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# Clean heat for all

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Integrating the concept of social leasing  
into heat pump support schemes

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## POLICY BRIEF

- 1 Clean heating is a chance to lower energy bills, improve home comfort and cut emissions, but it must be available for everyone.** Targeted measures are necessary to help vulnerable households overcome financial and technical barriers to installing heat pumps and thus shield them against imported fossil fuel prices. This would make the transition to clean heating socially just and by reducing emissions help keep the upcoming carbon price for buildings and transport (ETS2) in check.
- 2 Inspired by social leasing for electric vehicles in France, similar financing schemes for heat pumps would be a smart way to invest ETS2 revenues.** Longer investment cycles make such an instrument even more cost-effective than similar schemes for cars. Over the first years of its implementation, less than five percent of ETS2 funds would allow supporting 10 percent of all expected heating installations in the EU. With ETS2 delayed, frontloading revenues is a key opportunity for an early roll-out of social financing schemes.
- 3 Collaboration among suppliers, banks and governments would enable an innovative form of support which could significantly increase vulnerable households' trust in and access to clean heating.** Governments, together with heat pump suppliers and banks, would make sure households get heating appliances and related services for an affordable monthly rate under simple terms. Suppliers would commit to competitive prices, transparent conditions and certified installations.
- 4 By unlocking additional heat pump demand, social financing schemes would help scale European cleantech manufacturing.** They could incentivise manufacturers and installers to develop more accessible business models beyond vulnerable households. This would further strengthen the competitiveness of existing clean heat value chains, contributing to the objectives of the EU Clean Industrial Deal. The upcoming Heating and Cooling Strategy and the Electrification Action Plan are key opportunities for advancing this policy on the European level.



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**Policy Brief**

Clean heat for all. Integrating the concept of social leasing into heat pump support schemes.

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# 1 The social implications of decarbonising heating

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Fossil fuel boilers still dominate the EU heating market, accounting for 78 percent of heating appliance sales across the EU<sup>1</sup>, of which a majority are gas boilers. These newly installed fossil-based boilers are a liability not only for the EU's climate targets but also for households, whose future energy bills are subject to imported fossil fuel volatility. As public policies rightly address fossil fuel dependencies in heating, and as clean solutions are deployed, late movers will find themselves at a disadvantage. First, the new EU Emissions Trading System covering CO<sub>2</sub> emissions from fuel combustion in buildings, road transport and small industry ("ETS2") will come into effect in the coming years<sup>2</sup>. By putting a price on carbon emissions, this market creates an incentive to invest in low-carbon solutions. While initial price levels are expected to be moderate, prices are set to increase progressively as the net-zero target approaches. With a technical lifetime of about 15 years, new gas boilers put in operation today will therefore constitute a growing financial burden for households. Moreover, as some Member States introduce policies<sup>3</sup> to replace fossil gas with an increasing share of more costly renewable gases in the distribution grids, retail gas prices in these countries are expected to rise. Finally, gas distribution charges for those consumers who remain in the network are likely to increase as more consumers switch to heat pumps or district heat.

Given the high cost of maintaining gas-based heating and the limited availability of alternatives such as solid biomass, heat pumps and district heating are considered the key technologies for decarbonizing the buildings sector. District heating will be mainly applicable in densely populated areas due to lower costs of associated infrastructure, with strongly diverging starting points across EU countries. For buildings outside heat networks, heat pumps are the most efficient technology and will moreover be powered by increasingly decarbonised electricity.

However, households face several challenges when looking to buy a heat pump. On the one hand, fossil fuel boilers often are the easier choice, both for households under time pressure to replace their old boiler and for installers who often lack training to install them, presenting an *accessibility* issue. On the other hand, the higher upfront costs of heat pumps compared to conventional heaters present a challenge in terms of *affordability*, as many households struggle to find the necessary financial means.

Although some Member States have mobilised substantial resources to support households in the installation of heat pumps, additional efforts are needed to make this technology the default choice. Measures must be taken to scale up the reskilling of heating installers, and support programmes need to better address the challenges faced by lower-income and generally more vulnerable households. These households are likely to bear the largest burden of rising fossil fuel prices mentioned above as they face particularly high barriers to heat pump affordability due to limited savings and insufficient access to attractive financing options.

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1 LCP Delta (2025)

2 ETS2 was supposed to start in 2027. However, recently both the Council of the EU and the European Parliament demanded the postponement of its start by one year.

3 Blending obligations for renewable gas will be introduced in France and the Netherlands from 2026. Gas boilers installed in Germany since 2024 will need to meet increasing targets for shares of renewable gases from 2029 onwards.

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First applied by the French government to support the adoption of electric cars among low-income households, social leasing programmes, in which the state subsidizes leasing contracts under certain conditions, have recently become a popular policy option to ensure equitable access to clean technologies. Several Member States have announced the introduction of social leasing programmes for electric vehicles given the success of the French scheme. As a result, the European Commission is supposed to provide guidance to Member States by the end of this year on how best to implement social leasing schemes.

The scope of this guidance will go beyond electric vehicles to explicitly include “heat pumps and other clean products”. Social leasing schemes therefore offer a potential policy option to provide socially targeted support to vulnerable households for the installation of a heat pump. By providing a reasonably priced option through reliable and easily accessible offers, such programmes could help address both accessibility and affordability challenges for heat pump financing. These schemes gain even greater relevance with the introduction of ETS2, which will bring additional revenues for financing support schemes in the buildings and transport sector. The European Commission has announced plans to set up a mechanism enabling Member States to frontload these revenues to the years just before and after the introduction of ETS2, making the timely design of effective policies for spending ETS2 revenues even more important. Social leasing for heat pumps offers an option to spend these revenues in a socially targeted manner.

This paper will look at the possible application of the concept of social leasing to heat pumps and how such programmes could help address barriers that prevent low-income households from installing a heat pump. It will present in greater detail the challenges around the accessibility and affordability of heat pumps and analyse the limitations of existing commercial financing programmes to address these challenges. This analysis will be followed by an assessment of how social financing schemes for heat pumps could be implemented, together with concrete political recommendations on how to ensure that their objectives are achieved.

## 2 Context for the social financing of heat pumps

Leasing schemes are a well-established financing mechanism. In general terms, a company lends a product to a consumer for a fixed amount of time during which the customer pays a monthly rent. The product can be acquired by the consumer at the end of the defined period for an agreed price based on its estimated residual value. Leasing can be distinguished from loans, whereby ownership is transferred to the consumer while they pay back the upfront costs over a certain timespan. Leasing has become most prominently associated with the automotive sector, accounting for around half of the new cars put into circulation<sup>4</sup>. Leasing schemes therefore offer an opportunity to facilitate the adoption of electric vehicles, making it possible for consumers to opt for an electric vehicle without committing to a high upfront investment.

Social leasing for electric vehicles has become very popular. With lower running costs but higher purchase price than combustion engine cars, electric vehicles tend to be less accessible to lower-income households. Subsidising their lease based on income-related eligibility criteria helps make electric vehicles affordable for a segment of the population that has tended to be excluded by the market – a condition for a more inclusive and socially balanced energy transition.

The success of social leasing programmes for electric vehicles raises the question of whether the concept can be applied to heating systems, too. However, implementing leasing schemes for heat pumps presents a more difficult case. Given that a heating system belongs to the core infrastructure of a building, several design issues must be addressed. First, ownership of the heat pump during and after the contract must be clarified, as a heat

<sup>4</sup> Transport & Environment (2025)

### → Social leasing for electric vehicles in France

The French social leasing scheme for electric vehicles has often been described as a blueprint for supporting clean tech uptake among vulnerable households. Under the scheme, which started in 2024 and was renewed in 2025, leasing contracts are subsidized under certain conditions. To benefit from the scheme, a household must be below a certain income threshold and demonstrate their car dependency. Meanwhile, monthly leasing rates must fall within a certain range (100–150 euros in 2024, 140–200 euros in 2025) for a contract with a minimum duration of three years, which may include an option to buy the vehicle. Only electric vehicles manufactured in the EU can be leased under the scheme, with government support being capped at 13,000 euros in 2024 and 7,000 euros in 2025.

The scheme has been described as a huge success as a function of the high level of interest from households. In the first year, 90,000 requests for support were registered for an initial offering by the French government of 25,000 contracts – a number that was later increased to 50,000 due to high demand. As a result, the scheme led to a significant increase in the overall demand for electric vehicles in France. More critical assessments point to high costs for the government – which consequently decided to decrease government support in 2025 – as well as a lack of transparency in leasing contracts and the promotion by leasing companies of additional contract features such as insurance or maintenance options.

Transport & Environment (2024)

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pump cannot easily be handed back at the end of a lease. Second, the duration of the scheme must be considered: installation accounts for a significant share of the upfront costs of a heat pump and can only be recovered if the device is in use for a prolonged period. Also, monthly costs can only be reduced enough for vulnerable households if the contract period, and thus the support period, is long enough. Finally, clear rules need to be defined in case the dwelling changes hands through sale or inheritance.

Given the considerations described above, social leasing applied to heat pumps would most likely not be “leasing” strictly speaking, in that ownership would be transferred to the homeowner. However, similarly to the French policy for electric vehicles, governments could subsidize financing schemes for heat pumps through a combination of grants and zero- to low-interest loans, on the condition that suppliers commit to offering affordable rates and certified installations. In contrast to existing policies, this would represent an integrated approach to supporting heat pump uptake among vulnerable homeowners, as it would both ensure affordable rates and facilitate access to heat pumps for a population currently excluded by the market. This would be similar to existing financing schemes for heat pumps where suppliers bundle installation and financing into one offer with the difference that these offers would include affordable financing conditions and targeted technical support. Therefore, these programmes will be called social financing for heat pumps for the rest of this paper.

There remains the question of who should be eligible to benefit from such social financing programmes for heat pumps. As discussed above, these subsidised financing models can be a good way to address the accessibility and affordability issues surrounding heat pump installations. Household vulnerability defined in this context should consider not only the level of income but possibly also the demographics of the people living in the dwelling, its energy efficiency or location, or the owner’s ability to afford renovations, i.e., the level of savings. Low- and lower-middle income homeowners would be eligible but also potentially those who might not be able to afford renovations despite relatively high incomes, e.g., due to high monthly mortgage rates. Therefore, these households would be particularly vulnerable with regards to the introduction of ETS2 as they would face increasing carbon prices without being able to afford alternatives to using fossil fuels for heating.

Social financing schemes would address these vulnerabilities. Instead of having to cover all upfront costs at once, households that otherwise would not be able to take out additional loans could benefit from affordable financing through these schemes. The investment would be spread out over a longer time horizon, ideally allowing households to recoup costs through savings in their energy bills. This understanding of what constitutes a vulnerable household is in line with the definition given in the Social Climate Fund Regulation<sup>5</sup>. Consequently, revenues from the Social Climate Fund (SCF) and ETS2 would ideally be made available to provide funding for such programmes to make heat pumps affordable to all.

Last but not least, while the natural beneficiary of such a programme is the self-occupying homeowner as has been considered in this paper, it could also be used to address rented dwellings in countries with a high share of tenants – such as Germany, Austria or Denmark – albeit with less precise targeting. More generally, since the understanding of what constitutes a vulnerable household varies between countries, the beneficiaries, specific level of support and eligibility conditions would need to be defined nationally and possibly differentiated for different groups of households.

To design such an instrument well, it is necessary to better understand the challenges it is meant to address. Therefore, sections 3 and 4 will outline current challenges, while section 5 will derive conclusions for instrument design.

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<sup>5</sup> European Commission (2023)

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## 3 Accessibility challenges for heat pumps

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Accessibility presents the first major barrier for heat pump adoption among households. In contrast to affordability, this term describes all non-financial barriers to the acquisition of a heat pump. These non-financial barriers often disincentivize households from installing a heat pump regardless of their financial situation. As a result, fossil fuel boilers often present the more convenient choice for households looking for a new heating system.

First, many decisions for a new heating system are taken urgently when an old heating system breaks down, generally during the winter. This time constraint typically translates into a bias towards technology that is familiar and fast to install. Second, consumers frequently lack information regarding the performance of unfamiliar heating systems. Lastly, decisions about new heating systems often show present bias, meaning that households tend to discount future energy savings from heat pumps compared to their higher upfront costs. A similar logic applies to future fossil fuel prices, with future price increases often not being sufficiently included in investment decisions.

Differences in the quality of building envelopes represent another frequent barrier to heat pump adoption. This is especially true for vulnerable households, which tend to occupy less efficient buildings. Heat pumps in such structures would need to provide a higher flow temperature, leading to a less efficient operation and higher electricity consumption. While the technical potential of heat pumps to provide a higher flow temperature has improved over the past years, the economic viability of installing heat pumps in less insulated buildings strongly depends on the electricity-to-gas price ratio in the country in question<sup>6</sup>. In the long term, building shell renovations are often the most efficient solution. However, they significantly increase the amount of capital required, even considering the support policies available for these measures in many Member States. Less capital-intensive renovation pathways for poorly insulated buildings include targeted efficiency measures such as replacing windows and radiators or the installation of a hybrid heat pump combining a heat pump with a fossil fuel or biomass boiler.

Lastly, given the complex decision-making situation households are in when choosing a new heating system, limited access to trusted information and installation services represents an additional barrier to heat pump access. Heating installation companies are often disincentivized from offering heat pumps, as they already frequently face a shortage of skilled installers; transitioning to heat pumps implies the need for reskilling installers and planning for longer installation times. Companies therefore have an incentive to advise households to install another fossil fuel boiler. Consequently, even if households are specifically looking for a heat pump, they might face a challenging customer journey with long wait times, difficulties to even obtain an offer and high installation prices as a result. Moreover, this situation increases the risk of poor-quality installations that significantly diminish heat pump efficiency.

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<sup>6</sup> For an assessment of the effect of energy price ratio on cost-optimal heating system choices see Vito (2024).

## 4 Heat pump affordability

In assessing the affordability of heat pumps, both upfront costs and energy costs must be considered (see Figure 1). Regarding energy costs, heat pumps have the potential to significantly reduce households' energy bills compared to fossil fuel boilers due to their high efficiency. However, the extent to which they can realize this potential depends on the ratio between electricity and gas end-user prices in a particular country. While heat pumps already lower energy bills in most of the Member States, the introduction of ETS2 and a possible decrease in electricity taxation have the potential to further strengthen their position compared to fossil fuel boilers.

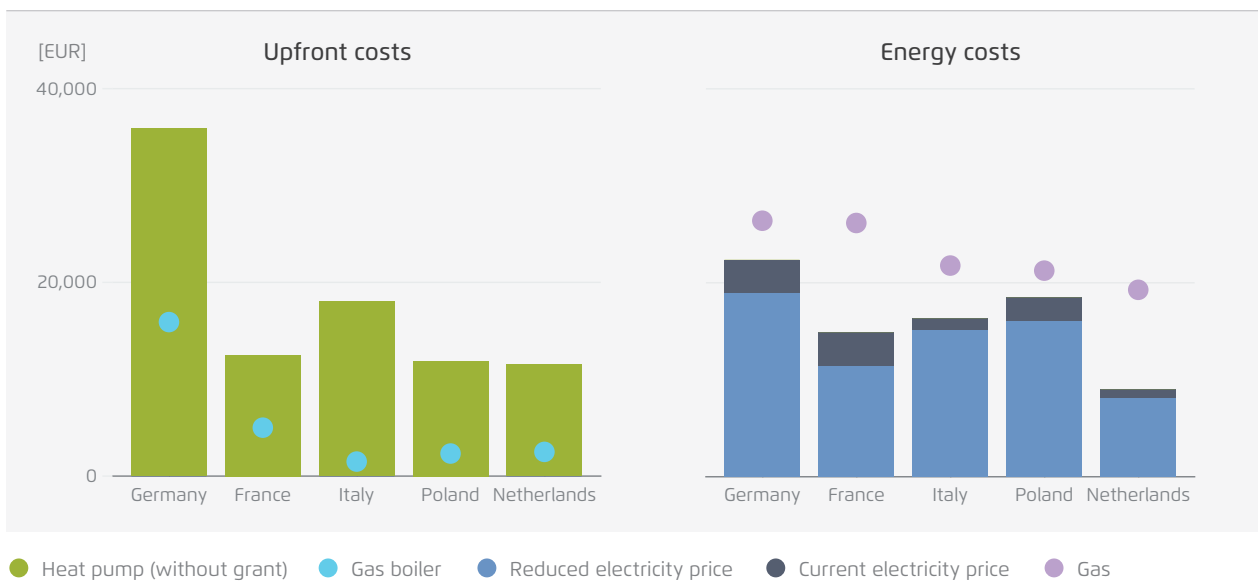
Meanwhile, heat pumps generally imply higher upfront costs for households than fossil fuel boilers, which means that their installation requires households to mobilize more capital. This presents a particular challenge for vulnerable homeowners, who may not have access either to sufficient savings to invest in a heat pump or to attractive financing.

To counter these affordability barriers, Member States have introduced various measures to support heat pump installations (see Table 1). Grants alone accounted for 13 billion euros in 2022<sup>7</sup> as the support measure implemented in most EU countries. In many cases, they reduce upfront costs for heat pumps significantly, bringing them closer to, if not even below, the upfront costs of fossil fuel boilers (see Figure 2). Several countries have also

<sup>7</sup> Coolproducts 2023

Upfront costs (without grants) and heating costs over 15 years at current energy prices\*

→ Fig. 1



Agora Energiewende (2025) based on HEPI (2025) and Verbraucherzentrale (2025), IZI by EDF (2025), Aira (2025), Enerad (2025), Homedeal.nl (2025), Eurostat (2025) and Odyssee-Mure (2023). Note: The reduced electricity price is calculated as the average electricity price with reduced VAT and the excise duty reduced to the minimum possible under the Energy Taxation Directive.

\* Referring to average upfront costs for air-to-water heat pumps in different geographies. Upfront costs for heating appliances significantly vary between Member States. This can be attributed to different factors, including quality standards for installations, the skill level of installers and, in the case of heat pumps, the design of subsidy schemes.

## Upfront cost support in selected EU Member States

→ Table 1

Country	Grant level	Grant criteria	VAT	Low-interest loan
Germany	30–70%, max. 21,000 EUR	Boiler age, income, refrigerant	Standard VAT (19%)	4–10 years at 0.01%–0.64% interest rate
France	Up to 5,000 EUR	Income	5.5% instead of 20%	Zero interest loans for up to 15 years
Italy	50%	None	10% instead of 22%	No
Poland	Up to 35,200 PLN (8,220 EUR)	Income	8% instead of 23%	No
The Netherlands	Specific to heat pump model	Efficiency and capacity of heat pump	Standard VAT (21%)	Zero interest loans for up to 15 years

EHPA (2025), EHPA (2025a), French Government (2025), KfW (2025), Warmtefonds (2025)

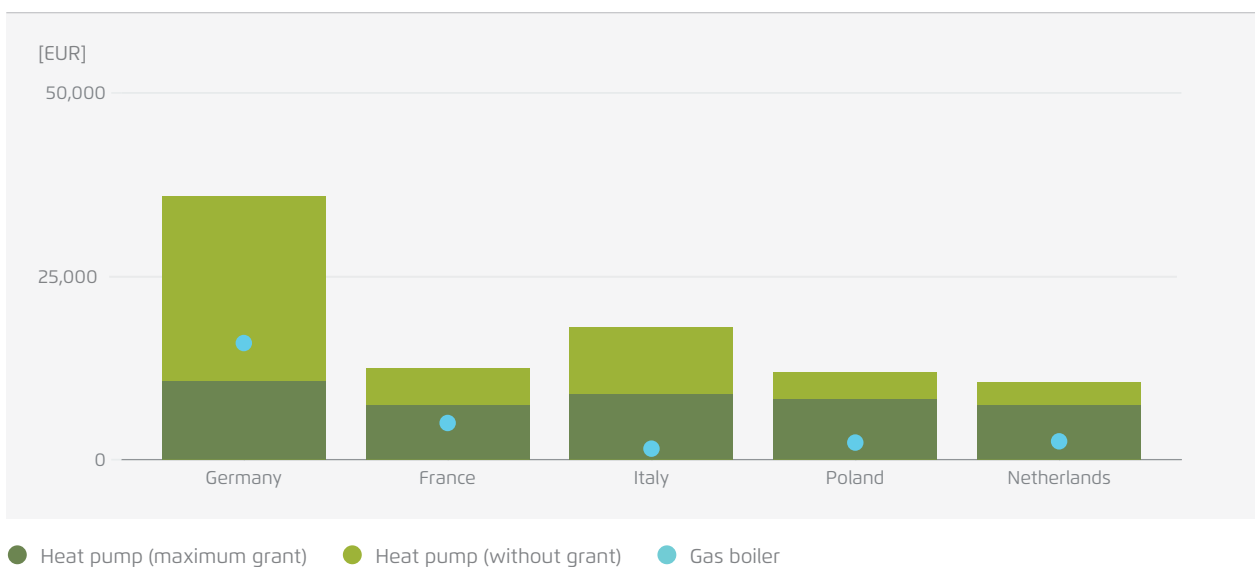
included income criteria in their grant schemes, leading to higher subsidy rates for low-income households. In some instances, Member States have also used reduced VAT rates to lower upfront costs for heat pumps; other solutions include the introduction of zero- to low-interest loans to provide attractive financing conditions to low- and medium-income households.

While these measures have significantly contributed to heat pump uptake in these Member States, vulnerable households are often clearly underrepresented among the grant recipients.<sup>8</sup> Many grant schemes require pre-financing, implying that households must cover all initial costs while only being reimbursed afterwards. These programmes therefore often do not help households lacking the necessary savings to afford a heat pump.

<sup>8</sup> For example, low-income households in Germany were strongly underrepresented in 2023, with only 21% of the grant recipients having a monthly net income of 3,000 euros or less. For more information see Prognos (2024).

## Upfront costs for new heating appliances (including grants)

→ Fig. 2



Agora Energiewende (2025) based on Verbraucherzentrale (2025), IZI by EDF (2025), Aira (2025), Enerad (2025), Homedeal.nl (2025). Note: Heat pump (maximum grant) means upfront costs assuming the maximum grant level in countries which differentiate grant level according to household income and the standard level for countries which do not do so.

## Selected examples of commercial heat pump financing models

→ Table 2

Company (country)	Contract type	Length	Interest rate p.a.
Thermondo (GER)	Loan	15 years	6%
IZI by EDF (FR)	Loan	1–5 years	4.98%
Octopus (GER)	Loan	15 years	6.49%
Engie (BE)	Loan	1–5 years	0%
Aira (GER)	Loan	Up to 15 years	6.69%

Aira (2025a), Engie (2025), IZI by EDF (2025), Octopus (2024), Thermondo (2025)

As for low-interest loans, they are often provided by private banks in exchange for compensation from the government for the revenues lost as a result of lower interest rates. However, the risks associated with these loans are not covered by the government, meaning that banks are not incentivized to hand out these loans to households with low creditworthiness.

Meanwhile, financing mechanisms offered by market actors are not very attractive. The high interest rates prevalent in these schemes (see Table 4) generally reflect the high interest rates for consumer credits, which are traditionally seen by the financial sector as risk-intensive financing instruments<sup>9</sup>. As high interest rates lead to high cumulative financing costs over the duration of a loan or a leasing contract, it is simply more attractive for consumers to mobilize all upfront costs initially. As a result, households who cannot afford to do so currently rarely make the choice to install a heat pump.

Moreover, current financing offers are often subject to a creditworthiness assessment by the provider, who has an incentive to exclude households with low creditworthiness from their financing schemes to minimize risk. Consequently, current financing models by heat pump providers often fail to reach those households with the greatest need, who may have low creditworthiness for reasons of income or age.

<sup>9</sup> The average interest rate of consumer credits was 7.51% in August 2025 according to the European Central Bank.

### → Consumer Credit Directive

Loans and certain leasing schemes\* are regulated in the EU under the Consumer Credit Directive. This directive includes various provisions on protecting consumers against potential adverse impacts of these schemes. First, it requires that sufficient and transparent information be provided to consumers through minimum requirements on advertisement, contractual information, and bundling with other products and services such as electricity contracts. Secondly, the directive also includes mechanisms for financial consumer protection such as a mandatory option for early repayment and binding forbearance measures by creditors in case households fail to pay their monthly rates.

\*In case the schemes include an option or obligation to buy the heat pump.

## 5 Making heat pump financing social

Government support can be effective in making heat pump financing accessible and affordable for vulnerable households. Inspired by the French policy supporting electric vehicles, the core function of government support would be to ensure that monthly rates remain low for vulnerable households, while making it attractive for suppliers to engage with these consumers.

Financial support by governments enables social financing schemes to address the challenges of existing policies in reaching vulnerable households.

1. Lowering monthly rates makes them bearable for households. This would combine both a traditional grant covering a certain part of the upfront costs with a low-interest loan reducing financing costs for a heat pump installation.
2. Directly subsidizing the provider of leasing schemes makes it possible for households to access government support without the need for pre-financing or lengthy application procedures.
3. Finally, government support in the form of default guarantees could reduce the risks for suppliers who provide heat pump financing to vulnerable households. Social financing schemes would incentivise suppliers to offer attractive financing conditions to households who otherwise would not qualify.

However, for government support to reach vulnerable households in an effective manner, strong safeguards for consumer protection must be established in social financing contracts (see Table 5). These criteria should ensure that the scheme achieves its two objectives: providing heat pumps to households that could not afford them otherwise and ensuring that heat pumps reduce household energy bills significantly.

Defining eligibility criteria represents the first important parameter, as these criteria should aim to identify households that otherwise could not afford a heat pump. Here, household income, as a measure of a household's ability to save, constitutes the most important indicator. This could be adapted to household size to reflect the varying financial needs of different household types. Certain demographic groups could be further targeted

### → Insuring default risk for heat pump financing

As already mentioned, a high risk of default due to low creditworthiness is one of the key reasons why heat pump financing is currently out of reach for many vulnerable households. A subsidized financing scheme must therefore address this default risk if it is to make participation financially viable for providers while keeping financing costs low for participating households.

Generally, default risk for loans can be covered by credit insurance products that guarantee payments in case of certain events such as death, invalidity or job losses. One option in socially targeted heat pump financing schemes would be to include a mandatory credit insurance. However, this might not be sufficient given that some of the default risk for vulnerable households is related to lower income instead of specific events. Government guarantees could therefore also directly underwrite default risk, fully or partially covering loan repayments by households in case they cannot finance them anymore.

## Safeguards for ensuring consumer protection in social financing schemes

→ Table 3

Criteria	Safeguards
Eligibility	Clear criteria based on household income and national context; potentially criteria related to the current heating system
Ownership	Transfer to the home-owning household; commitment by the home-owning household to pay back the amount not covered by government support; mechanisms for homeownership transfer; default guarantee
Contract content and duration	Duration in line with the lifetime of a heat pump (maximum 15 years); reliance on verified installers to ensure the quality of the installation; inclusion of basic maintenance
Consumer information	Transparent information on the composition of financing rates
Ensuring lower energy bills	Mandatory energy audit; tailored solutions to improve building efficiency
Price level of monthly rate	Set by government, potentially staggered by income level

Agora Energiewende (2025)

depending on the national context, for instance households with elderly people, who often lack the necessary savings or access to attractive financing. Homeowners with existing mortgages or loans might face similar challenges, especially if they only recently acquired their home. Characteristics of the existing heating system, such as its age, could also be included to identify vulnerable households with aging heating systems before they break down.

Furthermore, contracts should clearly specify heat pump ownership both during and after the contract. To reduce uncertainty for consumers, the agreement should clarify that the heat pump belongs to the household. In contrast to the French social leasing scheme, the social financing programme proposed here for heat pumps would not qualify as leasing in its original sense: it would rather represent a loan accorded for the duration of the contract, with the household committing to pay back the amount remaining after the government subsidy. Clear household ownership would ensure that social financing contracts are covered by the protection mechanisms in the Consumer Credit Directive. Moreover, in contrast to leasing contracts, household ownership would imply that contracts cannot be terminated early given that the beneficiary is legally committed to paying back the entire amount not covered by government support. Clear provisions are needed to account for a change in ownership in case the dwelling is bought by a non-vulnerable household. For instance, the new household could continue the scheme with unsubsidized rates or opt for a lump sum repayment of the remaining debt on the heat pump.

The duration and content of the contracts should safeguard both trust and affordability for consumers. Affordable monthly rates could be established through long contract durations in line with the operation time of heat pumps – around 15 years – as this would spread the upfront costs over a longer time span. The inclusion of warranty and basic maintenance features over this duration would further ensure that the heat pump functions properly during the entire contract. Allowing only skilled professionals to carry out installations under the scheme would reduce the risk of low-quality installations leading to a low efficiency of heat pumps.

Transparent disclosure of contract details is needed to create trust among consumers. Beside the rules for ownership, the composition of the monthly rates should be transparent, thereby both making the contribution of the government visible and preventing suppliers from converting part of the government support into profit. Transparency would also prevent hidden costs for consumers, for example through the inclusion of optional

### → Potential inclusion of low-income tenants

Social financing schemes for heat pumps are easiest to implement for the primary residence of low-income homeowners, given that beneficiaries would be directly supported in these cases. EU countries with a high share of low-income tenants could also try to integrate landlords of low-income tenants into their schemes. Here, social financing schemes could theoretically benefit both landlord and tenant as they have the potential to remove investment barriers for landlords while reducing energy bills for tenants. However, strong safeguards would need to be put in place to ensure that the positive effects of the scheme reach tenants (e.g., rent regulation), and it would have to include provisions on how to continue social financing contracts after a vulnerable tenant moves out. Social financing for heat pumps could be particularly interesting in the context of social housing, which by definition concentrates low-income households.

add-ons. Here, government should clearly specify the products and services included in the scheme while additional products and services should be optional and, in the case of electricity contracts, terminable to reflect current consumer protection standards.

With regards to the policy's key objective, it will also be important that the policy leads to lower energy bills for households. Consequently, the quality of the building envelope will need to be considered in each individual case given its effect on heat pump performance. Independent energy audits should be a mandatory starting point to assess whether a heat pump can potentially lower heating costs with the existing envelope. If this is not the case, the scheme could also include individual measures to improve heat pump efficiency such as replacing radiators or windows or installing floor/ceiling or cavity wall insulation. In cases where even these measures do not make a fully electric heat pump economically viable, a hybrid heat pump could be installed.

Lastly, governments should also strongly intervene on the financing rates to ensure that benefits are passed through to consumers. Here, governments could follow the example of the French support scheme for electric vehicles and set a monthly rate at which suppliers need to offer heat pump leasing to participate in the scheme. It could be set based on current market rates to ensure that suppliers do not increase prices due to government support. Moreover, rates could be differentiated according to household income to make the scheme even more socially targeted.

## 6 Implementing social financing for heat pumps

With regards to implementing social financing schemes, action will need to happen on different political levels.

National governments are the central actors for introducing these schemes given both their financial capabilities and their experience with existing grant programmes. Member States would define key parameters of social financing schemes according to the respective national context and potentially even integrate them with existing support measures for installing heat pumps. For financing these schemes, they could use revenues of the Social Climate Fund or other ETS2 revenues. However, introducing social financing schemes would not necessarily mean setting up an entirely new policy. For existing grant schemes, this could mean offering the same level of support directly to leasing providers if they meet the conditions described above. For existing low-interest loans, this could mean providing support to suppliers to bring down financing costs even further.

The European level could significantly help national governments to ensure consumer protection by detailing implementation criteria in its upcoming guidance on social leasing for clean products. This guidance should reflect the criteria for consumer protection set out in the previous chapter. Moreover, the guidance could clarify the conditions under which social financing for heat pumps could benefit from state aid clearance<sup>10</sup>. The upcoming Heating and Cooling Strategy and the Electrification Action Plan, as well as ongoing discussions about the future of the ETS2, provide additional key opportunities for advancing this policy on the European level.

To reach vulnerable households effectively, however, these funds will need to be coupled with policy actions at the local level. The largely local character of heat pump distribution channels, which is a key reason for consumers' high trust in heating installers, makes the selection of suppliers especially relevant. Therefore, local installer networks should be mobilized in cooperation with local authorities. This could mean either using existing networks, such those of manufacturers, or setting up new networks, for example in cooperation with local energy providers.

Moreover, as part of the implementation by Member States of the Energy Performance of Buildings Directive (EPBD), social financing schemes could be integrated into "one-stop shops" for building renovations. These facilities are supposed to function as a central contact point for consumers by coordinating renovation processes: conducting energy audits, organizing the work of installers, handling subsidy applications and potentially providing financing. First implemented in Ireland as part of the national strategy to promote deep renovations, one-stop shops – in this case run by private companies acting in close collaboration with public services – proved very successful, with the number of deep renovations more than doubling after the scheme was introduced. Following on this success, one-stop shops were included in the latest revision of the EPBD, with the obligation to implement them on the regional level. According to the Directive, these facilities, which can involve both public and private actors, are supposed to provide technical assistance for renovations with a particular focus on vulnerable households.

<sup>10</sup> In general terms, directly supporting companies counts as state aid under European legislation in case the amount is above a certain threshold. However, financing schemes can be exempted from this if certain conditions are met. For more information see European Commission and European Investment Bank (2018).

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Implementing social financing schemes for heat pumps could be a key activity of these facilities. One-stop shops could take advantage of their local proximity to identify priority areas for social financing schemes, including neighbourhoods with a high share of vulnerable households or social housing projects<sup>11</sup>. Here, the activities of one-stop shops could be closely linked to European legislation on the local planning of energy infrastructure such as the requirement to set up local heating and cooling plans under the Energy Efficiency Directive or the assessment of the future of local distribution grids mandatory under the Gas Directive. If these plans are aligned, social financing schemes could complement them by ensuring that vulnerable households will not be the last customers on the gas grid.

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<sup>11</sup> EHPA 2025b

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## 7 A tripartite contract for heating decarbonisation

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Social financing schemes broadly mirror the approach the European Commission has proposed to accelerate the roll-out of industrial decarbonization and renewable energy generation under the so-called tripartite contracts that are part of the Affordable Energy Action Plan. In general terms, tripartite contracts cover government measures aimed at incentivizing decarbonisation investments, such as investment guarantees. As a result, energy suppliers are incentivized to invest into expanding the supply of renewable energy while companies are encouraged to invest in decarbonization, thereby ensuring that the additional supply is met with sufficient demand.

The concept of social financing for heat pumps would transfer this approach to the heating market. Currently, heat pump suppliers and installers are insufficiently incentivized to scale, while households encounter difficulties in both accessing and affording heat pumps. By offering solutions to both of these challenges, social financing schemes would provide investment certainty to vulnerable households, which would in turn encourage the supply side to establish accessible offers for these customers.

Such an approach would not only address both accessibility and affordability barriers but would also make the existing policy framework more effective.

### 7.1 Making heat pumps affordable for vulnerable households

The instrument would make heat pumps affordable by addressing the financial barriers for vulnerable households mentioned in Chapter 4. This would be due to the instrument being an integrated type of support policy combining government support and innovative financing schemes by private actors.

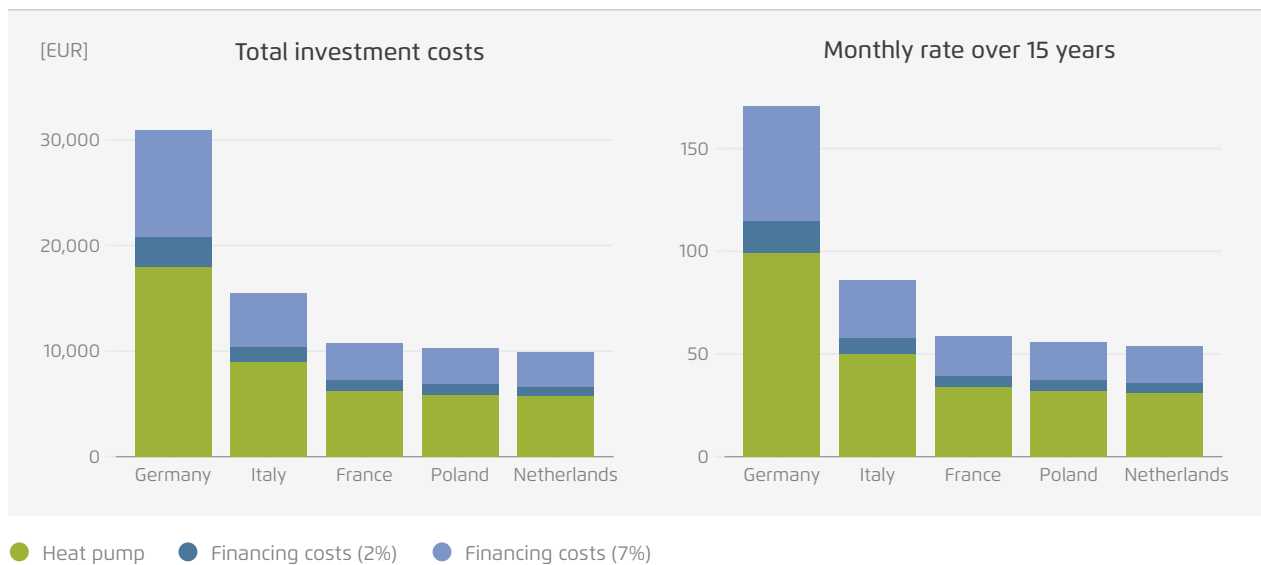
First, vulnerable households would not have to mobilize any upfront capital as they need to do under most current grant schemes, as government support would be integrated in the financing scheme. Therefore, social financing schemes would enable households without high savings to finance heat pumps.

Second, due to government support, the instrument would make heat pump financing accessible for households without current access to loans. Beyond low-income households, it could also benefit those who do not have access to heat pump financing for other reasons.

Lastly, the scheme could provide attractive conditions compared to existing heat pump financing schemes. As a consequence of government support, interest rates in the scheme would be significantly lower than current offers by private actors. This would result in lower monthly rates, making the scheme not only accessible but also attractive for vulnerable households (see Figure 3).

## Investment costs and monthly rates for heat pump financing over 15 years

→ Fig. 3



Agora Energiewende (2025) based on Verbraucherzentrale (2025), IZI by EDF (2025), Aira (2025), Enerad (2025), Homedeal.nl (2025). Assuming that 50% of the upfront costs are covered by a grant leaving the remaining 50% to be financed by the household. Does not include maintenance and insurance costs.

## 7.2 Improving the accessibility of heat pumps

Administering the scheme through one-stop shops would lead to consumers receiving tailored advice and services, while installers, manufacturers and energy advisors could better integrate their products and services, leading to more accessible offers.

The scheme would thereby address the urgency that is inherent to many decision-making situations around heating system replacement. The use of one-stop shops, constituted as trusted and accessible actors, would significantly reduce the cognitive burden associated with finding a heat pump installer after a heating system breaks down. Moreover, one-stop shops could engage in local campaigns directed at vulnerable households with old heating systems in a bid to reduce the number of heating system breakdowns.

Furthermore, these local entities would be able to provide trusted information and installation services to consumers. The first objective could be achieved through independent energy audits being integrated into local one-stop shops. Achieving the second objective would be possible by leveraging networks of skilled installers. These networks could take inspiration from existing case studies and would ensure that installations are in line with quality standards.

Lastly, integrating independent energy audits into social financing schemes would ensure that heat pump installations covered by the scheme respect the quality of the building envelope and structurally lower the energy bills of households.

These improvements could potentially be beneficial beyond vulnerable households. Building on networks created with such targeted assistance in mind, integrated offers could be also made available to non-vulnerable households with reduced government support.

### → Case studies for leveraging local installer networks

Interesting examples have emerged in the past years showing how local installer networks can be included in innovative business models around heat pump distribution. For example, the French platform IZI by EDF, a subsidiary of the French energy company EDF, coordinates the installation of heating appliances and renovation services throughout France. While the company manages customer contact and administrative tasks, it partners with certified local installer companies to carry out the work. A key advantage of this collaboration is advanced accessibility for consumers, who can reach out to IZI by EDF through the company's website, where they can already see indicative prices for different kinds of work.

The collaboration between the local energy provider of the German town Osnabrück with the manufacturer Viessmann and local installer companies constitutes another interesting case. Here, the local energy provider takes over the initial customer contact while Viessmann later clarifies installation details with the household. Afterwards, heat pumps manufactured by Viessmann are installed through certified local installers. These heat pumps can then be combined with a tailored heat pump tariff by the energy provider.

IZI by EDF (2025b), Stadtwerke Osnabrück (2024)

## 7.3 Public policy objectives: an effective lever for reducing fossil fuel dependency

Implementing social financing for heat pumps would give governments a cost-effective tool to reduce fossil fuel dependencies in the buildings sector.

First, the scheme's focus on vulnerable households who otherwise could not afford to install a heat pump would ensure that it leads to additional installations. It therefore represents a more effective use of public funding than existing support schemes, which often support installations in more affluent households that might have been able to afford a heat pump without government support.

Second, the cost-effectiveness of the scheme would be high when compared to the automotive sector. The longer investment cycles of heat pumps and their relatively low upfront cost compared to electric vehicles in most EU countries mean that the costs associated with the scheme would be relatively low.

Costs for supporting 500,000 heat pumps per year between 2027 and 2032 with a 50 percent grant and a zero-interest loan would amount to around 2.5 billion euros per year<sup>12</sup> (see Figure 4), not including potential guarantees. The instrument would therefore cover around 10% of the EU heating appliance market. This would only account for around 25 percent of the total annual revenues in the Social Climate Fund and less than 5 percent of the total annual revenues projected to be generated by ETS2. In comparison, social leasing for electric vehicles for the same number of households would lead to annual costs of around 4 billion euros<sup>13</sup>.

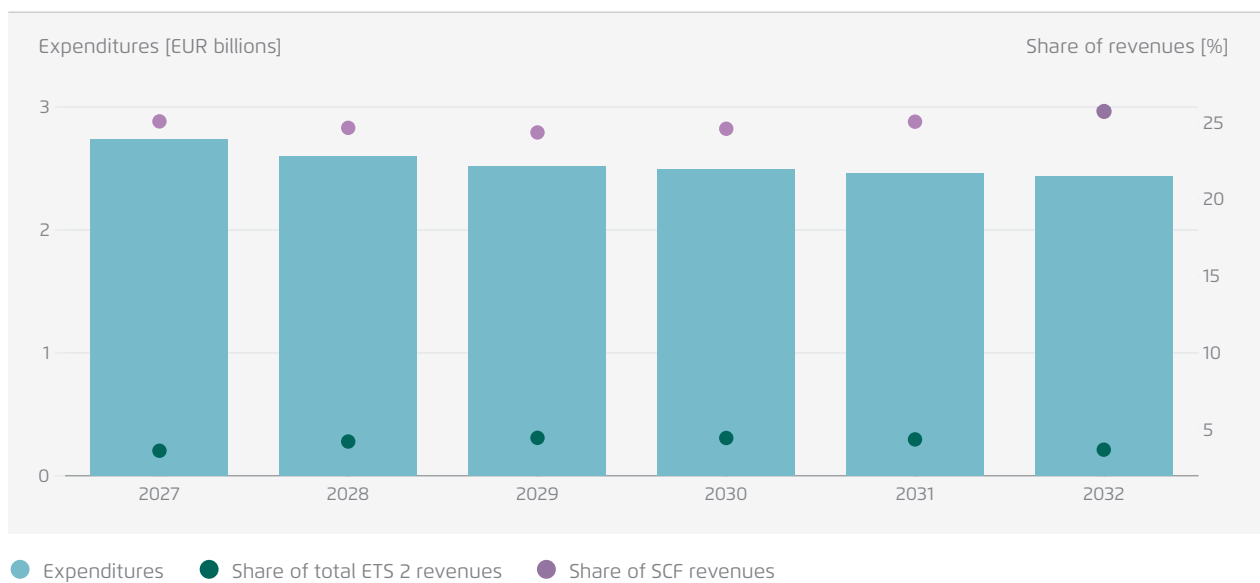
<sup>12</sup> These calculations are based on the ETS2 entering into force in 2027. In their decisions on the 2040 climate target, both the Council of the European Union and the European Parliament have called for the introduction of the ETS2 to be postponed by one year to 2028. This would mean that no revenues from ETS2 would be available in 2027 while only very limited revenues from ETS1 auctions (4 billion euros) would be available for the Social Climate Fund for both 2026 and 2027 cumulatively. However, the European Commission has also announced that it will explore the possibility of a Frontloading Facility for ETS2 revenues. This facility would make expected ETS2 revenues from later years already available in the early years of ETS2, thereby increasing the revenues available in 2027.

<sup>13</sup> Calculations based on Agora Energiewende (2025).

The effectiveness of social financing for heat pumps would also be higher when compared to electric vehicles due to the characteristics of the different markets. Average investment cycles for cars are shorter due to a large market for used vehicles, which does not exist for heating appliances. As a result, investment decisions on new heating appliances are generally more consequential for households' future fossil fuel dependence. And since average emissions per fossil fuel boiler are higher than the average emissions of a combustion car, social financing for heat pumps is a relatively effective measure to reduce fossil fuel dependency in the short term.

Expenditures and share of revenues (SCF and ETS 2) for covering 10 percent of the EU heating market

→ Fig. 4



Agora Energiewende (2025). Note: 50% of upfront costs covered by grant and 50% covered by zero-interest loan. Costs do not include costs for maintenance or potential default guarantees. Estimation of ETS 2 revenues based on a carbon price of 56 EUR/tCO<sub>2</sub> in 2027 increasing by 10% per year until 2032.

Market characteristics for electric vehicles and heat pumps in comparison

→ Table 4

	Electric vehicles	Heat pumps
Average investment cycle	5–7 years*	15–20 years
Stock of fossil fuel products	253 million	86 million
Emissions per fossil product	1.8 t	2.9 t
Upfront costs**	25k–30k EUR	12k–36k EUR

\* Based on combined share for turnover of used cars and new car registrations in the total car stock according to Joint Research Centre (2025).  
 \*\* Referring to the price of small and affordable electric vehicles and the average upfront costs for air-to-water heat pumps in different member states mentioned in Figure 1.

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## 8 Conclusion

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Social financing schemes have significant potential to improve public support for heat pump installations in Europe. As the analysis has shown, these schemes would constitute an effective and socially targeted support policy, leveraging the innovation potential around heat pump distribution channels while addressing the challenges faced by vulnerable households in accessing clean heating. Such an initiative could finance up to 500,000 heat pumps annually in the EU, resulting in the installation of up to three million heat pumps in vulnerable households between 2027 and 2032, at an annual cost of around 2.5 billion euros.

This would provide a strong signal for heat pump supply chains in Europe and the transition of the European heating industry. Given that sales numbers for heat pumps currently stagnate around two million heat pumps per year<sup>14</sup>, social financing could significantly expand the European heat pump market and help suppliers reach consumer segments that would otherwise be excluded. Social financing schemes therefore also have a role to play in safeguarding European clean tech leadership in this sector at a time when European manufacturers are cancelling investments in heat pump manufacturing and non-European actors are gaining market shares<sup>15</sup>.

Furthermore, social financing schemes could play an essential role in reducing Europe's dependence on fossil fuel imports. Replacing fossil fuel boilers would lead to a structural reduction of fossil fuel demand in the buildings sector. Focusing on vulnerable households would mean reducing the most politically and socially sensitive part of fossil fuel demand, which would in turn lessen the potential for energy blackmail by exporting countries.

Lastly, social financing schemes for heat pumps could be an important factor for ensuring the social coherence of future climate and energy policies. On the one hand, this would concern the future of the ETS2 which is expected to progressively increase fossil fuel prices. On the other hand, considerations with regards to social coherence are also important with regards to the future of local energy infrastructure planning, with distribution costs for gas potentially rising as the overall share of heat pumps increases. In both cases, social financing schemes could reduce social risks by making vulnerable households frontrunners instead of laggards when it comes to heating decarbonization.

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## Publication details

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### About Agora Energiewende

Agora Energiewende develops scientifically sound and politically feasible strategies for a successful pathway to climate neutrality – in Germany, Europe and internationally. The organisation which is part of the Agora Think Tanks works independently of economic and partisan interests. Its only commitment is to climate action.

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