is required, rather than individual measures

The Öko-Institut’s detailed analysis, including specific proposals, can be found at www.meco.lu