

SGI Sustainable Governance
Indicators 2009

Luxembourg expert report

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Executive summary

The Grand Duchy performs well in most international comparisons of governance, economy, social conditions and quality of life. This record reflects the true situation of the country. However, these good results should not hide the fact that its decision-making process is starting to be inefficient in implementing social and economical reforms, in particular concerning education policy, employment policy, housing policy and civil rights for newcomers. This good performance should also not hide the rise in social and identity issues in the Luxembourgish community (60.5 percent of the inhabitants of the Grand Duchy). In particular, this issue was revealed during the referendum on the European Constitutional Treaty in 2005 and when Mittal Group took control over Arcelor, world leader in the iron and steel industry in 2006, and symbol of the decline of the Luxembourgish social model in the context of globalization.

In terms of its political system, Luxembourg is a parliamentary democracy as per its constitution, adopted in 1868, and a typical consensual democracy. Its political system provides the separation of powers but many footbridges already exist between the legislature, the judiciary and the executive power. On several occasions, the European Court of Human Rights and the European Commission for Democracy through Law (Venice Commission) underlined the necessity for the Grand Duchy to adapt certain parts of its legal order and political system to the requirements of the Council of Europe. Following the abovementioned recommendations, a constitutional court was created in 1996, an ombudsman was institutionalized in 2003 and a public financing of the political parties was introduced by the government in 2007 to limit the alleged level of corruption in relations with the financial industry. Its reforms do not hide the fact that a large part of the society in the Grand Duchy is already de facto excluded from the decision-making process. Foreigners represented 39.5 percent of the permanent population in Luxembourg in 2007 and dual citizenship is still prohibited by law, although Prime Minister Jean-Claude Juncker had promised its introduction in the Luxembourgish legal order in 2002.

Furthermore, the “normal” game of the parliamentary democracy is disturbed at three levels.

Firstly, the lobbies (professional chambers, citizen initiatives on a single issue, ecologist movements, trade unions, employers’ organizations, etc.) exert a significant influence in the decision-making process. In a certain way, the constant research of consensus slows down the pace of the implementation of the political and economical reforms recommended by international institutions like OECD, but also ensures a strong legitimacy of the decisions taken.

Secondly, with only 220,000 voters during the last general elections in 2004, (won by the Social Christians and the Social Democrats) combining list votes, preferential votes and proportional votes, the electoral system reduces the importance of partisan and clear choices, and even implies that, once elected, MPs are accountable to their constituency voters. This gives the MPs an important incentive to pay attention to local interests (to bring home the “pork,” to attend social constituency events, etc.) and thus does not prepare the voters for the on-going cultural, political and economic changes.

Thirdly, the structuring of public space, of particular importance here is the Tripartite Commission (government, trade unions and employers’ organizations), to determine the great economic guidelines of the country, gradually provokes Parliament’s isolation in the decision-making process, without including the effects of Europeanization by means of the transposition and implementation of EU directives in the Luxembourgish legal order.

The weakness of the parliamentary system, however, does not affect the efficiency of governance because of the size of the country. The state of Luxembourg, the smallest member state of the European Union along with Malta (459,500 inhabitants in 2006), has only two levels of governance: the national government and the 118 municipalities which constitute the Grand Duchy. Intercommunal cooperation is encouraged by the central authorities. The absence of a strong, multi-level governance is undoubtedly an advantage to speed up the reforms, in particular in energy and telecommunication policies.

Religious peace also reigns in Luxembourg. Article 106 of the constitution authorizes the state to establish conventions with all religions well represented in the Grand Duchy (the Catholic Church, Protestants, the Orthodox Church, the Anglican Church, Jews and Muslims). Those conventions ensure the partial funding of their activities if they respect the liberal constitution of Luxembourg

and the human rights included in the European human rights convention.

However, a “social vertigo” of the Luxembourgish community has emerged recently as a result of two events: the referendum on the European Constitutional Treaty and the debate on the Luxembourgish social model in the context of economic globalization. During the referendum, although the majority of the Luxembourgers and their representatives supported the pursuit of European integration with the communitarian method, 56.52 percent voted “yes,” 43.48 percent “no,” the electoral campaign revealed the constitution of a euro skepticism movement in the Grand Duchy.

More particularly, a deficit resulting from the financial sector (25 percent of the state revenues in 2006) was threatening to lose Luxembourg’s comparative and tax advantage in the European Union and abroad. The principle of cooperation is already preferred to the principle of integration, revealing a sort of “liberal sovereignty.” Although in favor of the Treaty, the principal trade unions (mainly the OGBL close to the Socialists) fear the obliteration of the national model of social dialogue and protection and its impossible substitution at the European level. The Luxembourgish population with low incomes (on the minimum social wage), who profited less from the Luxembourgish economic miracle over the last fifteen years (between 2.5 to 6 percent of growth per year), are anxious that they may be compelled to drop their social status and lose their employment, in particular as a result of the enlargement of the European Union with the ten states in Central and Eastern Europe in 2004 and those to come (particularly Turkey). The Treaty and the “teuro” are seen as threats and are condemned. Furthermore, in 2006, 48 percent of the Luxembourgers worked in the public sector (civil servants, employees in municipalities, non-profit organizations financed by the state, education, etc.) and were concerned with the future of the national public sector as a result of the European constitution and the potential competition with the very well educated new immigrants. The referendum, whatever the option chosen, also revealed the existence of strong identity problems within Luxembourg society. It appeared in several ways: by the feeling that the social rules and linguistics which characterized Luxembourg could disappear without another participative and cultural model being proposed; by the massive rejection of Turkey’s candidature in terms of cultural and religious differences; by the construction of a “patriotic” speech on the advisability as well as the ratification by the “yes” partisans as well as the “no” partisans.

In 2006, after the short victory of the “Yes” in the referendum on the EU Constitutional Treaty in July 2005, Eurobarometers 65 and 66 confirmed that the population of the Grand Duchy had increasingly mixed feelings about European integration. After several years at the top of the ranking of the support for membership of the European Union, Luxembourg dropped to the fourth place with a decrease in support from 82 percent to 72 percent in one year. Whilst European citizens are increasingly having mixed feelings with regard to future enlargements (42 percent oppose these prospects), Luxembourg residents maintain their clear opposition (65 percent are against, only 27 percent are in favor of future enlargements). The period of reflection on the future of the Union apparently did not appease concerns about the future, as only 29 percent of Luxembourg residents (a drop of 8 percent) thought that the European Union was evolving in the right direction (the EU average was 41 percent, with the same drop of 8 percent) and 44 percent (plus 8 percent) who declared that the European Union was moving in the wrong direction. Contrary to the average of EU citizens, the Luxembourg population was less pessimistic about the evolution of their own country.

Another example of these social and identity issues appeared in 2006. During this year, the main political issue was the handling of the hostile tender offer made by Mittal Steel to the Arcelor shareholders, originally an Indian steel company that had expanded on the world market over the last twenty years. Arcelor had been created from a merger of Arbed (the main Luxembourg steel company of which the state was the main shareholder), the Spanish Acelaria and the French Usinor in 2001. In 2006, the government first reacted very negatively to this hostile public offer. Prime Minister Juncker declared before the Chamber of Deputies that the government was against it, arguing that the offer suffered from a “total lack of industrial plan” and that it would be opposed by all means. As the main shareholder of Arcelor (with 5.6 percent of the capital) and stakeholder in the proposed transaction, the government first consulted French and Belgian authorities. However, the terms of the latter evolved through the first semester of 2006, as negotiations were held between the leaders of Mittal and Arcelor. The outcome was an agreement in which it was stated that the new merged company would be committed to social dialogue and responsibility (the pillars of the so-called Luxembourg social model).

The inefficiency of the Luxembourgish social model in the context of globalization in the near future was also revealed by the publication of an OECD report on the economic situation and policies in Luxembourg in the

summer of 2006. This report surprised national political and economic actors, and caused another shock in public opinion. The report pointed at the worsening of the budgetary situation, recommended the abolition of the mechanism of automatic salary indexation, was harsh on the government with regard to the perspectives of financing of pensions and public health services, and especially targeted the employment administration (suggesting an important reform). It also noted that a number of segments of the economy were still not open to competition. Nevertheless, the internal job market continued to increase by 3.9 percent in 2006. On the other hand, as observed in recent years, the rate of unemployment also continued to rise, thereby indicating that the bulk of the new jobs created were filled by people living across the border (mostly non-nationals, but also nationals, as an increasing number of young Luxembourgers decide to live in Belgium, France or Germany, because of the housing prices in the Grand Duchy). The unemployment rate reached a previously unknown level: 4.4 percent. Taking also those people into account who benefit from the state's employment measures, the figure is 6.2 percent. Luxembourg is experiencing a double paradox; its model of social dialogue and its membership of the European Union have enabled it to become one of the most powerful states in economic terms.

The current Europeanization of the decision-making process, the increasing share of immigration and the expanding of the European Union exacerbate the "silent" social strains, in spite of one the highest standard of living conditions in Europe. Furthermore, the Europeanization and globalization reveal that some policies were neglected by the previous governments: education and employment policy, economy diversity, housing policy, the integration of newcomers.

Strategic Outlook

1. Building a new society and a new citizenship

The first challenge that Luxembourg absolutely must take into consideration is how to ensure a better social cohesion between all the inhabitants of the Grand Duchy (Luxembourgers and foreigners) and how to increase the political participation of foreigners (39.5 percent of the total population in 2006) in the decision-making process, otherwise the hidden social strains between the various national communities, that emerged in particular during the last referendum on the European Constitutional Treaty, are likely to grow. Since the prime minister's speech in 2002 in favor of the introduction of the dual citizenship hitherto forbidden, on several occasions, the legislation on nationality was modified, facilitating naturalization but the prohibition remains. In 2004, a report from the University of Louvain, financed by the government on "Multiple citizenship and multiple nationality" confirmed the need to recognize dual citizenship in Luxembourg sooner rather than later, and suggested a liberal improvement of foreigners' political rights, the fundamental pillar for future social cohesion in Luxembourg. The Ministry of Justice filed a bill in September 2006 on this topic but the enforced requirements – at least seven years of residence, a test on the Luxembourg language only, whereas the country is officially trilingual (German, French and Luxembourgish), and the lingua franca is French (and even English in certain professional sectors) – create ultimately important barriers to preserve the multicultural diversity of Luxembourg, quasi unique in Europe; moreover, it does not apply the distinction, essential in modern public law, between citizenship and nationality. In other words, a more liberal law reflecting the latest debates on European citizenship in the other states and in public law should be considered.

A second element of a reasonable reform would be to abolish the derogations for Luxembourg in the Treaty of Maastricht, which envisage supplementary measures for Europeans eager to vote at the European and communal elections (at least five years of residence). In 1994, during the first European elections opened to the residents of the Community, the number of Community voters was 3 percent. It was 4.3 percent for the European elections in 1999. In 2004, although nearly 36 percent of the adult foreign population was of an age to

vote, the percentage of registered voters was only 5 percent. The significant gap between the likely and the real number of registered voters has been criticized on several occasions in the Luxembourgish Parliament since 1994. A first step was carried out in 2003 and it is important to go ahead on this direction. A new Election Act has allowed non-Luxembourg nationals resident in the Grand Duchy of Luxembourg to vote and stand as candidates in local elections since 2005, regardless of whether they are EU citizens or not, without losing their voting rights in local elections in their country of origin.

2. Reforming the Educational System

The second challenge for Luxembourg is how to reorganize completely its weak school system, as noted by the PISA study – published in 2003 – in comparison with the other OCDE member states. The significance of this issue was also revealed during the last national elections in 2004. The future of the Luxembourgish educational system was the second concern of the voters, after the economical and social issues. The current risk is that of creating two groups of young people: a well-educated, multilingual group, able to work in an international environment and a second group of less-educated, rather monolingual (Luxembourgish or Portuguese), occupying the least gratifying work position on the national labor market. As in the other member states of the European Union, the education issue exacerbates passions and, in a certain way, worsens the latent social strains between national communities. Following a study by the Council of Europe, “Profile of the Luxembourgish educational linguistic policy” – published in March 2006 – the government decided on a readjustment of its language teaching policy. Each student should obtain a maximum number of linguistic competences without making this challenge an impediment to getting a job easily on the European and national labor market. The maintenance of linguistic pluralism in teaching (Luxembourgish at nursery school, learning to read and write in German and gradually teaching several courses in French afterwards) should not be abandoned. However, teaching should be more individualized with the objective of removing the difficulties encountered by several national student groups (Portuguese, for example, the second national community of Luxembourg, 13.7 percent of the total inhabitants in 2006).

The Luxembourg educational system also needs to ensure autonomy to the public funded school in the choice of the programs as well as in the recruitment of the professors. This reform is fundamental in order to preserve the efficiency of the public schools, in particular with the high competition coming from

foreign private establishments, also partially financed by the government since 2003, which attract many Luxembourgish young people allured by the international programs on offer and the high level of the professors (without including the competition of the frontier German, Belgian and French schools). This autonomy of the publicly-owned establishments would also certainly ensure a better complementarity between the companies and the young people who are on the point of entering the labor market (although the lifelong learning aspect is one of the rare strengths of the Luxembourgish educational system). Finally, if teaching must take into account the close economic environment, it would also be advisable not to align all school programs to the requirements of one or two predominant economic sectors only (the financial industry for example) with the risk of weakening the professional future of the young people of Luxembourg at the same time and not being able to anticipate a potential reversal of the economic situation. To make this challenge a success, a solid legal base should be given to the partnership between the state, the employers' professional chambers and the future autonomous, publicly-maintained school; as equal partners, they should assume together the responsibility for lifelong learning programs.

3. Curtailing the role of the state

Luxembourg will continue to be a country in which the state plays an important, and even dominant, role in its national leadership. This is the continuation today of a long tradition, whose objective was to create a high level of confidence in the population in the state leadership and in its "state party" (Staatstragend), the Christian Social People Party. The legitimacy of the state and its dominating party is very strong for three essential reasons. Firstly, the development of the Welfare State initiated during the thirties in Luxembourg was the result of an historical compromise between the Catholic party, supporter of social corporatism, and the Socialists, by definition in favor of the state interventionism in the economy. Thus, the Luxembourg state became not only a generous provider of social services for the whole national community, but also the sponsor of several economic lobbies with two consequences: the "monnayage" of its sovereignty with the result of the vertiginous growth of its financial industry. In return, the financial industry ensures an excellent budgetary situation of the state of Luxembourg and the financing of the social security benefits. Secondly, the state was also the instrument of soft economic and social modernization, a "silent revolution," of the Luxembourgers and their company as the party that dominated it became less and less confessional and European integration produced its first effects.

The state then became the place, the object and the actor even of the compromise between the various social groups linked by the promotion of the national economic interests in the European single market.

Thirdly, with the fundamental transformation of the Luxembourg economy, dominated by the iron and steel industry, in 1974 with an economy dependent on the financial industry and the exponential growth that followed, made the state appear to the Luxembourgers as their employer and their provider of services. In 2004, the outgoing government represented this characterization well with the following measures. Firstly, a bill was passed on a new status for civil servants (the civil servants represent almost 40 percent of all voters). Secondly, a pension reform was introduced with a more balanced scheme between the public and the private sector in favor of the latter. Thirdly, in the discussions on the taxation of savings at European level, the government pleaded for the preservation of the banking secrecy laws in Luxembourg and for the adoption by its international competitors (within and outside the European Union, like Switzerland or the Channel Islands) of similar measures so as to prevent Luxembourg losing its competitiveness as a financial center. Finally, in April 2003, the Luxembourg government organized a meeting with seven heads of states (Austria, the Benelux countries, Ireland, Finland and Portugal) in Luxembourg in order to issue a common position for the European Council in Athens. The Group of Seven called for an equal treatment of all member states in the future European decision-making process (against the “French-German hegemony”) and for the maintenance and extension of the Community method.

However, in 2003, the new law on collective agreements represented an important shift in this approach, accrediting the idea that, from now onwards, economic and social rules will be implemented without the supervision of the state. It is undoubtedly for this reason that the result of the referendum on the European Constitutional Treaty, in spite of the charismatic personality of Jean-Claude Juncker, reveals the Luxembourgers’ fears of a possible state withdrawal from its role of guarantor of social cohesion.

Status Index

I. Status of democracy

Electoral process

Fair electoral process

Score: 9

Political parties or groups of candidates draw up election lists for each district. Candidates sign a declaration that signals their commitment to run in a given district. The candidates are introduced jointly, either by one hundred voters registered in the district, or by an elected MP from the district (whether an incumbent or about to leave office), or by three communal councilors elected by the district. Any isolated candidature is regarded as a list.

Annotation:

Mémorial, Journal Officiel du Grand-Duché de Luxembourg, “Loi électorale du 18 février 2003,” (Luxembourg: Mémorial, Journal Officiel du Grand-Duché de Luxembourg, 2003), <http://www.legilux.public.lu/leg/a/archives/2003/0302102/0302102.pdf?SID=1e7242935237022dc21a181a00c69d78>, (accessed June 28, 2007).

Fair electoral campaign

Score: 5

Parties had unequal access to media resources during the last legislative and European elections in June 2004. There were three factors contributing to this state of affairs: the state’s financial support for the press; old-fashioned legislation on liberties and its reform; and the audiovisual handling of political information.

Luxembourg’s six daily newspapers are, to varying degrees, close to the country’s political parties. The relative inequality between political parties is also due to the organization of audiovisual campaigns that have resulted from a tacit agreement between the government, political parties and a private media group (RTL Group), acting in the public interest. The audiovisual media organized five round tables, four of which were reserved for legislative election

debates. For debates regarding European elections, the aforementioned agreement called for the representation of complete party lists at all round tables (note: complete lists refer to political parties whose number of candidates running in a given conscription match the number of seats allocated for that party). Parties with incomplete lists were invited in turn to one or more round tables (proportionate to the number of candidates on these lists). The round tables were recorded and distributed on the Internet without modifications.

Each party with a complete list was allotted ten minutes for the legislative elections and eight minutes for the European elections. The incomplete lists had their time reduced proportionally to the number of candidates. Transfers of allotted time from the European elections to the legislative elections (and vice versa) were not allowed. Each party list was free to organize its advertisements within these limits. Individual advertisements had a duration limit of 45 seconds and the parties were required to produce and pay for their ads themselves. In 1999, one hour of production time was offered to each party. However, a second hour of production time was added in part because the state's electoral expenditure had not been exhausted but also because the television campaigns were not on equal footing in terms of production design.

Annotation:

Josée Hansen, "Politics sell Un parti politique est-il un annonceur comme un autre? Quelles obligations pour un service public audiovisuel hybride? Tentative d'enquête," D'Land, 7 mai 2004,

http://www.land.lu/html/dossiers/dossier_legislatives/av_wahlen_070504.html, (accessed June 28, 2007).

*Inclusive
electoral
process
Score: 7*

To vote in legislative elections, an individual must be a Luxembourg citizen, at least 18 years old on election day, and a resident of the Grand Duchy. Any Luxembourgers living abroad can vote in legislative elections by means of the postal vote. Individuals not permitted to vote include anyone convicted of a crime, those whose voting rights have been suspended by a court judgment and are serving a minimum ten year imprisonment sentence, and individuals under guardianship. Anyone who has been falsely registered may seek recourse before the magistrate court.

Annotation:

Mémorial, Journal Officiel du Grand-Duché de Luxembourg, Loi électorale du 18 février 2003, (Luxembourg: Mémorial, Journal Officiel du Grand-Duché de Luxembourg, 2003),

<http://www.legilux.public.lu/leg/a/archives/2003/0302102/0302102.pdf?SID=1e7242935237022dc21a181a00c69d78>, (accessed June 28, 2007).

Access to information

Media freedom

Score: 9

Just before the elections of 2004, the new law on the freedom of the press, intended to replace the law of July 20, 1869, was adopted. The debates and the pressures were very strong in an unusual way. The old law did not permit journalists to refuse to reveal their sources. The new law envisages the protection of journalistic sources, the quality of journalist cannot be subordinated to the detention of a professional journalist card. The law devotes completely the presumption of innocence. The law envisages that the damage be repaired. The law also reaffirms the protection of the individual's private life.

In July 1998, a journalist published an article claiming that a Luxembourg minister was guilty of frauds with VAT and would have, consequently, been sanctioned by the tax authorities. The police seized all documents in the residence of the journalist and of his lawyer, which, for the latter, constituted an attack on the protection of the sources and thus with the free exercise of the journalist's work. This affair provoked a surging debate in the Chamber of Deputies the day before the legislative and European elections of 1999. Moreover, Luxembourg was condemned by the European Court of Human Rights in March 2001, in another affair concerning the freedom of expression (Affair Marc Thoma).

Annotation:

Mémorial, Journal Officiel du Grand-Duché de Luxembourg, Loi du 8 juin 2004 sur la liberté d'expression dans les médias (Luxembourg: Mémorial, Journal Officiel du Grand-Duché de Luxembourg, 2004),

<http://www.legilux.public.lu/leg/a/archives/2004/0850806/0850806.pdf>, (accessed June 29, 2007).

Cour Européenne des Droits de l'Homme, Deuxième Section Affaire Thoma C. Luxembourg, Requête no 38432/97, Arrêt 29 mars 2001 (Strasbourg: Conseil de l'Europe),

<http://www.echr.coe.int/Fr/Press/2001/Mars/Thomaarretfpresse.htm>, (accessed June 29, 2007).

Marc Gerges, "Un si petit pays... L'organisation judiciaire de la Cour supérieure de justice devant la Cour européenne des Droits de l'Homme," *D'Land*, 22 juin 2000,

http://www.land.lu/html/dossiers/dossier_justice/petit_pays_220600.html, (accessed June 29, 2007).

Media pluralism

Score: 4

All the six daily newspapers are close to the political parties to a differing degree. *Zeitung vum Lëtzeburger Vollek* & *Journal* are the property in full or partly of the Communist Party and the Democratic Party (Liberals)

respectively. Tageblatt and the Quotidien are owned by Editpress, of whom the socialist trade union is one of the main shareholders. D' Wort is the property of the Saint-Paul group and offers a supplement in its pages for the Christian Social People's Party. La Voix du Luxembourg is also the property of the Saint-Paul group, even though this newspaper is less politically involved. The financial support from the state to the press is perhaps considered as an indirect financing of the political parties and their electoral campaigns up to a certain point. The six abovementioned daily newspapers benefit from these government subsidies, in addition to certain weekly magazines that are also close to political parties (Woxx for the Greens, le Jeudi, property of Editpress). This financial assistance is composed of two elements: a fixed part and a part proportional to the number of published editorial pages. For 2004, the fixed subsidy allotted to each body of press was calculated according to the annual cost of five full-time journalists and the price of 120 tons of newspaper. This aid is supplemented by a subsidy by editorial page, which amounted to €103.66 in 2004. Compared to the elections of 1999, the small publications lost the relative advantage they had previously enjoyed and the device of support for the press penalized the small political parties indirectly.

Annotation:

Ministère des Communications du Grand-Duché de Luxembourg, Promotion de la presse, (Luxembourg : Gouvernement du Grand-Duché de Luxembourg, 2007), http://www.mediacom.public.lu/medias/presse_luxembourgeoise/promotion_presse/index.html, (accessed June 29, 2007).

*Access to
government
information*
Score: 8

During the two last legislatures, the Government of Luxembourg multiplied its efforts to facilitate the access and control of governmental and administrative information, principally in e-governance. In different reports during the two last legislatures, the Chamber of Deputies noted the increase in citizens' complaints about the weak collaboration of the state and municipal bureaucracy. In the governmental agreement adopted in August 2004 after the general elections, the new coalition decided to prepare a new law on the accessibility of government information. Until today, no preliminary draft of law was presented to Parliament. However, the Aarhus Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters of the United Nations Economic Commission for Europe (UNECE) was ratified in 2006.

Furthermore, in June 2005, Claude Wiseler, Minister for the Civil Service and State Reform, presented the new e-government strategy, which includes an action plan for the further implementation of public e-services in Luxembourg.

The new document sets out the strategic objectives of “e-governance” in Luxembourg, which are government transparency, citizen involvement and participation, public sector efficiency, increased competitiveness of both the public and private sectors, as well as an increase in the general level of knowledge and know-how in Luxembourg.

The new strategy and action plan make a distinction between three main categories of projects: short-term Internet projects, such as the creation of an online service for VAT returns or the development of an e-procurement project; short-term administrative management projects, such as the setting up of an integrated system for the management of housing grants; medium and long-term strategic projects, such as infrastructure, interoperability and service integration projects, as well as initiatives for the organizational reform of public bodies.

The coherence of the multiple government websites will be ensured by a “Public Service Framework” initiative, which will include a number of projects related to standards and functional architecture. Other important infrastructure initiatives will include, for instance, cross-departmental workflow management and identity management projects. Among other initiatives, the action plan also calls for the development of a pilot Internet voting system for the legislative elections of 2009.

In order to ensure that the challenges of e-government implementation are tackled in a coherent, efficient way, the government has introduced a new dedicated decision-making structure. In this respect, the Ministry of the Civil Service and Administrative Reform, which is in charge of coordinating Luxembourg’s e-government policy, recently created a Coordination Committee for State Modernization, chaired by Mr. Wiseler. The Committee, which reports directly to the Council of Ministers, is mainly composed of representatives from different ministries. Drawing both on the technical expertise of the Informatics Center of the state, and on the conceptual and administrative work developed by the e-Luxembourg service, the Committee works closely with ministries and other government bodies that manage specific e-government projects.

Annotation:

Mémorial, Journal Officiel du Grand-Duché de Luxembourg, Loi du 1er décembre 2006 portant approbation de l’amendement à la Convention, faite à Aarhus (Danemark), le 25 juin 1998, sur l’accès à l’information, la participation du public au processus décisionnel et l’accès à la justice en matière d’environnement (Luxembourg: Mémorial, Journal Officiel du Grand-Duché de

Luxembourg, 2006),
<http://www.legilux.public.lu/leg/a/archives/2006/2111312/2111312.pdf?SID=4dcda0c690b14044ed6b35c470692ee6#page=4>, (accessed July 18, 2007).

Civil rights

*Civil rights
protection
Score: 9*

Four fundamental institutions protecting civil rights have been created recently. Firstly, after a ruling by the European Court of Human Rights regarding the Procola affair in 1995, which stipulated that Luxembourg had violated the European Convention of Human Rights, a Constitutional Court was created in 1997; this body controls the conformity of laws to the constitution, except for the laws linked to international treaties.

Secondly, an Advisory Commission on Human Rights was also formed in 2000. This consultative body is charged to assist the government, by means of its opinions and studies, on all questions of general interest relating to human rights in the territory of the Grand Duchy of Luxembourg. In particular, it examines any question falling under its responsibility that is submitted by the government, or is decided by initiative on a proposal from its members or any person or any organization. It also addresses its opinions and recommendations directly to the public opinion or via any body of press.

Thirdly, the National Commission on Data Protection, an independent authority was founded by the law of August 2, 2002, relating to the protection of the population with regard to the processing of personal data. This institution is charged to control and check the legality of data processing in personal matters and must ensure the respect of freedom and the basic rights of the people in respect to data protection.

Fourthly, in July 2003, the Chamber of Deputies adopted the bill relating to the installation of a mediator to Luxembourg. Marc Fischbach, judge at the European Court of Human Rights, was appointed by Parliament as the first mediator. The mediator has the role of helping people who dispute a decision of the administrations concerned with the state and the local communities. His report enumerated 894 complaints in 2006 (only 39 addressing legal matters in a strict sense,) 84 percent of which have been solved through his intervention.

However, in 2004, the Council of Europe's Commissioner for Human Rights noted in his report on Luxembourg that: "some problems still remain in the

fields of provision for young people in difficulty, certain aspects of the place of foreigners in society (particularly asylum-seekers and illegal immigrants), combating prostitution and trafficking in human beings, a number of organizational problems facing prisons and some delays in judicial investigations into economic and financial cases.”

Annotation:

Commission Consultative des Droits de l’Homme, Rapport d’activités 2006 (Luxembourg: Commission Consultative des Droits de l’Homme, 2006), http://www.gouvernement.lu/dossiers/justice/droitshom/rapport_2006.pdf, (accessed October 1, 2007).

Médiateur du Grand-Duché de Luxembourg, Rapport (du 1er octobre 2004 au 30 septembre 2005) adressé à la Chambre des Députés par Marc Fischbach (Luxembourg: Médiateur du Grand-Duché de Luxembourg, 2005)

Médiateur. <http://www.ombudsman.lu/data/ra2005.pdf>, (accessed July 15, 2007).

Report By Mr. Alvaro Gil-Robles,

Commissioner For Human Rights, On His Visit To The Grand Duchy of Luxembourg 2 - 3 February 2004 for the attention of the Committee of Ministers and the Parliamentary Assembly (Strasbourg: Council of Europe, 2004),

<https://wcd.coe.int/ViewDoc.jsp?id=758773&Site=CommDH&BackColorInternet=FEC65B&BackColorIntranet=FEC65B&BackColorLogged=FFC679>, (accessed October 1, 2007).

Non-discrimination
Score: 7

In October 2004, a woman from the Congo immolated herself to denounce the discriminatory practices of the blacks, particularly in the school system and in the treatment of administrative files. Traditionally, the government adopted the whole of the European directives fighting against any direct or indirect discrimination founded on religion or beliefs, disability, age, sexual orientation, with a race or ethnic group, but not until a later date.

In 2005, the European Court of Justice (ECJ) ruled that Luxembourg had breached EU law by failing to transpose fully a European Directive prohibiting discrimination on the grounds of race or ethnic origin (Directive 2000/43/EC). The “Racial Equality Directive” prohibits direct and indirect discrimination in a wide range of areas including employment, education, social security and health care, access to goods and services, and housing. It also requires Member States to designate a body to provide practical and independent support to victims of racial discrimination.

In Luxembourg’s case, draft legislation transposing the Directive was presented to Parliament in November 2003, but has not yet been adopted. Finally, in

November 2005, Bill No. 5518 was introduced to Parliament with the aim of transposing the Directives after the two former bills were withdrawn. Under the new bill, a Center for Equal Treatment will be created, which will publish reports and recommendations, and assist victims by advising on their rights and how to defend them.

Rule of law

Legal certainty

Score: 6

The State of Luxembourg is built on the principle of the rule of law and on the Belgian and French administrative models. Thus, the process of the state and the administration are theoretically governed by a very strict and coherent legal order, controlled by the Administrative Court and an Ombudsman. However, because of Luxembourg's small size, the administration has difficulties in following the rhythm of application of the payments and laws, and in coordinating its work. Sometimes, this situation involves many complications for the citizens, who receive contradictory information from different administrations on the same subject. On several occasions, the government was obliged to make new decisions and send new directives, as was the case recently with the eco-tax on cars. The citizens were supposed to provide an official document that had not yet been issued by the administration.

Judicial review

Score: 9

The Courts are charged by the constitution to exert judicial power. They are independent in the exercise of their functions. In Luxembourg, there are two orders of jurisdiction: the legal order and the administrative order. At the top of the hierarchy of the legal order is the Higher Court of Justice, which includes a Supreme Court of Appeal and a Court of Appeal. The affairs in cancellation of the judgments delivered by the various Chambers of the Court of Appeal are mainly carried before the Supreme Court of appeal, which includes a chamber sitting five judges. The Court of Appeal consists of nine chambers with three advisers. It is in charge of the civil cases, commercial, criminal and correctional, as well as affairs judged by the courts in the two legal districts of the country (Luxembourg and Diekirch). The judges of the courts are directly named by the Grand Duke. The advisers of the court, together with the presidents and vice-presidents of the courts of district, are named by the Grand Duke, on the opinion of the higher Court of Justice. The Justice of Peace, the judges of the courts of district and the advisers of the Court cannot be removed. The Administrative Court constitutes the supreme jurisdiction of the administrative order. The magistrates of the Administrative Court are nominated by the Grand Duke. The appointment of the members, as well as the president and vice-presidents, of the Administrative Court is carried out on the advice of the Court itself, except with regard to the first nominations. The

*Corruption
prevention
Score: 7*

provisions of the constitution form no obstacle to the approval of the Statute of the International Penal Court, made at Rome on July 17, 1998.

Transparency International's Global Corruption Report of 2007 ranks 150 countries by drawing on 12 different polls and surveys from different independent institutions. Luxembourg occupies position 11 on the Corruption Perceptions Index. However, in Global Corruption Barometer 2006, the public opinion survey that assesses the general public's perception and experience of corruption in more than 60 countries around the world, 6 percent of the respondents had had personal experience of bribery in the past year, compared with 2 percent in the rest of the European Union. In addition, 37 percent of the respondents assessed in the survey claimed that their government's fight against corruption was ineffective (42 percent in the rest of the European Union).

The Grand Duchy of Luxembourg signed the OECD Convention on the bribery of foreign public officials on November 21, 1997. The Act entered into force on February 11, 2001; it introduces or modifies the notions of misappropriation, destruction of deeds and securities, embezzlement, taking unlawful interest, and bribery in Luxembourg's law. Amendments were made to the Criminal Code, the Criminal Investigation Code and also to the Act of December 4, 1967 on income tax. The Luxembourg authorities have opted to implement the anti-bribery provisions of the new law as they would those governing any other criminal offence, without making any special provision for putting them into effect. This choice was considered problematic by the different delegations from OECD in charge of the control of the convention's application. The Luxembourg financial market poses a high risk of infiltration by funds of doubtful origin, because it attracts massive inflows of capital from abroad. The Government of Luxembourg has acknowledged this risk.

In 2004, OECD's report on the application of the convention on fighting bribery of foreign public officials in international business transactions noted the lack of action on the part of the Luxembourg authorities in informing businesses and professionals, and its potential consequences on the Luxembourg political system. In 2006, the report underlined the fact that the implementation of the law on establishing bribery of foreign public officials also continued to suffer from the lack of a formal process for cooperation and coordination among the various agencies concerned. The absence of such a process, combined with professional confidentiality, was likely to be prejudicial to the exchange of crucial information and for keeping evidence of bribery offences up to date. Lastly, since the work on the bill is still in progress that is to introduce clear liability for legal entities into the legislation of Luxembourg

in the event of bribery of foreign public officials, the Grand Duchy continues to be in non-compliance with Article 2 of the Convention.

Annotation:

Transparency International, Corruption Perceptions Index 2006 (London: Transparency International, 2007),

http://www.transparency.org/policy_research/surveys_indices/cpi/2006, (accessed September 10, 2007).

OECD, Report on the Application of the Convention on Combating Bribery of Foreign Public Officials International Business Transactions and the 1997 Recommendation on Combating Bribery in International Business Transactions (Paris: OECD, 2004) <http://www.oecd.org/dataoecd/55/4/32017636.pdf>, (accessed September 10, 2007).

II. Economic and policy-specific performance

<i>Basic socioeconomic parameters</i>	<i>score</i>	<i>value</i>	<i>year</i>
GDP p.c.	10	70245 \$	2005
Potential growth	4.71	4.2 %	2008
Unemployment rate	8.58	4.7 %	2006
Labor force growth	5.4	4.1 %	2007-2008
Gini coefficient	8.82	0.26	2000
Foreign trade	10	191.5	2005
Inflation rate	7.32	2.6 %	2007
Real interest rates	9.54	1.2 %	2007

A Economy and employment

Labor market policy

Score: 7

In the context of the very strong economic growth from 1995 to 2000 (the average growth of the GDP exceeded 6 percent), the labor market in Luxembourg experienced an extraordinary dynamism. The economic deceleration noted since the beginning of the year 2001 led, with a certain

delay, to a decrease in the rate of the creation of paid jobs, stagnation which started in 2002 and which continued in 2003. The year 2004 was the year of the recovery, which was confirmed in 2005 and during the first three quarters of 2006. According to the statistical data of the STATEC (Statnews n°4/2007), interior paid employment (including the cross-border workers in Luxembourg and excluding the civil servants working in international institutions) continued to increase by 4.1 percent on average over the first 9 months of 2006, compared to 3.2 percent in 2005. In 2004, this rate amounted only to 2.5 percent. In 2006, 40.1 percent of the total national jobs were occupied by cross border workers. The average annual rates of unemployment for 2000 and 2001 were 2.5 percent and 2.3 percent respectively. Since this date, the unemployment rate has continued to increase regularly. In 2006, the rate of unemployment was 4.4 percent. If one takes the unemployed cross-border commuters into account, the projected rate of unemployment amounts to 6.4 percent in 2006, according to STATEC. Beyond the decrease in the growth rate of the Luxembourg economy, OECD and the European Commission underlined certain problems inherent in the Luxembourg Employment Policy on several occasions:

- Disability pension, pre- and early retirement pensions provide attractive routes to early retirement, resulting in a low average age of withdrawal from the labor market;
- High replacement rates of unemployment benefits and social assistance, and the unlimited duration of the latter, increase the probability that adverse shocks result in increases in structural unemployment;
- The fact that young people can receive unemployment benefits directly after their education, and without prior professional activity, after a waiting period of 26 to 39 weeks, may contribute to the high level of youth unemployment;
- The automatic indexing of the wages at the cost of living, the high level of the minimum wage or the system retained for the guaranteed minimum income penalize all new Employment Policy;
- Current policy settings put resident workers at a disadvantage on the labor market.

The Grand Duchy finds itself in the middle of the Grande Region, which hosts approximately 204,000 unemployed job-seekers (Statec, 2006), a large number in relation to domestic employment in Luxembourg (approximately 313,000). With the freedom of circulation of labor across borders, the unemployed have to compete with numerous job applicants from other countries. The large gap between the level of unemployment benefits in Luxembourg and those in neighboring countries results in a large gap in reservation wages, giving the

unemployed in Luxembourg less incentive to search for a job than workers in neighboring countries. At the same time, the high (net) minimum wage in Luxembourg (it is 19 percent higher than in Belgium and 12 percent higher than in France) provides an incentive for job-seekers from neighboring countries to take a job in Luxembourg, while the lower minimum and low-end wage rates in neighboring countries are unattractive for Luxembourg job-seekers. Indeed, (net) minimum wage rates in the neighboring countries are barely higher than guaranteed minimum income (RMG). The unemployed in Luxembourg rarely seek a job in neighboring countries and are unattractive for employers in that cross-border workers are willing to work for lower wage rates.

In the governmental agreement between Social Christians and Socialists, it was explicitly envisaged not to amend the laws on the automatic indexing of the wages and of the guaranteed minimum income (RMG). Between 2005 and 2006, the government tried to amend the law on the access of young people to the labor market in the direction recommended by OECD. The reform was abandoned under the pressure of the trade unions and youth organizations. In December 2006, the law on the maintenance of employment was adopted. The law reinforces the justifications to be given at the time of a plan of dismissal and obliges the company to envisage plans of training and vocational retraining for the employees who have lost their employment.

Annotation:

OECD, Economic, Policy Reforms Oecd (Paris: OECD, 2005),
<http://www.oecd.org/dataoecd/39/58/34486602.pdf>, (accessed July 25, 2007).

Commission Européenne, Rapport de mise en œuvre 2006 du Plan National pour l'Innovation et le Plein Emploi (Luxembourg: Office des Publications, 2006),
http://ec.europa.eu/growthandjobs/pdf/nrp/LU_nrp_fr.pdf, (accessed July 25, 2007).

STATEC, La situation économique au Luxembourg. Évolution récente et perspectives (Luxembourg: Statec, 2006),
http://www.statistiques.public.lu/fr/publications/conjoncture/note_Conjoncture/2006/note_conjonct_02_06/note_conjonct_02_06.pdf,
(accessed July 25, 2007).

Enterprise policy

Score: 8

In the majority of the international comparative studies, the Grand Duchy ranks very highly in terms of competitiveness and its capacity to attract new companies to its territory. Luxembourg has always played the card of the

comparative advantages and the constitution of economic niches (in particular, the banking sector, the insurance sector and now the sector of telecommunications and new technologies of information). The various international indices are: Goldman-Sachs' "Growth Environment Score (GES)," with Luxembourg ranking first out of 170 countries in 2005; the Institute for Management Development's "total Competitiveness Index," ninth position out of 61 countries in 2006; the World Economic Forum's "Growth Competitiveness Index," twenty-second out of 117 countries in 2006; the United Nations Conference on Trade and Development's "FDI Performance Index," sixth out of 140 countries in 2005; the Foundation Heritage's "Index of Economic Freedom," Luxembourg: fourth out of 155 countries in 2006; Robert Huggins Associates' "regional European Competitiveness Index," sixth out of 91 countries in 2004.

After the general elections in June 2004, the organization of the Luxembourg Government saw an important modification, since the promotion of foreign trade was transferred to the Minister for the Economy and Foreign Trade. This new configuration increases synergies on the level of the economic missions organization or visits abroad, even if these cover two distinct areas, but largely complementary, in the promotion of Luxembourg in the world:

1. the promotion of Luxembourg as a site of investment for foreign capital (economic prospecting). This implies a description of the Luxembourg economic sectors, the legal framework, tax advantages and so on, the support of which may well profit potential investors;
2. the promotion of the goods and services of Luxembourg abroad (promotion of foreign trade). This form of promotion is generally accompanied by a presentation of the goods and services offered by Luxembourg companies. The Ministry of the Economy and Foreign Trade covers the industrial sector for the most part. The Board of Economic Development (BED), chaired by the Minister of the Economy and Foreign Trade, provides the assistance that investors need in order to help them to assess investment opportunities in Luxembourg. They will also guide them through each step of the investment process with customized help fitting a company's precise requirements. The network of the BED was recently extended by the installation of two new "Trade and Investment Offices," one in Dubai and the other one in Shanghai. The governmental agreement, which occurred after the general elections in 2004, underlined the fact that economic promotion and the prospecting of companies will concentrate on the following industry sectors: equipment for the

automotive industry; the plastic industry; communication and information technologies; electronic trade and media; environmental technologies; materials; logistics.

Tax policy

Score: 9

In 2002, the governmental coalition (Social Christian Democrats and Liberals) introduced one of the greatest tax reforms ever undertaken in Luxembourg. The corpus of rules was clearly inspired by the Anglo-Saxon liberal-conservative models of taxation. The reform reduced income tax. All tax payers were impacted by this reform (both individuals and companies). The guaranteed minimum income (RMG) remained entirely exempted. In addition, the highest incomes were fixed with taxation among the lowest of the European Union. Apart from the rate reform of direct taxation of individuals, the government also introduced important tax exemptions for the savings plan. Finally, the companies' fiscal burden was reduced from 37.45 percent to 30.38 percent.

Tax rates are generally lower than in other OECD countries. As OECD noted in 2006: "The sum total of income tax and social security contributions paid on labor income (12.2 percent of labor costs for a married, average, one-earner couple with two children) is well below the OECD average (27.7 percent) and particularly advantageous compared to the tax wedges prevailing in the three neighboring countries. This reflects the low levels of both personal income tax rates and social security contributions. The corporate income tax is also relatively low by international standards, although not among the lowest in the OECD. Companies pay a tax to the central government representing 22 percent of earnings (impôt sur le revenu des collectivités or IRC), a 4 percent (increased to 5 percent since January 1, 2006) "solidarity" levy on the IRC that helps to finance measures to reduce unemployment and a tax to local governments of 6.5 – 10 percent of earnings (impôt commercial communal).

As for indirect taxes, the standard rate of value added taxes (VAT) has remained fixed at 15 percent, that is, at the lower end of VAT rates foreseen by EU law; moreover, excised taxes on road fuels and tobacco are lower than in other countries. The authorities abolished the wealth tax (impôt sur la fortune) on private persons (personnes physiques) in 2006 but introduced a withholding tax of 10 percent on interest income of residents in excess of €250 per year. Since July 1, 2005, a withholding tax has been applied to the interest income of non-residents from other EU states (in accordance with the EU Directive on the taxation of savings income in the form of interest payments). This tax rate will

remain at 15 percent during the first three years, then increase to 20 percent during the following three years and will finally remain at 35 percent. Three quarters of the proceeds of this tax are transferred to the fiscal authorities of the country in which the holder of the saving account resides.

Annotation:

OECD, Economic Survey of Luxembourg 2006: Public finances: adjusting to lower growth (Paris: OECD, 2006),

http://www.oecd.org/document/49/0,3343,en_33873108_33873574_37022129_1_1_1_1,00.html, (accessed July 26, 2007).

Gouvernement du Grand-Duché de Luxembourg, Réforme fiscale 2001 – 2002 (Luxembourg: Gouvernement du Grand-Duché de Luxembourg),

http://www.gouvernement.lu/dossiers/economie_finances/refiscale/index.html, novembre 2001, (accessed July 26, 2007).

Budgetary policy

Score: 5

Since 2001, the deceleration of the growth of the financial sector (about 25 percent of the public revenue during the period 2000 – 2006) weighed heavily on the fiscal revenues of the state. The reversal of the budgetary situation was particularly important in 2004 and 2005. The increase in general government receipts has dropped from an annual average of 8 percent during the 1990s to 4.8 percent during 2000 – 2005. As the OECD noted in 2006: “This would not have been a problem if public outlays had decelerated concomitantly. However, the speed of growth in public expenditure accelerated to reach 9.1 percent annually on average during 2000 – 2005, compared with 7.5 percent in the 1990s. This divergence in the trends of government receipts and expenditure has resulted in a sharp turnaround in public finances.”

Between 2000 and 2005, a surplus of 5.9 percent was transformed into a deficit of 1.9 percent, which means that the general balance of the public finances as a whole decreased by 7.8 percentage points of the GDP. On several occasions, (speeches on the state of the nation in 2005 and 2006) Prime Minister Jean-Claude Juncker did not hide the deterioration of the public finances. According to the prime minister, the Luxembourgers should learn how to control their public expenditure, particularly in the field of health and social security. It is also necessary to re-examine the automatic indexing of public office wages with the trade unions and to carry out a recasting of the wage policy with regards to teachers. The prime minister, however, declared that the government had allowed the national debt to grow, despite being relatively modest

compared to Germany and France, because it was necessary to avoid the economic stagnation that Luxembourg experienced in 2004 and 2005. The high level of public investments for the housing policy, for road, railway, telecommunications and energetic infrastructures should be maintained.

Finally, he affirmed that all budgetary reorientation was moreover to be agreed with the social partners who are also responsible for the budgetary situation of the State of Luxembourg. As the report by Luxembourg Central Bank noted in 2006, a new problem for Luxembourg's budgetary policy is the volatility and unpredictability of income. Forecasts are generally conservative, so income is underestimated or overestimated every year. Thus, for 2006, the unforeseen merger of Arcelor–Mittal brought over 600 million euros to the state budget owing to its shareholding in ARBED. The subscription tax, a special tax stemming from the activities in the financial sector, was 260 million euros higher than expected in 2006, an amount that is roughly 1 percent of the state budget. Under these circumstances, fiscal sustainability is difficult to achieve.

Annotation:

Ministère d'Etat, Présidence du Conseil de Gouvernement du Grand-Duché de Luxembourg, Déclaration de politique générale 2005 (Luxembourg: Gouvernement du Grand-Duché de Luxembourg, 2005),

http://www.gouvernement.lu/gouvernement/dpg_2005/dpg_fr/index.html#18, (accessed July 26, 2007).

OECD, Economic Survey of Luxembourg 2006: Public finances: adjusting to lower growth (Paris: OECD, 2006),

http://www.oecd.org/document/49/0,3343,en_33873108_33873574_37022129_1_1_1_1,00.html, 2006, (accessed July 26, 2007).

Banque Centrale du Luxembourg, Rapport annuel 2006, (Luxembourg: Banque Centrale du Luxembourg, 2006),

http://www.bcl.lu/fr/publications/rapports_annuels/2006/Mot_du_president.pdf, (accessed July 26, 2007).

B Social affairs

Health policy

Score: 9

In 2004, the Grand Duchy spent 8.3 percent of its GDP on health, which placed it below the OECD average. In terms of expenditure per capita, Luxembourg is in fourth position worldwide, behind the United States and right after Switzerland and Norway. In 2006, almost 85 percent of the expenditures in health were financed by the state budget. The quality of health services is very high. Several international comparative studies (studies Frasier 2004, Health Euro to consume Index 2006, etc.) stress that Luxembourg is among the world TOP TEN states for the excellence of its health services. Nevertheless, the abovementioned studies underline that Luxembourg is largely ahead with regard to the increase of the expenditure of health per capita, between 1997 and 2000, without the added value for the patient. While the whole of Europe is aware of an ageing of their population, Luxembourg is experiencing a rejuvenation, owing to the strong immigration.

Consequently, contrary to the deficits generalized in Europe, the accounts of social security and the national health insurance fund in Luxembourg are slightly in surplus. In 2006, the surplus was equivalent to 7.2 million euros since 1999. Its reserves constitute more than 10 percent of the social security and the national health insurance fund annual budget. The social security system is intended to provide firstly a replacement income for gainfully employed individuals and their dependants to compensate for the reduction or loss of income resulting from certain events compromising people's standard of living, irrespective of whether they are economically active or not (illness, maternity, accidents at work or occupational illnesses, invalidity, old age, unemployment, death). Secondly, it is intended to provide a supplementary income when certain expenses arise (medical care, family expenses).

Social cohesion

Score: 8

In 2001, the coefficient of Gini, which measures the inequality in wage distribution, shows that, along with the Scandinavian countries and the Netherlands, Luxembourg is among the most balanced OECD countries. In 2005, half of the households resident in the Grand Duchy had a standard of

living lower than €2,251 per month and the other half a level higher than this figure. The risk of poverty of all inhabitants in Luxembourg increased from 12.4 percent to 13 percent between 2004 and 2005. In 2005, 20 percent of the poorest Luxembourg residents perceived only 9 percent of the total income against 36 percent for the richest 20 percent. Since the seventies, to ensure the social cohesion in Luxembourg, the various Luxembourg governments have introduced two fundamental instruments: a statutory minimum wage, linked to the cost-of-living index and applicable to every employee of normal physical and mental ability. At present, there are different rates according to age and level of skill (an increased rate formerly applicable to employees with a dependent family was abolished in 1995). By comparison with the general economic conditions and income trends, the law fixes the amount of the minimum wage. In addition to its indexation, there is a review procedure whereby, every two years, the government submits a report to the Chamber of Deputies proposing an increase. Although, in principle, the rates may not be reduced either by collective agreement or by the individual contract of employment, disabled workers may be employed at a level of pay below the minimum wage (fixed, in the event of dispute, by the head of the Inspectorate of Labor and Mines). Also, an employer whose enterprise is undergoing economic and financial difficulties may apply through the Inspectorate of Labor and Mines authorization to pay rates below the minimum wage.

A guaranteed minimum income (RMG) was introduced by the Act of July 26, 1986 in order to provide a decent standard of living for every individual (normally those aged at least 30) who satisfies certain conditions, by guaranteeing them minimum means of subsistence, the level of which depends on the composition of the domestic unit of which they are a member. The conditions of eligibility, which, in addition to age and residence qualifications, include availability to accept any offer of suitable employment made by the Employment Service and willingness to accept a place on a training scheme or temporary assignment to a community work program, may be varied in particular cases. The benefit, which is called the “complement” (supplement) and makes up the difference between the minimum income guaranteed by law and the total resources available to the members of the domestic unit concerned, is paid by the National Supplementary Benefits Fund, but may be advanced to claim through local social assistance offices.

These instruments of social cohesion were severely criticized in the Fontagné’s report financed by the Ministry of the Economy and Foreign Trade in 2004. The report underlined the risk that the recipients of such policies no longer wish

to reenter the labor market.

Annotation:

Lionel Fontagné, *Compétitivité du Luxembourg : une paille dans l'acier* (Luxembourg: Ministère de l'Economie et du Commerce extérieur du Grand-Duché de Luxembourg, Version du 15 novembre 2004)

http://www.eco.public.lu/documentation/rapports/Rapport_Fontagne.pdf, (accessed July 28, 2007).

Family policy

Score: 6

In Luxembourg, the employment rate for women is one of the lowest in the European Union (at only 52 percent for the 25 – 49 age group, for example). In addition, women employees still tend to be concentrated in “women’s” jobs or occupations which have a lower rating in collective agreements (horizontal segregation) and, within a particular occupation, to hold the lower-status, and thus lower-paid, positions (vertical segregation). In the important banking and insurance sector, for example, this is the automatic result of their lower level of education and training. Women are also over-represented in the new “atypical” forms of work such as part-time, temporary, casual and seasonal jobs. In 2006, the wage variation between men and women was 14.3 percent.

In 1999, parental leave was introduced. It allows the parents working in Luxembourg to suspend or reduce their working life in order to stay with their children until they are five years old. Every parent who meets certain conditions has the right, either to take a six-month, full time or a one-year, part-time parental leave of absence. At the same time, both parents may apply for a three-month unpaid parental leave. The government revised the law in 2006. Now the contract of employment is suspended throughout parental leave. This suspension is total for the full-time parental leave and partial for the part-time parental leave. However, in order to facilitate the reintegration of the employee profiting from the parental leave, the law admits the right of access to the measurements of permanent training organized or offered by the employer during parental leave. In 2006, the remuneration paid by the state to the applicants of the full-time parental leave was the equivalent of €1778.31; for the part-time leave, the state remuneration was €889.15. In 2006, 3000 parental leaves were financed. This measurement, which is very much in favor of women who wish to work, should not hide the major problem of the lack of places in nurseries and childcare centers in Luxembourg. The governmental agreement of 2004 recognized that the places offered are largely insufficient to

meet the real needs of families. The additional needs are estimated by the Ministry for Family Affairs at 4000 places, which is double the 2000 places that are available today.

Annotation:

Caisse Nationale des Prestations Familiales, le congé parental (Luxembourg: Caisse Nationale des Prestations Familiales, 2007),

<http://www.cnpf.lu/Pages/Cp-2007.htm>, (accessed July 28, 2007).

Pension policy

Score: 8

The first pillar of the system of Luxembourg pensions consists of a general level for the employees of the private sector and the independent ones, and a special

level for the civil servant. The services are proportional to the wages. Employers, workers and the state budget finance the general level in equal shares. The rate of pension after a complete career in this level is high: it equates to nearly 100 percent of income prior to retirement for an employee with average wages, who has worked for forty years. At the end of this period of contribution, the guaranteed minimal pension is of €1190. In such a context, the need for complementary levels is limited. The professional level is primarily developed in foreign companies or industrial and commercial companies, like the banking sector. The offer of an individual pension is supported by tax incentives.

This system of pension is based on a solid policy consensus and guarantees a high level of adequacy. However, its financial viability depends on a permanently high economic growth rate and contributions from the cross-border workers (41.3 percent of the national employment in 2006) to the national economy and its pension scheme. Fluctuations in the number of immigrant workers are likely to amplify the effects of the demographic ageing of the local population. The difference between the demographic rate of dependence (people older than 65 years compared to those aged from 15 to 64 years) and the rate of economic dependence (people receiving pension benefits compared to the actively employed) could grow much more than elsewhere. If the rate of employment of the cross-border workers were to decrease, the ageing local population would have to bear responsibility for not only the pensions of the resident retired but also the great number of Luxembourg retired living abroad. This risk should be taken into account during the fixing of the amount of the reserves, which the general pension level should provide.

Beyond the issue of the sustainability of the system, it was also necessary to rethink the balance between the private sector and the public sector. In 2001, a round table on pensions, “Rentendësch”, was organized, with representatives of the trade unions, employers and political parties. They analyzed the files of the minimal pensions and the convergence of the level of the pensions paid by the social security systems to the workers of the private sector and the public sector. Among the measures adopted on this occasion was an increase in the minimal pension for the eldest and widows, and a proportional rise of 3.9 percent in the amount of the pensions. However, the participants envisaged the reversibility of some of these improvements if the next evaluation showed a risk that the level of the reserve funds would fall below the legal minimum of 1.5 times the annual expenditure from pensions. However, this reversibility should not affect the lowest pensions. The 2006 report of viability by the European Union estimated that Luxembourg is a Member State at the average risk with regard to the viability of the public finances, because of the high cost of ageing and in spite of its solid budgetary position. Luxembourg must face important budgetary pressures because of the ageing of its population. The projections carried out in 2005 by the working group “Ageing” indicate an important rise in the public pension expenditure (10 percent of the GDP in 2004 to 17.4 percent of the GDP in 2050).

Annotation:

Ministère du Travail et de l’Emploi du Grand-Duché de Luxembourg, Rentendësch - Table ronde sur les pensions (Luxembourg : Gouvernement du Grand-Duché de Luxembourg, 2002), http://www.gouvernement.lu/dossiers/social_emploi/pensions/index.html, (accessed July 12, 2007).

C Security and integration policy

Security policy

*External
security*

Score: 9

Since 2003, military expenditures have increased continuously from 0.91 percent in 2004, to 1.18 percent in 2005, to 1.29 percent in 2006. The Luxembourg army numbers between 400 and 500 voluntary soldiers, one hundred warrant officers and fifty officers. Luxembourg's policy of defense is based on two fundamental pillars:

1. European, Luxembourg army has been a member of the Eurocorps since 2003 (the Luxembourg army is placed under operational command of a Belgian unit);
2. Transatlantic, with the North Atlantic Treaty Organization (NATO Response Force - NRF). The priorities of the national defense policy are the safety and the defense of the territory of the Grand Duchy, cooperation at the international level, collective and common defense, and the prevention and the resolution of wars as well as the organization of missions of humanitarian assistance (Stabilization Forces in Bosnia (SFOR) Kosovo Force (KFOR), International Security Assistance Force in Afghanistan (ISAF)). Military expenditures have increased because the Luxembourg government decided to participate in the NATO operations in Kosovo and Afghanistan, and to share part of these costs.

Internal security

Score: 8

In 2006, the assessment of safety noted a slight increase in infringements (+2.34 percent, 25,913 offenses in 2006 compared to 25,321 in 2005). In addition, it should be noted that the rate of criminality per 100,000 inhabitants remained almost stable. In 2005, 5.565 offenses per 100,000 inhabitants were recorded compared to 5.639 (+1.33 percent) were recorded in 2006. The category of "infringements against property and assets" represents the majority of criminal offenses with 67 percent (+1.28 percent compared to 2005). Robberies constitute the greatest part of these infringements. The category of "infringements against personal safety" represents 15.8 percent of the total infringements. This category of infringements increased compared to 2005 (+14.75 percent), which constitutes a rise of 75.32 percent compared to 2001. The category "various" with 16.8 percent of the infringements, includes all the offenses not mentioned above. Almost half are drug-related offenses and infringements against the law on immigration. Compared to the previous year, this category decreased (-3.46 percent).

In the last few years, three important laws have been adopted by Parliament: in 2006 the law on the procedures of identification by specificity of genes in matter penal. In 2005, the law instituting Eurojust was introduced to reinforce the fight against serious forms of criminality. In 2004, the law on European arrest warrants was adopted into Luxembourg's statutes.

Annotation:

Ministère de la Justice du Grand-Duché de Luxembourg, Rapport d'activité 2006 (Luxembourg: Gouvernement du Grand-Duché de Luxembourg),

http://www.mj.public.lu/chiffres_cles/rapport_activite2006.pdf, (accessed July 13, 2007).

Mars 2007.

*New security
policy*

Score: 9

The terrorist air raids of September 11, 2001 in the United States of America led the Luxembourg Government to create a new structure of crisis management. With this goal, a High Commission for the national protection, created in 1959, was reactivated and reorganized. This national agency, under the direct authority of the prime minister, deals at the same time with the protection of the territory of the Grand Duchy, international cooperation against terrorism and new challenges in terms of chemical, nuclear and ecological security. Luxembourg takes part in the Civil Senior Emergency Planning Committee, in the Euro Atlantic Disaster Response Coordination Center, and in the NATO Crisis Response System.

At European level, five elements have been fundamental for the Luxembourg Government since 2005:

1. Judicial cooperation in criminal matters must become more European. The Luxembourg Government supports the idea of drafting a European criminal code.
2. It also supports the European Union's "Hague Program" (2005 – 2010) aiming at strengthening the cooperation between European states in the fields of justice and interior security.
3. It also wants to set up a European civil and family code.
4. For the Luxembourg Government, the national law has long ceased to be efficient, especially when it comes to organized crime. Under these circumstances, the European governments have to create real integrated European police cooperation. It is also necessary to rethink the issues relating to external border control.
5. Finally, a strong cooperation with the direct neighbors of the European Union is essential. Luxembourg and the European Union need a European external security policy made up of rule of law, of defense, police elements and

its interrelation with domestic security issues.

Integration policy

Score: 6

According to 2007 data, 41 percent of the resident population in Luxembourg is of foreign origin. The Portuguese community accounts for almost 16 percent of the total population of the Grand Duchy. The trilingual school system (Luxembourg, German and French languages) penalizes principally the children of Portuguese immigrants. In 2002, the OECD strongly underlined this exclusive logic in its PISA study (Program for International Student Assessment). In 2003, the prime minister announced his determination to introduce dual citizenship in Luxembourg. However, the bill, always under discussion and supported by the new governmental coalition elected in 2004, increases the difficulties of obtaining Luxembourg citizenship: firstly, seven years of residence are required compared to five years in the present law; secondly, the need to speak Luxembourgish is reinforced whereas the state is officially trilingual (German, French, Luxembourgish) and the linguistic dynamic is in favor of French.

However, in the governmental agreement of 2004, legal immigration is encouraged and the government attached great importance to the protection of people fleeing an area in conflict or who are persecuted according to their race, their beliefs or their political opinions. Furthermore, conscious of the positive contribution of legal immigration for the companies and the economy of Luxembourg, a new legislation on the entry and the stay from abroad should be introduced to facilitate legal immigration before 2009 (the last year before new general elections).

In the abovementioned agreement, the new coalition (Social Christian Democrats and Socialists) also wants to fight vigorously against illegal immigration. A separate center for foreigners in an interim situation is to be built in 2008. Integration and immigration concerns three ministries: the Ministry of Justice, the Ministry for Family Affairs and Integration, and the Ministry of Foreign affairs and Immigration. After the general elections in 2004, the Ministry of Foreign Affairs saw itself allotted new responsibilities on immigration policy. A Direction of Immigration has been created that includes the Reception Office for asylum seekers of the Ministry of Justice and the service of the work permits of the Ministry Employment and Labor. A post of deputy minister in charge with this department was specially created. In the law of July 27, 1993, a High Commission of the government for foreigners was

institutionalized, which works in social, cultural, and sporting activities, in favor of foreigners. This law also promoted a National Council for Foreigners. It is a consultative body charged to study, either on its own initiative or at the request of the Luxembourg Government, all the problems concerning foreigners and their integration. The members are elected by foreign associations, registered by the High Commission of the government for foreigners.

D Sustainability

Environmental policy

Score: 6

Environmental policy in Luxembourg rests chiefly on environmental laws and regulations. These set strict standards and are very comprehensive. They have been strongly influenced by EU directives on the environment and regulatory approaches in neighboring countries. In 1997, during the Kyoto conference, the Luxembourg Government announced its will to reduce of 28 percent its greenhouse gases before 2012. Luxembourg did not manage to reach this goal. The quantities of oil related to the trans-border fuel trade are included in the Luxembourgish total amount of greenhouse gases and until today, the representatives of the employers' organizations, particularly in the field of the iron and steel industry, and transport underline the risk of destabilization of the Luxembourg economy if the country reaches this objective. In a certain sense, they have a strong argument: the trans-border fuel trade is particularly lucrative and an important indirect source of income for the state of Luxembourg (1.1 billion euros in 2006).

However, under the well-structured pressure of the ecological organizations, which are strongly supported by the population, the government concretized a part of its promise by creating a National Plan for a Sustainable Development (PNDD) in 1999. The legislative framework for the sustainable development, revised by the law of June 25, 2004, became a milestone of good governance for the government. The instruments of its policy are principally:

1. the new National Plan for a Sustainable Development specifies the priority fields of action, the concrete objectives and the actions to be taken;
2. the national report on the implementation of the sustainable development describes, from a scientific perspective, the situation of Luxembourg in respect to the sustainable development. It will have also to evaluate the consequences of the governmental action or its inaction;

3. a Higher Council for the Sustainable Development, with a special fund for sustainable policies with the income of trans-border fuel trade, was also created.

Research and innovation policy

Score: 8

The support policy for innovation and research is a relatively recent phenomenon in Luxembourg. The policy was only really introduced in 1981 with the granting of a large credit to the budget of the Ministry of Economic Affairs to provide financial support to carry out R&D programs and projects launched by Luxembourg companies (private sector). In 1984, Luxinnovation was created, the National Agency for the Promotion of Innovation and Research. The law of March 9, 1987 marks an important step in the field of public research. Three Public Research Centers (PRC) were set up to carry out R&D and technology transfer projects. In 1999, the National Research Fund (FNR) was set up to give research activities in Luxembourg an added impetus by supporting programs aimed at developing scientific expertise recognized at global level in a number of priority fields. In January 2006, the FNR launched the FNR Foresight, a project aiming to identify research domains/priority axes for the public sector with short-term and/or long-term socioeconomic interest for Luxembourg society; to develop new FNR programs from these domains. On July 17, 2003, the Chamber of Deputies adopted the law relating to the foundation of the University of Luxembourg.

The government, which came into office after the general election in 1999, has underlined the paramount importance of research and innovation, and has set itself the task of increasing budgetary means for public research to the tune of 0.3 percent of GDP for 2004. Furthermore, it has confirmed its support for the objective of the Barcelona European Council to raise the amount spent on R&D and innovation to 3 percent of GDP by 2010, two-thirds of which concern the private sector. Within the framework of the ERDF Innovative Actions of the European Commission, in 2002, Luxembourg adopted a new strategy aimed at creating an “integrated and interconnected system for sharing knowledge.” The conclusions of the OECD Report on Innovation Policies in Luxembourg, published in May 2007, recommended the following measures:

1. Readjust entities’ roles (FNR, PRC, University, Luxinnovation): attempt to provide more clarification of the various players’ roles and ensure regular evaluation of their respective roles and functions.
2. Prioritization in the area of RDI; given the proposed increases in R&D expenditures, the bottom-up approach, in which proposals for project funding

are submitted by entities in the domain, as has been the case to date, is no longer appropriate. The approach should be complemented by a method that is more top-down, in which priorities for the national research and innovation system are determined.

3. Concentrate the financing of research activities within the FNR; the financing of PRC and university research activities should be transferred to the FNR, in view of its professionalism in the area of evaluation and management of public research projects.

The nine National Research Priorities for Luxembourg are as follows:

- 1 Innovation in Services
- 2 Sustainable Resource Management in Luxembourg
- 3 New functional and intelligent materials and surfaces, and New Sensing Applications
- 4 Biomedical Sciences
- 5 Regenerative Medicine in Age-related Diseases
- 6 Public and Environmental Health
- 7 Transnational biomedical research
- 8 Labor Market, Educational requirements and Social Protection
- 9 Identities, Diversity and Integration

Annotation:

OECD, *Reviews of Innovation Policy: Luxembourg* (Paris: OECD, 2007), http://www.oecd.org/document/52/0,3343,fr_2649_37417_38629748_1_1_1_37417,00.html, (accessed July, 12 2007).

Education policy

Score: 3

Luxembourg is characterized by the poor performance of its education system, as revealed by PISA (Program International for Student Assessment) in 2003. The Grand Duchy ranked thirtieth out of 32 countries in written comprehension, the worst position of any EU member state. Only 1.7 percent of the Luxembourg students succeeded in reaching the highest level of reading competence. It was six times less than the average of OECD countries that participated in PISA. The educational level of people of employment age also reflects the inefficiency of the Luxembourgish education system; the proportion of people with only pre-primary, primary and secondary (first cycle) education is higher than in France, the Netherlands, Finland, Austria, Denmark, Great Britain, Sweden or Germany. The proportion of people continuing to higher education is one of the weakest in Europe. In 2006, 20 percent of the young

applicants on the labor market had experienced failure at school.

Finally, according to OECD, the Luxembourg education system fails to achieve what should be the two objectives of any educational system: to reduce social inequalities and to provide each citizen with the ability to obtain a decent job in a company where professional mobility becomes the rule. Naturally, like any investigation, the methodology of PISA can be discussed and the insufficient taking into account of Luxembourg's specificity (its multilingualism) may be a partial explanation of this disappointing result. One of the explanations most offered is the use of German as the principal language of teaching, which penalizes the children of immigrants.

Nevertheless, according to OECD, which led this investigation, the education system in Luxembourg is also characterized by an insufficient control of fundamental knowledge, and teachers' lower motivation and level of competence. In the governmental agreement of June 2004, education was regarded as one of the priorities of the legislature. It was envisaged in particular: to reduce the impact of a child's social or cultural origins, to reform the teaching of language with the methods suggested by the Council of Europe, to reform professional education in order to reduce the growing number of young people excluded from the labor market because of their poor qualifications. However, confronted with the inertia of corporatism and the powerful lobby of the teachers, the Ministry of National Education avoided showdowns and encouraged many experiments that did not affect the core of the system. Among these experimental projects were the following:

1. the New College, a college centered on the cooperation between the students and pedagogical projects
2. a primary school taking as a starting point the international League for new education
3. the creation of a German-Luxembourg college, financed jointly by the Saar and Luxembourg governments
4. the integration of the international baccalaureate in the Luxembourgish public system.

Annotation:

OECD, PISA 2003 Assessment Framework - Mathematics, Reading, Science and Problem Solving Knowledge and Skills (Paris: OECD, 2003), <http://www.pisa.oecd.org/dataoecd/46/14/33694881.pdf>, (accessed July 23, 2007).

OECD, Where Immigrant Students Succeed - A Comparative Review of Performance and Engagement in PISA 2003, (Paris: OECD, May 2006).

Ministère de l'Éducation Nationale du Grand-Duché de Luxembourg, Enquête PISA 2003

(Luxembourg: Gouvernement du Grand-Duché de Luxembourg), http://www.gouvernement.lu/dossiers/education_jeunesse/pisa/index.html, (accessed July 23, 2007).

Management Index

I. Executive Capacity

<i>Cabinet composition</i>	<i>Prime minister</i>	<i>Parties in government</i>	<i>Type</i>	<i>Mode of termination</i> *	<i>Duration</i>
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Jean-Claude Juncker		Christian Social People's Party (CSV), Luxembourg Socialist Workers' Party (LSAP)	minimal winning coalition	1	07/04-
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* The following modes of termination should be distinguished: elections = 1; voluntary resignation of the prime minister = 2; resignation of prime minister due to health reasons = 3; dissension within cabinet (coalition breaks up) = 4; lack of parliamentary support = 5; intervention by head of state = 6; broadening of the coalition = 7.

A Steering capability: preparing and formulating policies

Strategic capacity

Strategic planning

Score: 8

During the last thirty years, numerous instruments and institutions have been established to oversee economic policy. They attest to the strong interventionist tradition of the Luxembourgish state.

At the level of socioeconomic matters, in 1975, a Committee of Economic Situation was created. Representatives of employers' organizations, trade unions, various ministries and administrations make up the members of the Committee of Economic Situation. The Minister for the Economy convenes the Committee of Economic Situation, which can be chaired by the Minister for the Economy, the Minister for Labor and Employment, or the Minister for Finance, individually or collectively. The Committee of Economic Situation has a meeting every month, in general during the last week of the month. The

function of the Committee is to supervise the evolution of the economic situation and the labor market and, at least once a month, to submit a report to the Council of Government. In 1977, a tripartite coordination committee was created during the steel industry crisis, consisting of an equal number of employers, employees and government representatives. Its function is to intervene by means of tripartite meetings that are convened whenever there is a worsening of the economic and social situation (notably, unfavorable developments, such as the rate of inflation or the competitiveness of Luxembourg enterprises on international markets). It also calls for general measures to be adopted at national level (such as extending the required periods of notice for dismissal, temporarily freezing price margins including interest charges, and imposing temporary restrictions on the thresholds for applying the sliding pay scale).

The committee advises both on the evaluation of the situation and on remedial action by the government. If the three groups of representatives concerned are unable to reach an agreement, the government may appoint a mediator to submit a proposal for remedial action to the committee. When this tripartite consultation procedure is completed, the government may submit any legislative measure designed to remedy the economic situation to the Chamber of Deputies. The most important exercise carried out in this tripartite context was the implementation of measures for restructuring the Luxembourg steel industry (creation of an Emergency Employment Scheme) to absorb surplus workers, who continued to receive an income while assigned to socially useful tasks, and the introduction of a solidarity tax levied on the entire population to finance the restructuring.

In 2001, the principal measures of the law reforming the system of the pensions of the private sector were adopted at the time of a series of round tables called “Rentendäsch,” bringing together representatives of political parties, trade unions, employers, government and the National Council of Luxembourg Women. In 2003, an Observatory of Competitiveness was created with the purpose of helping the government to lay down the orientations and the contents of policies favorable and compatible with a long-term competitiveness. The observatory is, in fact, a national agency that monitors and analyzes the development of Luxembourg’s competitive position in the global economy. The Observatory of Competitiveness is also responsible within the Ministry of the Economy and the Foreign Trade for the implementation of the Lisbon strategy. In accordance with its mandate, it ensures the coordination of work with the various ministries and competent

authorities. The principal missions of the Observatory of Competitiveness are:

1. The collection, analysis and comparison of existing information relating to competitiveness at the national and international level;
2. The targeted diffusion of selected and processed information, useful for strategic decision-making;
3. The realization and order of studies and research on competitiveness;
4. The contribution to work and analyses on the competitiveness of international organizations (European Commission, OECD, etc);
5. The coordination of work and the drafting of the National Reform's Program (PNR) within the framework of the revised strategy of Lisbon, starting from the contributions of the various government departments, administrations and organizations which were concerned.

Scientific advice

Score: 7

Owing to its small size, scientific resources are limited in Luxembourg. Systematically, in the field of fundamental sciences, the government consults large European institutes when drafting bills. In addition to the national agencies dedicated to economic statistics (STATEC), the government generally uses experts from OECD and the Central Bank of Luxembourg in the socioeconomic field. Nevertheless, since 1993, it has tried to make up for its lack of autonomous scientific expertise by the gradual creation of several public research centers in new technologies, health and nanotechnologies. The University of Luxembourg, created in 2003, is largely consulted in bills concerning European policies, European law, the future of financial industry (like the Basel II agreement) and the education reform. Furthermore, since 1989, a very influential National Committee of Ethics in Life Sciences has given advice in the health and research domain.

Inter-ministerial coordination

GO expertise

Score: 8

With the constitution of each government, a law is passed by Parliament delimiting the roles and scope of intervention of the Ministry of State and all the other ministries. The law of August 11, 2004 gives to the Ministry of State:

1. the presidency of the government;
2. the coordination of the general policy;
3. coordination between ministerial departments;
4. responsibility for institutional relations with the grand-ducal court, the Chamber of Deputies and the Council of State;
5. the responsibility for the general secretariat of the Council of Government.

In particular, the Ministry of State has the monopoly of assessment and coordination between parliamentary and governmental work through the Central Service of Legislation. This institution was created by ministerial decree in August 1959. its attributions are:

1. at the prime minister's request, to draw up the project of legal or lawful texts relating to the Ministry of State or the government as a whole;
2. to examine, at the prime minister's request, the project of legal or lawful texts drawn up by other departments or services;
3. to follow the course of the legislative and lawful procedures and to provide the administrative offices that fall on the Ministry of State in this field.

GO gatekeeping

Score: 8

The Cabinet of the Prime Minister is widely regarded as the most powerful department in the public service. In its role of coordinating government policy and ensuring a consistent coherent legislative program, the Cabinet of the Prime Minister has the capacity to return any bills that are in conflict with its policy agenda. The cabinet seeks a compromise before a possible arbitration as soon as it concerns European policy or economic policy and ministries generally held by a party other than that of the prime minister.

Line ministries

Score: 8

In the law passed on the constitution of the government, the ministries and the administrations are normally autonomous in the preparation of proposals concerned with their fields of competence. In reality, the Ministry of State is automatically associated with the preparation of the texts and the proposals, in particular with their budgetary aspect, since the prime minister is automatically also the minister of finance. This is also true for all safety policies with the High Commission for the national protection under his authority, for the creation of new civil servant posts with the Commission Economy and Rationalizations and for all communication policies for ministries, since the Service Information and Press is directly attached to him.

*Cabinet committees**Score: 8*

A common action is periodically elaborated by ministerial committees and the Ministry of State holding account, particularly of the social and financial matters of the moment. However, the decision to finance proposals is left in the hands of the prime minister/minister of finance. Accordingly, ministerial committees are, on the whole, regarded as a hurdle for the heads of departments, but what really matters is the prime minister/minister of finance and his cabinet.

*Senior ministry officials**Score: 9*

The effective direction of the ministry belongs to the relevant member of the government. He/she is assisted, according to the requirements of the service, by one or several advisers to whom he/she can delegate the signature of decisions. The drafting of important texts is the responsibility of the advisers of government. Usually, cabinet meetings confirm the decisions taken beforehand in an informal manner by the senior ministry officials. Some public services, while belonging to the general public administration, are detached from the central offices of the government and form special administrations, under the direction of chiefs of administration provided with certain decision-making powers. They are the general services, such as tax authorities, Administration of Registry, Administration of Customs, Administration of the Highways, Administration of Labor and Employment. In this case, the cabinets meeting do not dispute the texts and the recommendations taken by these administrations and their chiefs.

*Line ministry civil servants**Score: 4*

The administrations and the senior officials are in some instances jealous of their prerogatives. If there are many mechanisms of interdepartmental coordination, their efficiency rests above all on the availability of the administrative chiefs of the different ministries. It is the Ministry of State and the Ministry of Finance, often with the support of the Ministry of the Economy and the Ministry of Foreign Affairs, which manage to increase the cooperation between the various high-ranking civil servants. Luxembourg's small dimensions lead to the risk of the constitution of administrative feudalities and, at the same time, to the release of the situation by the direct intervention of the prime minister or his cabinet.

Regulatory impact assessments*RIA application**Score: 5*

With the law on the budget, on the accountancy and on the state treasury amended in 1999, all amendments, payments, projects or private bills likely to burden the state budget, must be obligatorily accompanied by a financial statement including the receipts and new expenditures. This financial statement

provides information about the foreseeable budgetary impact in the short, medium and long term. The financial statement must comprise all required information, allowing the purpose to be identified, along with the duration of the expenditure and its impact on the personnel and administrative expenditures. Any project or proposal accompanied by such a financial statement is submitted for evaluation to the ministry of this budget. In fact, the government did not succeed in putting this efficient regulatory impact assessment into practice. The current practice is the traditional control ex ante and ex post carried out by the Inspectorate General of Finance, by the direction of the financial control of the Ministry of Budget and by the Court of Auditors. On several occasions, the Council of State and the professional chambers, who have to deliver their opinion on the bills, have regretted the absence of financial statements or that they received them too late.

Needs analysis

Score: 6

The quality of the regulatory impact assessment process varies across the public service. Within certain areas, where the evaluation of a regulatory impact assessment is more straightforward – employment policy, or the financial industry, for example – the RIA process is conducted in depth. In other areas, such as education policy, immigration policy or housing, where many variables are likely to affect the outcome, the regulatory impact assessment process is less intensive. The process is likely to be most detailed and effective in areas of major economic interest where there are multiple interested parties, where competition may be restricted as a consequence of new regulation, or where the consequences of the new legislation are likely to directly impact on the tax proceeds.

Alternative options

Score: 5

When the regulatory impact assessment relates to an essential domain for the state or Luxembourg's economy, the government requests some very complete studies with multiple possible courses of action from private external auditors, or sometimes from professional chambers. It was the case, for example, in 2005 for the impact study of the financial industry on the Luxembourg economy and the impact study on a modification of the VAT rate. It is nevertheless rare that these regulatory impact assessments so complete.

Societal consultation

Mobilizing public support

Score: 8

Traditionally, as a result of Luxembourg's small size, its politicians consult civil society, and the meetings between government, political parties and special interest groups are reported in depth in the media. The process of institutionalized consultation between the government, employers and unions at the macrosocial level of industrial relations is the hallmark of Luxembourg's

consensual tradition and unquestionably the reason underlying its “legendary” industrial peace. The forums in which the extensive involvement of the social partners in the formulation of economic and social policy takes place are: the Chambers of Labor and Trade, the Economic and Social Council, and the tripartite bodies such as the National Employment Commission, the Standing Committee on Employment and the Tripartite Coordination Committee. The latter was created in 1977 as a means of dealing with the economic crisis; the most important achievement in this tripartite context was to enable the restructuring of the steel industry to be carried out consensually during the 1990s (with massive job cuts by ARBED, later ARCELOR). More recently, in April 1998, the committee reached a consensus on the National Plan, which was submitted to the European Commission following the Luxembourg extraordinary summit on employment. Furthermore, Luxembourg is a consociational democracy; the power is supported by large coalitions.

Policy communication

*Coherent
communication
Score: 9*

The information and press service is the body in charge of the communication of the Luxembourg government. It is attached to the Ministry of State and is placed under the direct authority of the prime minister. The law of July 27, 1991 on the electronic media is used as a framework with the definition of the missions of the information and press service:

1. to ensure that the press, the public and the interested parties are kept informed of the activities of the state;
2. to assist the government and the administrations in the effort to make the Grand Duchy better known abroad and to cultivate its international image;
3. to publish documents of any nature, to distribute documents published by the ministries and public administrations, to organize press conferences and other demonstrations, to accommodate foreign journalists and official visitors;
4. to facilitate the work of the press bodies and Luxembourg journalists by any means.

B Resource efficiency: implementing policies

	<i>Total</i>	<i>Share</i>
<i>Legislative efficiency</i>		
Bills envisaged in the government's work program	130	
Government-sponsored bills adopted	120	92.31 %
<i>Veto players</i>		
Second chamber vetos	-	- %
Head of state vetos	-	- %
Court vetos	4	3.08 %

Effective implementation

Government efficiency
Score: 7

The government in Luxembourg often succeeds in achieving its goals owing to the fact that the two parties exert a very strong control over their respective deputies. Permanent monitoring and reporting enhance party cohesion during the legislative. Private members' bills are subject to the approval of the parliamentary group, which also decides on party voting discipline. Hence, an MEP's voting discretion is usually very narrow: either he complies with the group's decision, or he declares in advance in a group meeting that he intends to abstain. The meetings of deputies are attended by several different party protagonists: national MPs and their parliamentary staff, MEPs, the party's government members, and leaders of the party organization. In the traditional parties, members of the Council of State, representatives of newspapers that support the party as well as representatives of sub-organizations (e.g., youth and women's organizations) are also invited. These meetings are not public. Although cabinet ministers have frequent meetings with their respective party presidents, the prime minister or the deputy prime minister is the real leader of each ministerial team in the party.

However, some governmental objectives are not always reached for three reasons. Initially, the narrowness of the political system and the research of the consensus oblige the government to associate the lobby concerned in a permanent way during the process. The lobby often tries to take control of the whole of the project, sometimes with the benevolent complicity of certain administrations jealous of their prerogatives.

Then again, the existence of administrative feudalities delays the implementation of the new rules. Finally, although it is very attached to its tax and economic sovereignty, the government of Luxembourg must take the tax policies and economic harmonization into account, which have been decided at the European level. Some objectives envisaged in the coalition agreement are then disputed by other European governments, or by non-profit organizations, and sometimes abandoned.

Ministerial compliance

Score: 8

The coalition agreement prevents an overly large autonomy of the ministers in the performance of their duties. However, some of the ministers, especially those from the senior party of the coalition, may be tempted to pursue their own goals after a long time in the same position, being pushed by senior officials. The authority of the prime minister and the deputy prime minister, from the junior party of the coalition, reinforce governmental solidarity. Furthermore, Luxembourg's small size allows the existence of relatively inefficient structures of control and strong ministerial autonomy in respect to the agreement of coalition at the same time.

Monitoring line ministries

Score: 6

The prime minister has the responsibility to coordinate the activities of all ministries and the capacity of control over each ministry. The Ministry of State also has many services for monitoring purposes, like the Central Service of Legislation or the Commission of Economy and Rationalizations. In reality, it is the ministers themselves, in close cooperation with one or two senior officials of their ministries, who ensure the monitoring of their own ministries.

Monitoring agencies

Score: 8

In 2003, a report financed by the Minister of State on the Role of the State in Luxembourg (Report Roux-Scoffoni) underlined the urgent need to implement new legislation on the executive agencies in Luxembourg, of which there are currently about sixty. The executive agency (*établissement public*) is an invested legal entity of public law of one mission of public utility and constitutes a method of decentralization. A public agency profits from a certain administrative and financial autonomy, but it remains under the supervision of the relevant ministry. Prior to 2004, the methods of state assessment on public agencies were varying: strict control exerted by a government commissioner or simple control a posteriori for other agencies. The risks, often evoked, particularly in a motion passed by the Chamber of Deputies in 2003, are that the multiplication of the executive agencies provokes a loss of control of the state on activities of public utility, with a consequent dilution and dispersion of the responsibilities. In one of its reports, the Court of Auditors of Luxembourg has stigmatized certain "dysfunctions" due to a defect with monitoring on executive agencies. To resolve these difficulties, the government adopted a new law in June 2004. It proceeds with the distinction between administrative

agencies, commercial and industrial agencies, cultural, social and scientific agencies. All the agencies are now subjected to a strict ministerial control. Their budget should be approved by an external reviser and by the Court of Auditors.

Annotation:

André Roux and Guy Scoffoni, eds., *Le rôle de l'Etat au Luxembourg* (Luxembourg: Ministère de la Fonction Publique du Grand-Duché de Luxembourg), <http://www.fonctionpublique.public.lu/publications/etudes/roleetat.pdf>, juin 2003 (accessed July 1, 2007).

Task funding

Not relevant for Luxembourg

Score: 0

Annotation:

Not relevant for Luxembourg

Constitutional discretion

Not relevant for Luxembourg

Score: 0

Annotation:

Not relevant for Luxembourg

National standards

Not relevant for Luxembourg

Score: 0

Annotation:

Not relevant for Luxembourg

C International cooperation: incorporating reform impulses

Domestic adaptability

Domestic adaptability

In order to improve the interdepartmental coordination of European policy, the government decided to create a committee of coordination of European policy in December 2005. The committee systematically prepares the European Councils, discusses European subjects with the different ministerial representatives, reaches a common agreement on the different positions and distributes information on the European topicality to the attention of the administrations and ministries. Within the framework of the committee, meetings can take place with representatives of the private companies, in particular, those representing the employers and the trade unions. Such contacts

Score: 8

can also take place between representatives and the Permanent Representation of Luxembourg at the European Union in Brussels. In addition, the European correspondents of all the ministries meet on several occasions. They concentrate primarily on the problems of the transposition of the European directives into national law. A new fashion of management of the transposition has been elaborate, which allows for a certain number of improvements on the matter.

External adaptability

International coordination activities

Score: 9

In spite of its small size, because Luxembourg is a founding member of the European Union, it takes an active part in all international and European organizations of cooperation. It is officially candidate for a nonpermanent seat in the Security Council of the United Nations for the next elections in 2012. In the field of European policy, the Grand Duchy was particularly active in the economic and financial stabilization of the new member states, especially the Baltic States and Slovenia. It also takes an active part in the program for the political and peaceful stabilization of Kosovo and Cyprus.

Exporting reforms

Score: 7

Luxembourg is traditionally a state which quickly implements the socioeconomic reforms recommended by international organizations such as OECD or IMF, except for European directives where its administration does not manage to follow the tempo for their transposition. The economic and tax policies of Luxembourg have been used as a model for many small states, particularly the new member states like the Baltic States and Slovenia. Furthermore, Luxembourg has developed a whole program of economic and tax cooperation with these states. The Luxembourgish model of economic development led these states to support the Grand Duchy at the beginning of the work of the European Convention on the future European Constitutional Treaty. Along with the other Benelux countries, Luxembourg was concerned for the future of the community method, the pursuit of European integration, the respect of the financial criteria of the Treaty of Maastricht and the principle of perfect equality between member states.

D Institutional learning: structures of self-monitoring and -reform

Organizational reform capacity

Self-monitoring

Score: 5

In 1999, governmental agreement provided that, when new services, new policies and public office management were created or introduced, a strict control would be operated with an eye to economic preoccupation and improving efficiency. However, in 2003, a report financed by the Minister of State on the Role of the State in Luxembourg (Report Roux-Scoffoni) underlined that the field of state intervention was very difficult to evaluate, apart from the internal operation of the state. There were not yet consolidated balance-sheet of the State including the executive agencies and the companies with public participation, including the communal sector. Evaluation cost/benefit of the assistances, tax measurements and public regulation did not yet exist. In addition, information was dispersed within the ministries and the administrations. The report concluded: “These difficulties are not specific to Luxembourg, but in a small country, this task should be easier.” In the governmental declaration of August 2004, the government was committed to a multi-annual financial programming with the creation of a critical analysis commission, which will initially have the role of assessing projects of public investments while in progress and a posteriori.

Annotation:

André Roux and Guy Scoffoni, eds., *Le rôle de l'Etat au Luxembourg* (Luxembourg: Ministère de la Fonction Publique du Grand-Duché de Luxembourg),

<http://www.fonctionpublique.public.lu/publications/etudes/roleetat.pdf>, juin 2003 (accessed July 1, 2007).

Institutional reform

Score: 6

With the number of ministries currently at 19 (including the Ministry of State in 2004), this appears relatively high, taking the size of the state of Luxembourg into account. For a few years, Luxembourg has known creations, splits and especially redistributions of competences among the ministries. In 1995, the Ministry of Female Promotion was created and became Ministry of Equal Opportunities in 2004. In July 1999, the Ministry of National Education was reorganized in the following way: higher education and research were allotted to the minister in charge of culture. Furthermore, the management of water was passed from the competence of the Ministry of Environment to the Ministry of the Interior. In 1999, the Ministry of Youth disappeared in the same

way as the autonomous ministry and became attached to the Ministry of Family and Social Cohesion, which in turn became the Ministry of Family and Integration in 2004. This ministerial reorganization should not hide the fact that, essentially, successive governments could not or did not want to rationalize ministerial activity by limiting the number of ministries, for example, as advised in various reports on the role of the state in Luxembourg published since 2001 (the Economic and Social Council, Report Roux-Scoffoni). Even if the last coalition agreement devotes a whole chapter to the administrative reform, the related means currently deployed remain largely insufficient to take up the principal challenge, namely effectiveness.

II. Executive accountability

E Citizens: evaluative and participatory competencies

Knowledge of government policy and political attitudes

*Policy
knowledge
Score: 4*

During the last referendum on the European Constitutional Treaty, and after a quantitative study on the legislative and European elections of June 2004, the Chamber of Deputies asked the University of Luxembourg to organize some focus groups composed of citizens from Luxembourg. Although the voters strongly claimed to have more confidence in the national institutions than in European institutions, a large majority of them acknowledged their inability to understand the policies of the Luxembourg Government at the same time. The majority of them claimed to be more involved in the decision-making process. Moreover, they wished that the government could carry out a true pedagogy on the national policies and on European policy, which had already been decided.

Annotation:

Patrick Dumont, Fernand Fehlen, Raphaël Kies, Philippe Poirier, eds., *Etude des Elections Législatives et Européennes de 2004* (Luxembourg: Chambre des Députés-Université du Luxembourg), <http://www.uni.lu/recherche/flshase/stade/recherche>, janvier 2006, (accessed July 1, 2007).

Patrick Dumont, Fernand Fehlen, Raphaël Kies, Philippe Poirier, eds, *Etude du Référendum sur le Traité établissant une Constitution pour l'Europe*, (Luxembourg: Chambre des Députés-Université du Luxembourg), <http://www.uni.lu/recherche/flshase/stade/recherche>, février 2007, (accessed July 1, 2007).

F Parliament: information and control resources

Structures and resources of parliament, committees, parliamentary parties and deputies

Number of deputies	60
Number of parliamentary committees	22
Average number of committee members	12
Average number of subcommittee members	-
Pro-government committee chairs appointed	17
Deputy expert staff size	
Total parliamentary group expert support staff	8
Total parliamentary expert support staff	15

Obtaining documents

Score: 8

In parliamentary procedures and Luxembourg's constitution, the government is not under any obligation to send documents. Nevertheless, the deputies have the faculty, through an oral or written request, of obtaining the original information and sometimes the original documents, if the government agrees. In practice, the Minister of the Relations with Parliament addresses the requested documents coming from the government or from the Council of State to the Chamber of Deputies. It is also useful an intermediary for the legislative correspondence that the Chamber of Deputies wants to address to the Government or the Council of State (in the latter, the Minister of the Relations with the Parliament signs on behalf of the prime minister). In the case of corruption or serious dysfunctions in the state, like the Kralowetz Affair in 2003 (a road transport company adapting the social legislation in Luxembourg with the assistance of civil servants), Parliament often does not manage to obtain the required documents. In the case of the abovementioned affair, it was obliged initially to constitute a special subcommittee, then a committee of inquiry.

Summoning ministers

In the rules of parliamentary procedure and in the constitution of Luxembourg, there is no obligation for a minister to be present, apart from the obligation to

Score: 8

answer the written and oral questions of the deputies. However, article 64 of the constitution and article 181 of the rules of parliamentary procedure give the Chamber of Deputies the right to run its own investigations. Specifically, these articles authorize Parliament and its commission of inquiry to exert the powers of an investigating judge. In this case, the minister is obliged to answer the summons.

Summoning experts

Score: 9

At the time of the examination of a bill or proposal, it is permissible for a commission to summon experts, to invite European deputies, to take documentary information near them, to accept or request their collaboration.

Task area coincidence

Score: 8

The small size of the country and the modest size of the administration imply that the government is restricted and, consequently, that the ministers have several ministries under their authority, which are sometimes quite independent. This does not prevent Parliament from exerting its control on ministerial activity, despite the fact that its commissions are sometimes different.

Audit office

Score: 8

The Court of Auditors was established by article 105 of the constitution and revised in 1999, in order to ensure the control of the financial management of the bodies, administrations and services of the state. Control by the Court of Auditors implies the examination of the legality and the regularity of the receipts and the national expenditure, such as the good financial management of the public funds. The constitutional and legal base gives the Court of Auditors the capacity to operate its checks in total independence and guarantee a functional, organizational and financial autonomy. The results of its control are published annually before the debates on the new bill of the general account of the state. In addition, the court may introduce special reports on specific fields of financial management, either at the request of the Chamber of Deputies, or on its own initiative. Independent of its control function, the Court of Auditors may be consulted by Parliament on those bills with a significant financial incidence for the Treasury or on the provisions of the budgetary law, and the proposals and bills relating to the accountancy of the State.

Ombuds office

Score: 9

Petitions must be addressed to the President of the Chamber of Deputies. They cannot be given in person nor by a delegation of people. Any petition must include the signature of the petitioner and clearly indicate his name and first name as well as his place of residence. The authorities only have the right to address petitions in collective name. The president communicates their existence during a public meeting and then returns the petitions to the Commission of the Petitions or to the seized Commission. The Commission of the Petitions decides on a case-by-case basis whether to return them to a minister or another Commission of the Chamber, whether to forward them to

the Office of the Chamber, or to classify them purely and simply.

In July 2003, Parliament adopted the bill relating to the installation of a mediator to Luxembourg. Marc Fischbach, judge at the European Court of Human Rights, was named by the Chamber of Deputies as the first mediator. The mediator has the role of helping people who dispute a decision of the administrations concerned with the state and the municipalities, as well as the publicly-owned establishments that depend on it. The mediator is named for one period of office of eight years, which is non-renewable.

In practice, on several occasions, a number of lobbies deposited petitions directly (such as the Luxembourg Moslems in 2003) with the president of Parliament. Although prohibited by the rule of the Chamber of Deputies, these collective petitions were relayed by the press.

Annotation:

Chambre des Députés, Règlement, Chapitre 7 Des pétitions Art. 154 (Luxembourg: Chambre des Députés du Grand-Duché de Luxembourg, 2007),

<http://www.chd.lu/docs/pdf/reglement.pdf>, juillet 2007, (accessed July 1, 2007).

G Intermediary organizations: professional and advisory capacities

Media, parties and interest associations

Media reporting

Score: 9

The narrowness of the audio-visual market, the size of the Luxembourg political system and the public funding to the press compel the media to provide in-depth coverage of the government's actions. However, there is one major difficulty; although the majority of the population speaks French, the majority of audio-visual information is in Luxembourgish. RTL Télé Lëtzebuerg, a group of private media assuming functions of public utility, broadcasts a news program for one hour every evening with subtitles in French, along with a political magazine in Luxembourgish every Sunday. These generally have a market share of 70 percent. Chamber TV, Parliament's independent channel, retransmits the public meetings pre-recorded.

Fragmentation

Parliamentary election results as of 6/13/2004

<i>Name of party</i>	<i>Acronym</i>	<i>% of votes</i>	<i>% of mandates</i>
Christian Social People's Party	CSV	36.1	40.00
Luxembourg Socialist Workers' Party	LSAP	23.4	23.33
Democratic Party	DP	16.1	16.67
Green Party	GP	11.6	11.67
Alternative Democratic Reform Party	ADR	10.0	8.33
The Left	DL	1.9	0
Communist Party of Luxembourg	KPL	0.2	0
Free Party of Luxembourg	FPL	0.1	0
Others		0.6	0

*Party competence**Score: 7*

The narrowness of the Luxembourgish political system obliges political parties to establish programs that are suitable for a quick application and as the base of an agreement of governmental coalition which always intervenes less than two months after the legislative elections. This coalition agreement especially reflects the political programs on socioeconomic matters but generally avoids all questions related with the historical values of the partners in the coalition. For example, no political parties in coalition with the Christian Socials contest the status of the Catholic Church or the other religions in the Luxembourgish constitution.

*Association competence**Score: 5*

The narrowness of the Luxembourgish political system and the absence of a real public space prevent the constitution of a strongly structured civil society. Only the employers' and trade union organizations, and sometimes ecologist associations like the Mouvement écologique, manage to work out serious and concrete proposals. Other associations are initially the agents of only one claim, and are sometimes designed to disappear quickly thereafter. In other terms, associations reflect the corporatist feature of the Luxembourg political

system.

*Association
relevance*

Score: 7

In reality, putting aside the problem of the definition and the constitution of their interests, all lobbies in Luxembourg exert, or seek to exert, an influence on the political powers, on the political decision makers, which implies a varied and detailed range of partners or interlocutors. Traditionally, the elected officials in Luxembourg are every much open to requests from the private sector, again because of the country's small size. The meetings between political parties and special interest groups are largely reported in the media.

This expert report is part of the Sustainable Governance Indicators 2009 project, which assesses and compares the reform capacities of the OECD member states. SGI expert reports solely reflect the opinion of their authors and should not be regarded as statements of the Bertelsmann Stiftung.

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