



VALTIOVARAINMINISTERIÖ

# Europe 2020 Programme

## Finland's National Reform Programme 2019

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Economic Prospects



Valtiovarainministeriön julkaisuja 2019:X

## Europe 2020 Programme – Finland's National Reform Programme 2019

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<p><b>Abstract</b></p> <p>The European Council adopted a Strategy for Growth and Employment in 2010. The vision of the Europe 2020 Strategy, which extends to 2020, is smart, sustainable and inclusive economic growth. The strategy sets EU-wide targets for employment, research and development expenditure, climate measures, education and reducing poverty. Each Member State sets its own national targets in accordance with the programme.</p> <p>As part of its national targets, Finland aims to raise the employment rate of 20–64 year-olds to 78%, spend a minimum of 4% of GDP on R&amp;D, achieve the climate and energy targets agreed in the EU, maintain the proportion of</p> <p>30–34 year-olds having completed tertiary-level education at 42%, reduce the proportion of 18–24 year-old early school leavers to 8%, and reduce the number of people living at risk of poverty and social exclusion.</p> <p>The European Council adopts for all Member States recommendations aimed at guiding national decision making so that it supports growth and employment. In 2018, the focus in the recommendations for Finland is on ensuring the sustainability of general government finances, improving the cost-effectiveness of social and health care services, improving the incentives to accept work while ensuring adequate and well-integrated services for the unemployed and the inactive, and strengthening the monitoring of household debt.</p> <p>The Government is now presenting the eleventh Europe 2020 National Reform Programme. The programme describes the measures that the Government has initiated to achieve the national targets and how Finland has reacted to the recommendations issued by the EU. The information provided in the programme will serve as a basis for a more detailed examination of Finland’s situation at the EU level.</p>			
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<b>Tiivistelmä</b>	<p>Eurooppa-neuvosto hyväksyi vuonna 2010 kasvu- ja työllisyysstrategian. Vuoteen 2020 ulottuvan Eurooppa 2020 -strategian visiona on älykäs, kestävä ja osallistava kasvu. Strategiassa asetetaan koko EU:ta koskevat tavoitteet työllisyydelle, tutkimus- ja kehitysmenoille, ilmastotoimille, koulutukselle ja köyhyyden poistamiselle. Jokainen jäsenvaltio asettaa vastaavat kansalliset tavoitteet.</p> <p>Suomen kansallisena tavoitteena on nostaa 20–64-vuotiaiden työllisyysaste 78 prosenttiin, käyttää tutkimus- ja kehitysmenoihin 4 % bruttokansantuotteesta, saavuttaa EU:ssa sovitut ilmasto- ja energiatavoitteet, pitää korkeakoulututkinnon suorittaneiden 30–34-vuotiaiden osuus 42 prosentissa, pienentää 18–24-vuotiaiden koulutuksen varhain päättäneiden osuus 8 prosenttiin sekä vähentää köyhyys- ja syrjäytymisriskissä olevien määrää.</p> <p>Euroopan Unionin Neuvosto hyväksyy kaikille jäsenvaltioille suosituksia, joilla pyritään ohjaamaan kansallista päätöksentekoa kasvua ja työllisyyttä tukevasti. Suomelle vuonna 2018 annetut suositukset liittyvät julkisen talouden kestävyys-, sosiaali- ja terveyspalvelujen kustannustehokkuuden parantamiseen, työttömille ja työmarkkinoiden ulkopuolella oleville suunnattujen palvelujen kehittämiseen, työnteon kannusteiden parantamiseen sekä kotitalouksien velkaantumisen seurannan vahvistamiseen.</p> <p>Hallitus antaa nyt yhdennentoista kansallisen Eurooppa 2020 -ohjelman. Ohjelmassa kuvataan, mihin toimiin hallitus on ryhtynyt kansallisten tavoitteiden saavuttamiseksi ja miten EU:n antamiin suosituksiin on reagoitu. Ohjelmassa annetut tiedot mahdollistavat Suomen tilanteen yksityiskohtaisen tarkastelun EU:n tasolla.</p>	
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<b>Referat</b>	<p>Europeiska rådet antog en tillväxt- och sysselsättningsstrategi år 2010. Visionen i Europa 2020 -strategin, som sträcker sig till år 2020, är smart och hållbar tillväxt för alla. I strategin fastställs mål för hela EU när det gäller sysselsättning, forsknings- och utvecklingsutgifter, klimatåtgärder, utbildning och fattigdomsbekämpning. Varje medlemsland fastställer sina egna nationella mål inom dessa områden.</p> <p>Finlands nationella mål är att höja sysselsättningsgraden bland 20–64-åringar till 78 procent, att använda 4 procent av BNP till forsknings- och utvecklingsutgifter, att uppnå de inom EU överenskomna klimat- och energimålen, att hålla andelen 30–34-åringar med högskoleexamen på 42 procent, att minska andelen 18–24-åringar som avbryter studierna i förtid till 8 procent samt att minska antalet personer som riskerar fattigdom och utanförskap.</p> <p>Europeiska unionens råd antar rekommendationer för samtliga medlemsländer i syfte att styra det nationella beslutsfattandet i en riktning som främjar tillväxt och sysselsättning. Rekommendationerna för Finland 2018 handlar om att se till att den offentliga ekonomin är hållbar, att förbättra social- och hälso tjänsternas kostnadseffektivitet, att bättre anpassa lönerna till produktivitetsutvecklingen, att föra en aktiv arbetsmarknadspolitik, att förbättra incitamenten för att arbeta samt att utveckla reglering för att öka konkurrensen i tjänstesektorn och främja investeringar.</p> <p>Rekommendationerna till Finland gäller den långsiktiga hållbarheten i de offentliga finanserna, förbättring av social- och hälso tjänsternas kostnadseffektivitet, ökade incitament för att ta emot arbete, vidareutvecklande av service riktad till arbetssökande och personer som står utanför arbetsmarknaden och en förbättrad uppföljning av hushållens skuldsättning.</p> <p>Regeringen tillkännager nu det elfte nationella reformprogrammet för Europa 2020. I programmet redogörs för de åtgärder som regeringen har vidtagit för att uppnå de nationella målen och för hur EU:s rekommendationer har tagits i beaktande. Uppgifterna i programmet möjliggör en detaljerad granskning av läget i Finland på EU-nivå.</p>		
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# 1 Introduction

The Finnish economy continued to grow steadily in 2018. In the coming years, the growth rate will slow down as it will no longer be boosted by domestic factors and the fastest stage of the current global upturn is expected to be over.

There has been a rapid rise in the employment rate, a result of strong economic growth and labour market reforms. Prime Minister Juha Sipilä's Government's 72% employment rate goal was achieved at the end of 2018. Because of the rapid rise in the employment rate, unemployment decreased last year at a significantly faster rate than in 2017. Unemployment fell substantially in all parts of Finland and in all age groups.

Steady economic growth and the adjustment measures introduced during the current parliamentary term have strengthened general government finances. A few years ago, there was still a substantial deficit in Finland's public finances but at the beginning of the next decade, a near-balance will have been achieved. The general government debt-to-GDP ratio will also fall in the next few years.

Competitiveness, employment and public service provision were at the heart of the economic policy of Prime Minister Sipilä's Government. The aim of the Government's economic policy has been to stop further increase in general government indebtedness and to bridge the sustainability gap through savings as well as measures boosting growth and enhancing public service provision.

An extensive health and social services reform has been under preparation in Finland (Chapter 3.1). The reform is needed so that gaps in wellbeing and health can be narrowed, better and more equal access to the services can be ensured, cost-efficiency of the services can be enhanced, and cost increases can be slowed down. It was determined in March 2019 that no parliamentary approval for the reform could be secured during the term of Prime Minister Sipilä's Government.

The activation model for unemployment security clients and a reform in which unemployment benefit recipients can study and engage in business activities for short

periods were two of the labour market reforms introduced by Prime Minister Sipilä's Government to provide additional incentives for job seeking. Furthermore, to enhance incentives for work, the early childhood education fees of low-income and middle-income families have been lowered and changes have been made to the adjusted unemployment benefit scheme. As described in Chapter 3.2, the measures aimed at boosting employment have also targeted young people, immigrants and the long-term unemployed. The Government has also introduced reforms in vocational education and training so that it would support continuous learning and would better respond to changes in the labour market.

Macroprudential policy measures have been used to restrict lending by banks so that households would not accumulate excessive debts (see Chapter 3.3). The Government has added new instruments to its macroprudential toolkit and introduced measures to limit the tax deductibility of mortgage interest payments. New legislation has also been introduced to tighten the terms and conditions of instant loans and enforcement legislation has been changed to encourage acceptance of work. A report on the feasibility of a positive credit register was also prepared in 2018.

A policy enhancing the overall economic operating environment helps to boost investment (Chapter 3.4). Smooth functioning of the product, labour and financial markets is essential. Removing obstacles to investments should also be a priority. In public investments, the focus should be on infrastructure investments that enhance the long-term growth potential of the Finnish economy. Continuity and predictability of policies are also essential in the efforts to encourage investments.

Finland has made considerable progress towards achieving the EU 2020 goals and has already met the targets for renewable energy and higher education. In the employment rate targets, Finland is on its way towards achieving the level set for 2020 but more work is still needed to achieve the poverty reduction target. There was a substantial decrease in R&D investments during the prolonged downturn and the target for 2020 (R&D expenditure at least 4% of GDP) will probably not be met, despite a broad range of different policy measures.

Finland's National Reform Programme has been approved by Prime Minister Sipilä's caretaker government.

## 2 Macroeconomic situation and scenario

### 2.1 Macroeconomic outlook for the programme period

Finland's gross domestic product grew by 2.3% in 2018. Strong economic growth helped to boost the employment rate by 2.7% compared to 2017. At the end of 2018, the seasonally adjusted employment rate exceeded the employment rate target set by the Government.

Driven by a rapid growth in employment, unemployment fell substantially faster last year than in 2017. There was a rapid decline in unemployment in all parts of Finland and in all age groups. Seasonally adjusted unemployment rate fell to 6.5% in December 2018.

A rising employment rate and higher earnings boosted private consumption in 2018. However, due to a higher household savings rate, consumption did not grow as rapidly as in 2017. A rapid increase in housing construction was the main factor keeping private investments on a growth path. In fact, housing construction reached its peak in 2018. Economic growth was increasingly supported by domestic demand, while at the same time, the role of net exports decreased.

In the coming years, the slowdown in economic growth will be broad-based but a decline in housing investments will be a key factor contributing to the deceleration. The increase of trade barriers will slow down export growth. Supported by expanded forest industry capacity, net exports will continue to maintain overall economic growth. Stronger price competitiveness will also boost export growth.

Return of the housing construction closer to normal levels is the main reason for slower investment growth. The establishment of additional trade barriers and weakening growth prospects in the world economy are also making industries and other sectors less willing to make investments. Large investment projects (especially in the forest industry) are boosting investments. The average annual growth in private investments will fall to 1.5% in the forecast period, which is half of what was predicted in the previous forecast.

Rapid growth in private consumption will continue in the next few years. A higher employment rate and rising earnings will sustain the growth in household disposable income.

Despite a slowdown in economic growth, moderate growth in real earnings will maintain demand for labour force. Because of the fairly high number of unemployed and concealed unemployed, and the measures increasing the supply of labour, the supply of labour will not yet restrict the growth of employment and the economy as a whole.

As unemployment is falling and the labour bottlenecks are increasing, the growth rate of earnings is expected to approach the annual rate of three per cent, the average for the past 18 years. Inflation will accelerate as earnings and service prices are rising.

Steady economic growth and measures curbing spending are helping to consolidate public finances. A few years ago, there was still a substantial deficit in Finland's public finances but at the beginning of the next decade, a near-balance will have been achieved. The general government debt to GDP ratio will also continue to fall in the next few years.

However, a weakening of public finances is expected in the early 2020s as economic growth is slowing down and the adjustment measures introduced during the current parliamentary term are no longer in effect. Ageing of the population is weakening Finland's public finances by increasing pension, health and care expenditure each year.

An ageing population will create substantial pressures in general government finances. The increasing number of elderly people will mean more age-related expenditure, and financing them with the general government revenue available in the foreseeable future will be impossible. Furthermore, the working-age population, which is financing Finland's welfare services and social security through taxes, is shrinking. Productivity-based economic growth is also expected to remain weak in the coming decades. This means that in the long term, there will be an imbalance between general government revenue and expenditure.

The macroeconomic situation in Finland, the state of its general government finances and the future scenarios are described in more detail in the 2020 – 2023 General Government Fiscal Plan, which is published simultaneously with this document, and Finland's Stability Programme.

## 2.2 Macroeconomic impact of structural reforms

Many of the structural reforms introduced during the current government term are aimed at boosting competition and easing the regulatory burden. Both have only indirect effects on such factors as productivity and their macroeconomic impact is difficult to assess. The employment impact of the measures boosting the supply of labour largely depends on how quickly people react to economic incentives. For this reason, it is difficult to give accurate estimates of the impact of these measures on employment and economic growth. The way in which the changes to social security and taxation introduced by Prime Minister Sipilä's Government have impacted employment and economic incentives for work were assessed in a study published in 2018.<sup>1</sup> It is estimated that the decisions made during the government term<sup>2</sup> have boosted employment by between 33,000 and 42,000 person-years.

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1 Kärkkäinen and Tervola (2018): The effect of tax-benefit changes on income inequality and employment 2015-2018.

2 The report assesses the effects of the changes to social security and taxation introduced between 2015 and 2018 on employment and income inequality. Consideration in the report was given to the benefit index reductions and freezes in 2017 and 2018, reductions in earned-income taxation (through such measures as higher earned-income deduction), index adjustments to the income tax scale, reductions in the maximum duration of the earnings-related unemployment benefits, and reductions in early childhood education fees in 2017 and 2018. The activation model for unemployment security clients was not considered in the calculations.

## 3 Implementation of country-specific recommendations and policy priorities

### 3.1 Long-term sustainability of general government finances

**RECOMMENDATION 1:** Achieve the medium-term budgetary objective in 2019, taking into account the allowances linked to the implementation of the structural reforms for which a temporary deviation is granted. Ensure the adoption and implementation of the administrative reform to improve cost-efficiency and equal access to social and healthcare services

The progress made by Finland towards achieving the medium-term budgetary objective recommendation is discussed in Finland's Stability Programme.

#### **Regional government, health and social services reform**

An extensive health and social services reform has been under preparation in Finland. At the moment, the provision of public health and social services in Finland is the responsibility of municipalities (N=295 in mainland Finland). In 2018, a total of 78 municipalities provided the basic health and social services independently, while the remaining 217 municipalities provided the services in cooperation with other municipalities (either as joint municipal authorities or as an arrangement in which one municipality has prime responsibility for the services). These cooperation areas totalled 59. Under the health and social services reform, the responsibility for providing the services would have been transferred to 18 counties, which would have been better placed to provide the services.

A health and social services reform is needed so that gaps in wellbeing and health can be narrowed, better and more equal access to services can be ensured, cost-efficiency of the services can be enhanced, and cost increases can be slowed down. The purpose of the reform has also been to provide better integration between health and social services on the one hand, and between basic and specialised services on the other, and to ensure



flexible and correctly timed access to the services. Furthermore, the objective has been to improve the shared use of client and patient data and to have better electronic services.

The reform was actively prepared in all regions. National steering of the counties was simulated in autumn 2018 in the steering negotiations between regions and the Ministry of Social Affairs and Health. At the same time, tests were carried out with the indicators compiled and developed as tools for knowledge-based steering describing the state of health and social services in the regions. Development of the indicators and knowledge-based steering is continuing in the Ministry of Social Affairs and Health.

It was determined in March 2019 that no parliamentary approval for the reform could be secured during the term of Prime Minister Sipilä's Government.

## 3.2 Labour market

**RECOMMENDATION 2:** Improve incentives to accept work and ensure adequate and well-integrated services for the unemployed and the inactive

### **Providing more incentives for work - developing the adjusted unemployment benefit**

The Government has taken measures to boost the employment rate by developing the unemployment security system so that part-time or short-term employment would be a more attractive alternative to full unemployment.

When the option of combining partial employment with unemployment benefits has been studied, the Finnish system of adjusted unemployment benefits (the mechanism determining how earnings impact the level of unemployment benefits) has been considered generous in international comparisons.<sup>3</sup> The earnings principle applying to the combination of earned income and unemployment benefits<sup>4</sup> may have caused delays in the payment of unemployment benefits. The delays in the payment of unemployment benefits tend to make partial employment a less attractive alternative during unemployment.

<sup>3</sup> Kyyrä, Matikka and Pesola 2018: The earnings disregard in unemployment benefits and partial employment. Publications of the Government's analysis, assessment and research activities 45/2018

<sup>4</sup> The size of the unemployment benefit depends on the wages during the period when the earnings have been accumulated (on the hours worked, regardless of the pay day). Under collective agreements, the pay day may be at the end of the month following the month in which the hours worked have been accumulated. This means that the absence of the wage information may lead to delays in the payment of the unemployment benefits.

The Unemployment Security Act has now been changed so that the earnings from partial employment will only affect unemployment benefits when the wages are paid. The change, which entered into force on 1 April 2019, will reduce delays in the payment of adjusted unemployment benefits and it also helps to equalise income formation over longer periods. The latter effect arises from the fact that the wages reduce the unemployment benefits for the period when the wages have been at the disposal of the unemployment benefit recipient. The change will also facilitate the use of the Incomes Register in the payment of unemployment benefits and this way it will also ease the administrative burden arising from the supply of the wage details by the unemployment benefit applicant and the employer.

### **Unemployed persons can now study without losing their unemployment benefits**

Under the changes made to the Unemployment Security Act at the end of 2018, unemployed persons aged over 25 may now study for up to six months without losing their unemployment benefits. The studies must also provide the unemployed in question with vocational skills or enhance their prospects for self-employment. The unemployed are obliged to seek and accept full-time work during their studies.

The aim is to provide the unemployed with better prerequisites for employment and for starting business activities by engaging in studies. At the same time, the changes will also help to make skilled workforce more extensively available and encourage the creation of new business operations. In particular, the changes will make it easier for the unemployed to engage in studies of short duration that are offered as continuing education.

As the studying will be on a voluntary basis, it is difficult to give any reliable estimates of the number of unemployed that will make use of the opportunity.

### **Lowering early childhood education fees and developing early childhood education**

Early childhood education fees were lowered from January 2018 under a legislative amendment concerning client fees in early childhood education. The measure will provide additional incentives for work, improve the economic situation of families and allow more children to take part in early childhood education.

The fees of low-income and middle-income families were lowered and the reduction for the second child is now 50% (compared to 10% under the old system). The reductions in the fees total about EUR 71 million. The change will make approximately 6,700 families eligible for free early childhood education. Income levels are raised and payment rates harmonised. A middle-income family with two children (combined gross income EUR 5,900/month) will have its yearly fees lowered by more than EUR 1,200. With fewer negative incentive effects, it is estimated that approximately 4,200 people will be employed by 2021 as a result of the reform.

The new Act and Decree on Early Childhood Education and Care entered into force on 1 September 2018. With the introduction of the reform, Finland's early childhood education legislation is now up to date and can serve as a more effective steering instrument. The reform also shows the way for long-term development of early childhood education. The most important changes in the new law pertain to early childhood education personnel and the development of early childhood education information generation. The changes made to the new act make it easier to enhance the wellbeing of children in early childhood education. Under the new act, children's interests must have priority when early childhood education is provided.

The daycare centres of the future are places where early childhood education teachers, bachelors of social services and child nurses work as effective multi-professional teams. From the start of 2030, there will be a shift towards holders of higher-education degrees in the staff structure of the daycare centres. Stricter qualification criteria for the directors of daycare centres will also be introduced.

### **Promoting youth employment**

The Ministry of Education and Culture has been responsible for the coordination of the youth guarantee during the term of Prime Minister Sipilä's Government but the work has been carried out in cooperation with the Ministry of Economic Affairs and Employment and the Ministry of Social Affairs and Health. The aim of the youth guarantee has been to support young people in life management and help them to build study paths and find employment.

The network of Ohjaamo service points is the main instrument for implementing the youth guarantee and to put the network on a more established basis, the Government has allocated a total of EUR 5 million for the service points for each year starting in 2018. With this funding, a total of 100 employees have been recruited for the network. There were 70 Ohjaamo service points at the beginning of 2019 and additional service points will be opened during the year. In 2018, the Ohjaamo network provided services for 140,000 young people in personal and group meetings. As part of the youth guarantee key project, low-threshold life-management services have also been developed and resources have been channelled to outreach youth work.

In order to ensure that young people in need of more extensive support can better benefit from the guidance expertise of the Ohjaamo service points, the Government has decided to allocate EUR 3 million for establishing a psychosocial support network for Ohjaamo service points.

To support the employment of young people, the Government has allocated EUR 15 million for purchasing additional performance-based services for young people. The aim is to reach 10,000 young people so that they can benefit from the services. A total of 5,600 young people have been referred to the services during the early months of 2019.

### **More effective employment and economic services**

Under the reform envisaged in the Government Programme, Finland's employment administration should be made into an organisation supporting employment so that providing employment services should become the main task of Employment and Economic Development Offices (TE Offices). Dialogue and cooperation between public employment services and employer companies will be strengthened.

In spring 2018, the Government decided to introduce additional ways to demonstrate an active approach. Ensuring the availability of employment and economic development services (TE services) has been a key priority. A total of EUR 20.3 million has been added to the operational expenditure of the TE Offices in 2019 and this sum is earmarked for conducting periodical interviews and for implementing the activation model.

Preparations for a marketplace for jobs (Työmarkkinatori), a universally accessible digital meeting place for employment service clients and service providers, are under way. At the marketplace, clients can find a broad range of different information as well as public and private services. The job marketplace is intended to become fully operational by the year 2020.

The legislative proposals for merging public employment and business services into growth services presented by Prime Minister Sipilä's Government as part of the regional government reform did not enter into force during the current government term.

### **Growth service pilots and the employment programme for growth companies**

Pilots for new service models in employment and business services will be launched in spring 2019 and they will continue at least until the end of 2020. The aim of the pilots is to make the services more effective and client-oriented by reforming service and operating models, such as quality and agreement steering, and by testing new ways of providing services (performance basis and innovative public procurement) to enhance jobseekers' employment opportunities, to find new ways to tackle recruitment problems and to support growth and internationalisation of companies. It is estimated that about 50,000 individual clients will be referred to the pilots but business clients are also a target group.

The employment programme for growth companies (2016-2019), set out in the Government Programme, has been implemented with the pilots carried out as part of the employment services key project. The most important services and operating models for growth companies and unemployed jobseekers possessing special expertise were brought together under the programme between 2016 and 2019. Performance-based service procurement has been tested in most of the pilots. According to the assessment results, procurement models and payment criteria used in external service purchases do not yet function properly. The projects included in the employment programme for growth companies are also connected to the growth programme for micro enterprises and SMEs and the recruitment programme for highly educated people, to finding highly educated experts to automation, robotics and AI sectors, and to successfully tackling the matching challenges in the tourism sector.

## **Combating long-term unemployment**

### *Employment-Social Impact Bond project*

The performance-based employment project Employment SIB (Social Impact Bond) aimed at preventing and reducing long-term unemployment is in the process of being launched. The project will be carried out in accordance with the impact-investment-based SIB model. The aim is to reach 3,000 unemployed individuals from different parts of Finland in the regions of at least five TE Offices. The intention is to launch the services in the first regions during the early months of 2019. The performance of the services will be measured each year and the state will pay bonuses based on the results (wage bills) between 2020 and 2024 if the wage bill of the target group exceeds the baseline forecast prepared for the target group.

### *Work ability programme*

Raising the employment rate among people with partial work ability is crucial in the efforts to achieve a sufficiently high overall employment rate and to ensure the supply of labour. At the same time, it also allows people with partial work ability to benefit from the improvements in the employment situation. Work is also one of the key sources of wellbeing as it strengthens community spirit and thus also provides opportunities for inclusion. However, limited work ability can make it especially difficult or even impossible to find employment without support measures. At the same time, supporting the work ability of those already in employment ensures continuing employment and return to work and prevents unemployment. The programme will have three parts: Process and service system for work ability services, the Finnish model for enhancing working life inclusion, and the livelihood and benefits of people with partial work ability.

## Continuous learning

The serious skills development challenge can only be successfully tackled through comprehensive development of the education system and the development of the learning opportunities and prerequisites during working careers that also covers different policy sectors. The new vocational education and training legislation entered into force on 1 January 2018 and the programme supporting its implementation continued. The focus in new vocational education and training is on skills, customer-orientation and lifelong learning. Individual competence needs are met in a flexible manner by means of qualifications, their parts, liberal adult education and preparatory education. A unified personalisation process applying to all students will be introduced and its aim is to examine and recognise the prior learning acquired by the student and to determine the competence required by the student and the manner in which competence is acquired in different types of learning environments.

Under the reform, all qualification and some of the non-qualification labour market training were transferred from the labour administration to education administration at the start of 2018. Cooperating with the Ministry of Education and Culture, the employment and economic development administration, and the Centres for Economic Development, Transport and the Environment have, however, been able to influence the shaping of the field of labour market training providers receiving central government transfers, channelling of the central government transfers and sectoral targeting of the education and training in accordance with labour market needs.

A number of vocational skills pilots were launched during 2018 and in them the aim is to develop a model for supporting career changes and to ease the problems concerning the supply of skilled workforce. The pilots will be partially based on existing vocational qualifications and smaller modules and they will be implemented as joint projects between vocational institutions and companies. In some of the pilots, the focus is on labour market training.

One of the aims laid out in the vision for higher education and research in Finland 2030 is to provide more opportunities for continuous learning in higher education institutions. This will be supported by developing an operating model and providing more educational offerings as a joint effort between higher education institutions, stakeholders and the Ministry of Education and Culture.

In addition, different administrative branches have also been cooperating in the channelling of the discretionary government transfers allocated to continuing, further and conversion education programmes provided as part of tertiary education. Jobseekers can take part in these programmes by engaging in independent studies while at the same time receiving unemployment benefits.

A working group appointed by the Ministry of Education and Culture has presented a proposal to expand Finland's national framework for qualifications and other competence modules. The working group's proposal was circulated for comments in January and February 2019. A working group appointed by the Ministry of Education and Culture will continue to review lifelong learning needs and the continuous learning operating models required by transformation of work. The working group, which is expected to complete its work by the end of 2019, will also present proposals for strengthening incentives for studying during working careers and for ensuring a more systematic competence-development process in different policy sectors.

The Ministry of Economic Affairs and Employment will remain responsible for most of the non-qualification vocational labour market training and the integration training for immigrants. The labour administration is focusing its non-qualification vocational labour market training on fields supporting business growth and internationalisation as well as positive structural change by developing growth service training programmes as well as continuing and further education. The efforts to increase the use of the joint purchase training jointly funded by employers and the employment and economic development administration as well as the use of FEC and KEKO training models have been particularly successful.

Labour market training has also supported the implementation of the SILTA agreement model. Training specifically intended for immigrants in integration training and other immigrants has been developed so that the training programmes now contain more vocationally oriented modules and the students are encouraged to select training programmes specifically designed for immigrants or other suitable vocational training programmes. To improve learning results, orientation training has been provided in immigrants' own languages.

## **Integration of immigrants**

### *Measures supporting the employment of immigrants*

A number of measures have been introduced during the term of Prime Minister Sipilä's Government to speed up the integration and employment of immigrants. Integration training has been made into a more working life-oriented process and more consideration is now given to different client segments. Implementation of the SIB model facilitating rapid employment of immigrants has continued, especially in sectors with labour bottlenecks.

In December 2018, to promote service integration, Prime Minister Sipilä's Government granted five cities funding for immigrant competence centres in which the employment

and economic development administration, municipalities and education institutions guide clients to right training and to the labour market in a flexible manner.

Measures have been taken to make more effective use of the intermediate labour market in the promotion of employment among unemployed immigrants. From 2019, TE Offices will refer immigrants more actively to working life-related services, such as pay subsidies and work try-outs. At the same time, more job offers will be made available.

As part of the Talent Boost action plan, there will be efforts to encourage interaction between international talent and companies and startup activities among international talent. The largest university cities involved in the Talent Boost programme will prepare coordinated service models (Talent Hubs) to support interaction between international talent, companies and innovation actors. This helps international talent to find employment in tasks corresponding to their expertise.

In the project on developing guidance for refugees launched in 2018, the aim is to develop paths to education, training and working life for TE Office clients with refugee background. In the project, the clients are provided with training in their own mother tongue and the usability of electronic tools as guidance instruments is examined. Communications, advisory and guidance personnel in TE Offices, municipalities and education institutions are also provided with training. Higher-quality guidance will make it easier for people with refugee background and other immigrants to move to working life and studies.

### *Supporting education and training of immigrants*

Immigrants are one of the many target groups in vocational education and training and the training intended for immigrants is integrated into the vocational education and training system. Immigrants can take part in qualification training, preparatory education and training preparing participants for work and independent living as well as in other vocational education and training. With the introduction of the new vocational education and training legislation, language proficiency requirements have been dropped as an admission criterion for vocational education and training. The purpose is to ensure that they do not constitute an obstacle to training and do not increase the risk that immigrants are left outside working life. Studies enhancing studying skills can be provided as part of the qualification training. In these studies, students are expected to acquire skills based on their own needs that provide them with the prerequisites for taking part in qualification training and for demonstrating their competence as part of their studies or in other ways. The purpose of the studies enhancing study skills is to strengthen linguistic, mathematical and information technology skills or to help the students to improve their study techniques.



As of 1 January 2018, a new education task has been laid out for providers of liberal adult education (adult education centres, folk high schools, summer universities and study centres) in the Act on Vocational Education and Training. Under the new provisions, teaching of reading and writing skills can also be arranged for target groups other than those in need of basic education. In liberal adult education, language education and integration-oriented contents can be combined into action-based teaching. In accordance with its new education task, liberal adult education can also provide non-working parents, who have been in an educational blind spot until now, with teaching in reading and writing skills and other language teaching.

Following the rapid increase in the number of asylum seekers in 2015, the Ministry of Education and Culture commissioned working group reports in which measures arising from the influx of the asylum seekers were proposed for the ministry's administrative branch.<sup>5</sup> The proposals concern such issues as the availability of teachers and their competence and qualifications, participation in early childhood education and the challenges concerning proficiency in Finnish and teaching of the Finnish language. A longer compulsory education for the students who fail to complete the basic education syllabus within the time laid down in the law is one of the measures proposed by the working groups. Learning results among immigrants are substantially weaker than among the mainstream population and this issue was also highlighted by the working groups.

The system of basic education for adults was overhauled in 2018. To support the basic skills of individuals who are over the compulsory education age, a new uniform basic education structure will be introduced, laying down (in particular with the needs of immigrants in mind) the distribution of lesson hours for the early stage of basic education and the new literacy component to be included in it. The proficiency in domestic languages will be strengthened during the final stage of the education.

Since 2010, universities of applied sciences have provided students with immigrant background with training preparing them for higher education studies and helping them to improve their Finnish skills. SIMHE (Supporting Immigrants in Higher Education in Finland) services have been provided by the Metropolia University of Applied Sciences and the University of Jyväskylä since 2016, and by the Universities of Helsinki and Turku, the Karelia University of Applied Sciences and the Oulu University of Applied Sciences since 2017. These higher education institutions are responsible for recognising the competence of the immigrants with higher education degrees and for referring them

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5 The educational tracks and integration of immigrants – problematic areas and proposals for actions (Publications of the Ministry of Education and Culture, Finland 2016:1); The educational tracks and integration of immigrants. Problematic areas and proposals for actions II (Publications of the Ministry of Education and Culture, Finland 2017:5)

to studies that correspond to their needs. In 2016 and 2017, these higher education institutions had a total of about SIMHE 2,000 clients.

### 3.3 Household indebtedness

**RECOMMENDATION 3:** Strengthen the monitoring of household debt including by setting up a credit registry system

The household debt relative to annual disposable income has reached record levels in Finland (127.8% at the end of 2018) and it is also above EU average. In 2017, the rate was, however, well below the levels in other Nordic countries (Sweden 163%; Norway 198%; and Denmark 240%). Most of the debt (more than 70%) are related to housing. Over the past few years, the housing loan stock has been growing steadily at an annual rate of about two per cent but housing company loans and consumer credit have been the main factor boosting household indebtedness in the 2010s. Housing company loans have been growing at an annual rate of about ten per cent over the past two years but the rate was even faster between 2010 and 2015. For many years, the volume of consumer loans granted by banks has grown substantially faster than the housing loan stock (at an annual rate of about five per cent).

Most of the consumer loans taken out by households are still granted by traditional banks. However, as digitalisation is advancing, the proportion of funding sources outside traditional banks has been on the increase and new actors are actively offering unsecured high-interest consumer loans to households. As households have become more indebted, there has also been a substantial increase in payment default entries.

The Government has introduced macroprudential policy measures to restrict lending by banks and to prevent households from accumulating excessive debts. The Board of Directors of the Financial Supervisory Authority has gradually introduced macroprudential measures over the past few years. A maximum loan-to-value ratio for housing loans took effect in July 2016. Under the loan ceiling, the housing loan granted by a bank could not be more than 90% of the collateral posted for the loan. For loans taken out for the first home, the limit was 95%. The Financial Supervisory Authority lowered the loan-to-value ratio to 85% on 19 March 2018. From 1 January 2018, a lower limit of 15% was set for the average risk weight of the housing loans granted by banks applying internal calculation models. Additional capital buffers, as set out by the Basel Committee, were imposed on the four largest systemically important banks as of 1 July 2018.

The Government has also introduced additional legislation on macroprudential instruments. The systemic risk buffer was introduced in the legislation as of 1 January 2018. Its purpose is to cover risks that, as a result of the banking system structure, may affect the entire banking system and the stability of the national economy. Applying the buffer is at the discretion of the Board of Directors of the Financial Supervisory Authority. In accordance with the Government Programme, the deductibility of mortgage interest payments has been gradually reduced in recent years so that in 2018, only 35% of the interest payments were deductible. This year, the deductibility will be further reduced to 25%.

It is still too early to say to what extent the policy measures listed above have helped to slow down household indebtedness. However, interest rates have been at extremely low levels in recent years, and this has been an important factor encouraging household indebtedness.

There are new features in the indebtedness of Finnish households that are difficult to tackle with existing macroprudential instruments. In reaction to this, the Ministry of Finance has appointed a working group whose task is to propose new measures to slow down household indebtedness if further action is considered necessary. The working group will report on its work in summer 2019.

### **Credit information register on household indebtedness**

The registration of negative credit details (payment default information) based on the Credit Information Act introduced in 2007 still serves as a useful risk management tool and an instrument for managing the household debt problem. A report on the prerequisites for a positive credit information system was prepared in 2018. It was proposed in the report that a positive credit register for credit information other than payment defaults should be introduced and that the new register should be part of the Incomes Register maintained by the Finnish Tax Administration (established in 2019). The register would thus comprise the information on the loans granted to consumers and the income details of the credit applicants. Decisions on further measures concerning the proposals can be expected after the comments submitted on the report have been assessed.

The register could reduce the risk of excessive household indebtedness because the creditors would have to check the applicant's details from the register on pain of penalty and to enter their credit decision details into the register. It would also support macroprudential policy by providing a comprehensive, reliable and up-to-date overall picture of indebtedness and debt servicing levels in Finnish households and the breakdown between the two by assets and income.

### **Other measures aimed at preventing excessive household indebtedness**

Action has been taken to tackle the problem of excessive household indebtedness through legislative action, by providing the authorities with additional resources and by introducing a number of other measures. The Act on the Adjustment of the Debts of a Private Individual entered into force in 1993. During those years, district courts have received more than 130,000 debt adjustment applications. Access to free of charge economic and debt counselling services has been enhanced by making the counselling the responsibility of legal aid offices as of 1 January 2019. By acquiring more resources, the authorities will be better placed to provide economic counselling, which in turn will help to prevent excessive indebtedness. New legislation has been introduced to tighten the terms and conditions of instant loans and the enforcement legislation has been changed to encourage acceptance of work. Individuals with excessive debts can apply for restructuring loans from the Guarantee Foundation or social loans, which are provided by a number of municipalities for their residents.

## **3.4 Investment and Finland's investment strategy**

### **Business operating environment supporting growth**

A policy enhancing the overall economic operating environment also boosts investments. A favourable investment environment is attractive to both foreign and domestic investors. Smooth functioning of the product, labour and financial markets is essential. Removing obstacles to investments should also be a priority. In public investments, the focus should be on infrastructure investments that help to enhance the long-term growth potential of the Finnish economy. Continuity and predictability of policies are also essential in the efforts to encourage investments.

Companies will make investments if competition in the product market functions properly, which also helps to boost productivity. Competition legislation and its effective application will ensure a level playing field for all companies. If companies are confident that in their sectors measures are taken to tackle illegal restrictions to competition (such as cartels or misuse of dominant market position), they are also more willing to invest in Finland and establish operations in Finland. A favourable regulatory environment is also a factor encouraging investments. At EU level, ensuring the proper functioning of the single market provides Finnish-based companies with a European-wide home market, which also contributes to an attractive investment environment.

Absence of legal or other obstacles to market access is also a factor encouraging investments. A large number of legislative changes enhancing competition and opening up markets in different sectors have been introduced during the current government

term. These include the deregulation of shopping hours, the Act on Transport Services, (which, among other things, eased regulation in the taxi sector), the plans to increase competition in passenger rail transport, positive changes to land use planning regulation, opening of the natural gas market to competition, relaxing of the alcohol legislation and the Act on Accommodation and Catering Services, opening of the chimney sweeping market to competition and strengthening of the position of SMEs in procurement legislation.

### **Availability of business financing**

Finland's financial markets function extremely well even though growth companies and companies planning to expand their operations internationally have been facing bottlenecks. Even though the bottlenecks do not affect all companies it is important to find solutions to them. A market failure seriously affecting venture-stage funding has been identified and Business Finland Venture Capital and Finnish Industry Investment Ltd are making efforts to correct the situation by investing in venture capital funds which invest in companies in their early stages of development. To promote business angel funding, Business Finland Venture Capital and EIF have set up a co-investment fund. It is important to eliminate identified obstacles preventing the channelling of private capital to venture capital funds (foundations and non-profit organisations) so that the role of public funding can be reduced in a controlled fashion as the markets are expanding.

When granting loans and guarantees, Finnvera gives priority to new enterprises, growth companies and companies expanding internationally, in which risk sharing is required. Through its export financing system, Finnvera offers guarantees and export credits for the funding of large export contracts in which the role of banks has diminished in the aftermath of the financial market crisis and tightening of the banking regulation. Finnvera has also developed export financing instruments and advisory services for SMEs. In the guarantee programmes of the European Union, loans totalling hundreds of millions of euros will be channelled to SMEs through intermediary banks in the coming years (SME Initiative and InnovFin guarantee scheme).

### **Functioning of the labour market**

Functioning of the labour market and availability of skilled labour also play a crucial role when companies make investment decisions. The Finnish population is well-educated and there are also good opportunities for training during working careers. Because of continuous changes in economic structures and the labour market, the Government is working to make these opportunities more flexible and to ensure that they can better promote new skills. Unemployed individuals receiving unemployment benefits now have more opportunities for training and the labour market reforms introduced during the early

part of the government term (such as the shortening of the duration of earnings-related unemployment security) encourage the unemployed to seek work more actively. However, as demand is growing, a shrinking labour reserve and weakening availability of workforce in a number of sectors are posing problems.

### **Promoting R&D investments**

Promoting R&D investments is also part of the investment strategy. Some of the R&D investments are public investments but a correctly oriented research and innovation policy also encourages private R&D investments. The general EU objective under which R&D intensity should be three per cent can still be achieved by the year 2020 but the national EU2020 level of four per cent adopted 2011 is a challenging target. The key objectives of the research and innovation policy are as follows: enhancing the quality and effectiveness of research and development activities (R&D), structural and operational overhaul of public research activities, creation of globally successful innovations, and diversification of the business structure. Investments as well as research, development and innovation projects can also help to find new innovative solutions in such areas as the development of bioeconomy, promotion of the circular economy, low-carbon society and climate change adaptation and mitigation.

Almost ten of the key projects of Prime Minister Sipilä's Government are connected to research and innovation policy. The most important of them is the key project aimed at strengthening cooperation between higher education institutions and business life so that innovations could be processed into applications and commercialised. Parallel to this project, the aim was to create internationally competitive centres of expertise and ecosystems as well as to support research infrastructures and development environments in cleantech, bioeconomy and other priority areas set out in the Government Programme.

### **International investment environment**

Foreign direct investment in Finland is an important factor contributing to economic growth in Finland and the development of its industries. Foreign investments provide a link between Finnish-based research and technology resources and the research and development work carried out by multinational companies operating in Finland in other countries. This provides Finnish companies with better opportunities to integrate into global value chains and innovation networks and boosts the flow of foreign expertise and capital to Finland. Foreign direct investment brings new technology, encourages competition and creates high-productivity jobs.

Tekes and Finpro merged into Business Finland on 1 January 2018. The merger is a response to the need (highlighted in such documents as the OECD country review) to make the innovation environment more international and help Finnish companies to become more competitive and increase their exports through world-class knowhow and innovations. Encouraging foreign investment is one of the tasks of Business Finland. Between 2018 and 2019, Business Finland also has EUR 60 million available for subordinated loans for growth engine business ecosystems. Growth engines are cooperation networks aimed at creating business activities of more than one billion euros. They are implemented by means of a company-driven partnership model in cooperation with R&D organisations and public-sector actors.

The development of the Team Finland actor network and service models will continue with the aim of promoting exports, achieving a more international SME sector and attracting foreign investments. By working together within the framework of the available resources, the Ministry for Foreign Affairs, Business Finland, Ministry of Education and Culture and the Ministry of Agriculture and Forestry have gradually expanded Finland's national network in the world. Finnish expertise will be made more visible at such platforms as the Team Finland Knowledge network, which will send higher education and scientific experts to other countries.

### **Transport infrastructure investments**

Investments in the state-owned transport infrastructure have been on a fairly low level in recent years but maintenance funding has been substantially increased. Under a transport system legislative reform introduced in 2018, Finland will have a 12-year national transport plan, which will be prepared in a parliamentary process. The national transport plan will outline policies for such matters as the maintenance and development of the transport infrastructure for a 12-year period. In addition to the measures themselves, the plan will also contain a general government funding programme for the projects. A more long-term approach to the development of the transport system requires that the costs, effects and funding of the national transport plan have been determined and taken into account in the planning process and decision-making. The first national transport plan, which will cover the period 2020-2031, will be drafted in the next government term so that the decisions on it can be made in spring 2020. The Government report on the preparation of the national transport plan was presented to Parliament in January 2019. Improving public transport services will help to reduce passenger traffic and the emissions generated by it, which will make it easier to combat climate change.

In addition to the preparation of the national transport plan, the use of off-budget funding in transport infrastructure development projects has also been examined in Finland. This has been prompted by the broader economic impacts of the development projects on society at large. Because of these impacts, it may be justified to start more projects and bring them forward. For example, project-specific companies can be used to ensure a more effective implementation of a larger number of projects and to speed up the implementation process.



## 4 Progress in attaining the Europe 2020 Strategy's national targets

Table 1 lists the targets laid out in the EU 2020 Strategy, Finland's situation in 2017 and the strategy target for 2020. Each target is reviewed separately in the sections of this chapter

**Table 1. Targets laid out in the Europe 2020 Strategy and the national targets**

	EU headline target	Finland in 2017	Finland in 2020
Employment rate (20 - 64 year-olds)	75%	74.2%	78%
R&D expenditure / GDP	3%	2.76%	target level 4%
<b>Climate:</b>			
<b>Greenhouse gas emissions</b>			
(outside emissions trading)	-10% from 2005 levels	30.1 <sup>1)</sup>	28.5 million tonnes CO2 equivalent
- proportion of renewable energy	20%	41%	38%
- energy efficiency (end-use energy consumption)	-20%	306 TWh <sup>2)</sup>	310 TWh
<b>Education:</b>			
- proportion of 30 - 34 year-olds having completed tertiary education	40%	44.6%	42%
- early school-leavers	10%	8.2%	8%
People living at risk of poverty and social exclusion	20 million less	894,000	770,000

<sup>1</sup> Finland's target for 2017 for the sector outside emissions trading is 30.2 million tonnes CO2 equivalent. In 2017, the sector's emissions were < 0.1 million tonnes CO2 equivalent lower than the target. Source: Decisions (2013/162/EU; 2013/634/EU; EU/2017/1471); Statistics Finland 2018 (2017 provisional data). The data is from 2016.

## 4.1 Employment target

The EU-level employment rate target for Finland is 78% in the age group 20–64 year-olds. The employment rate has risen rapidly over the past few years. In 2018, the employment rate in the age group 20–64 year-olds rose to 76.1% (men 77.7% and women 74.5%). In 2017, the figure had been 74.2%.

Unemployment in Finland has continued to decline and the employment rate has risen. According to Statistics Finland's Labour Force Survey, unemployment in the age group 15–74 year-olds averaged 7.4% in 2018 (8.6% in 2017). In 2018, the employment rate in the age group 15–64 year-olds stood at 71.7% (69.6% in 2017).

Steady economic growth has helped Finland to achieve the employment rate target. The employment rate is rising in all main sectors. The employment rate is rising in construction and manufacturing. In the construction sector in particular, availability of labour may slow down growth in the future. In manufacturing, productivity improvements will keep employment growth at moderate levels. However, the use of intermediate products will also mean higher employment levels in the service sector. In services, a slight increase in employment can be expected.

There has been an improvement in the structure of the unemployment. Long-term unemployment and the proportion of what are called difficult-to-employ people have declined substantially but there has been a further weakening in labour market matching, labour availability and the functioning of the labour market and these factors are already slowing down economic growth in a number of sectors. Measures that the Government has initiated to improve employment are described in Chapter 3.

The reforms described in Chapter 3.2 (including changes to the conditions of the unemployment security and measures to promote work ability) is to raise the employment rate and to facilitate the achievement of the national targets.

## 4.2 Research and development target

The key objectives of the research and innovation policy are improving the quality and effectiveness of research and development activities (R&D), structural and operational reforms in public sector research, creation of globally successful innovations, and diversification of the business structure. This helps to enhance productivity, increase the number of high value-added jobs, improve Finland's competitiveness internationally and the wellbeing of its citizens.

According to Statistics Finland, R&D activity to GDP ratio (i.e. R&D intensity) stood at 2.76% in 2017 and at 2.70% in 2018. The intensity of central government research funding in 2018 stood at 0.80%, which means that it too was slightly lower than in 2017 despite an increase in research appropriations. The general EU objective under which R&D intensity should be three per cent can still be achieved by the year 2020 but Finland will not achieve the national EU2020 target of four per cent adopted in 2011.

Additional permanent R&D funding totalling EUR 112 million was approved in the 2019 Budget. The authorisations of the Academy of Finland were raised by EUR 25 million and this funding will be used to support young researchers and to improve the quality of R&D activities and to speed up the reforms in the sector. A total of EUR 69 million was also added to the authorisations of Business Finland. Five million euros was channelled to the RDI activities of the universities of applied sciences. Additional RDI funding was also allocated to VTT (EUR 7 million) and university hospitals (EUR 6 million).

The overall development objectives for Finland's research and innovation policy are outlined in the vision of the Research and Innovation Council. The vision has four key themes: ensuring the competence base; strategic choices that support renewal; development of competence platforms and growth ecosystems; and internationality as a prerequisite for quality and effectiveness. By the year 2030, Finland should be the world's most attractive environment for experimentation and innovation. R&D research intensity should be four per cent in 2030. The Government's research and innovation policy key projects and the promotion of R&D investments are examined in more detail in Chapter 3.4.

The aim of the Academy of Finland's flagship programme is to bring together high-quality expertise into globally competitive research clusters that also enhance the societal effectiveness of R&D activities. The flagship programme has six competence clusters.

The vision for higher education and research in Finland 2030 jointly prepared by the Ministry of Education and Culture, the higher education community and stakeholders sets out the target state and development prerequisites for higher education and research in Finland. The aim is to ensure that the Finnish higher education system will remain effective and of high quality in international comparison.

Access to and use of public data reserves as well as research material, methods and results will be improved. The Government will continue the implementation of the development programme for research infrastructures and services in data management and computing (2017-2021) and will allocate resources to the sector so that the Finnish research infrastructure will become internationally competitive. Finland has also promoted national

measures to implement the European Research Area by carrying out an interim evaluation of the national research infrastructure strategy and road map.

A network competence centre (KEINO) was established in 2018 to promote sustainable and innovative public procurement. The aim is to make public procurement and services more effective and improve their quality in a manner that enhances sustainable development and circular economy and to create markets for new products.

The growth strategy and road map for health sector research and innovation activities was jointly implemented between 2016 and 2018 by a broad range of administrative branches and private and public actors as well as a pilot for systemic development of central government. New measures in specific focus areas will be launched in the future to speed up the growth of the health sector.

The Finnish Genome Centre is expected to start its activities in 2019. The aim of the administrative branch of the Ministry of Social Affairs and Health is that in 2020, the Finnish Genome Centre, the National Cancer Centre, the Neurocenter Finland and the cooperative bringing together biobanks are well-established organisations with a solid funding base. They will help to boost the growth of the health sector and strengthen national R&D and innovation activities.

### 4.3 Climate and energy target

The aim in the energy and climate package of the EU for the year 2020 is to reduce the emissions of the EU and its Member States by a total of 20% by the year 2020, compared with the base year 1990. The EU intends to achieve the target by means of the Emissions Trading Directive and the burden sharing decision applying to sectors outside emissions trading. The emissions trading scheme ensures that the emissions trading sector meets the greenhouse gas emissions reduction targets set for it by the EU (21% by 2020, compared with 2005 levels). The reduction of emissions outside emissions trading is the responsibility of the Member States. Finland's obligation is to reduce these emissions by 16% by 2020, compared with the 2005 levels.

There has been a declining trend in Finland's greenhouse gas emissions since 2004. According to the provisional data provided by Statistics Finland (11 December 2018), Finland's greenhouse gas emissions in 2017 totalled 55.5 million tonnes of carbon dioxide equivalent (CO<sub>2</sub>-eq), which was 15.8 million tonnes less than in the comparison year 1990. The emissions declined by almost five per cent between 2016 and 2017. The biggest factor contributing to the reduction was a fall in the consumption of the most

important fossil fuels and the increase in the proportion of transport biofuels. Emissions outside emissions trading (such as the use of fuels in the heating of buildings, transport excluding air transport and international maritime traffic, agriculture, waste management and use of F-gases) decreased by two per cent compared to 2016. Thus, the emissions were within or even slightly below the emissions quota set by the EU. Emissions declined in all sectors. In the energy sector, total emissions decreased by five per cent and the key factor contributing to the decline was a fall in the use of coal, natural gas and peat and an increase in the proportion of transport biofuels. The emissions generated by industrial processes and product use declined by three per cent, agricultural emissions by one per cent and waste sector emissions by five per cent between 2016 and 2017. Waste sector emissions decreased by about 5%, emissions generated by industrial processes and products by about 3% and agricultural emissions by about one per cent. Emissions outside emissions trading scheme in the energy-sector fell by about two per cent. The transport sector accounts for a large proportion of the energy sector emissions outside emissions trading and its emissions decreased by almost 5%.

The EU has set as a climate and energy policy target the reduction of greenhouse gas emissions by at least 40% from the 1990 levels by 2030. The emissions trading sector has a reduction target of 43% and the burden-sharing sector a reduction target of 30% from the 2005 levels. Under the burden sharing regulation, which entered into force in spring 2018, Finland must reduce its emissions by 39% by the year 2030, compared to 2005 levels.

The renewable energy target set by EU for Finland for the year 2020 is 38%. In 2017, renewable energy accounted for 41% of end-use energy consumption. The EU's renewable energy obligation for the transport sector is 10% (including double counting), but Finland has nationally decided on the higher target of 20% for 2020. The biofuels distribution obligation for sellers of transport fuels will ensure that this target is achieved. Renewable energy accounted for 18.8% of all energy used in the Finnish transport sector in 2017.

Under the Government Programme of Prime Minister Sipilä's Government, the proportion of renewable energy in end-use energy consumption should be increased to more than 50%, self-sufficiency should be raised to more than 55%, the use of coal in energy production should be discontinued, the use of imported oil for domestic needs should be halved, and the share of renewable fuels in transport should be increased to 40%. The Government plans to achieve all these goals by 2030. The Government has also set itself the objective that Finland will achieve the 2020 climate targets during this parliamentary term and that the use of low-emission energy sources will be encouraged through taxation.

As required under the Energy Efficiency Directive, the Government has set a target of restricting growth of end-use energy consumption by improving energy efficiency so

that in 2020, the (indicative) consumption would be a maximum of 310 TWh (26.7 Mtoe). Finland has introduced an act on energy efficiency to implement the Energy Efficiency Directive and the Government has also drafted a long-term strategy to improve the energy efficiency of buildings and an energy-saving plan for central government buildings. Energy efficiency agreements between the central government and other actors (industry, services sectors, municipalities etc.) play a key role in Finland's energy efficiency activities. The first agreement period was 2008–2016, and new agreements for 2017–2025 were concluded at the end of 2016.

In January 2017, the Government submitted a report to Parliament on the National Energy and Climate Strategy to 2030.<sup>6</sup> The report outlines measures by which Finland will achieve the targets agreed in the Government Programme and in the EU by 2030 and how it can systematically proceed towards reducing greenhouse gas emissions by 80–95% by 2050. Many of the measures outlined in the report have already been implemented in the past few years or are in the process of being implemented. The following key measures have already been introduced: Finland will discontinue the use of coal in power plants (with minor exceptions), raise the proportion of transport biofuels to 30% and introduce the 10% biofuel blending obligation for light fuel oil used in non-road mobile machinery and heating. In autumn 2018, the Smart Grid Working Group appointed by the Ministry of Economic Affairs and Employment presented its final report, on the basis of which the Government has started preparing measures to ensure higher flexibility in electricity supply and demand and higher system-level energy efficiency. More attention will also be paid to the activation of consumers and small businesses by introducing energy-efficiency measures. Technology-neutral calls for tenders were issued at the end of 2018, on the basis of which support will be granted for cost-efficient new electricity production based on renewable energy.

In the sector outside emissions trading, (the burden-sharing sector), the emissions reduction measures specified in the medium-term climate policy plan will be implemented in order to achieve the 2030 emissions reduction target. The plan was prepared alongside the National Climate and Energy Strategy and it was submitted to Parliament in September 2017 as a Government report. The plan sets out the following policies aimed at strengthening the energy and climate strategy measures and objectives:

- Purchasing subsidies for fully electric vehicles and conversion subsidies for existing vehicles (conversion into ethanol-powered or gas-powered cars)

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<sup>6</sup> Government report to Parliament on the National Energy and Climate Strategy to 2030, Ministry of Economic Affairs and Employment publications, Energy 4/2017

- Infrastructure support for electric vehicles and biogas in transportation
- Promotion of servitisation in public transport and other modes of transport
- Programme for promoting walking and cycling
- Growing crops in organic soils for several years and forest planting measures
- Promoting biogas production
- Central government will phase out oil heating in its premises by 2025 and encourages other public-sector operators to do the same
- Assessing whether waste incineration emissions could be included in the emissions trading system
- Avoiding appliances containing F-gases in public procurement and promoting the introduction of alternative technologies
- Encouraging biogas use in non-road mobile machinery and increasing the proportion of energy efficient and low emission machinery through public procurement
- Increasing the taxation on heating fuels
- Consumers are encouraged to halve their carbon footprint by 2030
- Goal-oriented climate action in municipalities and regions will be strengthened by an annual subsidy of one million euros and national and regional climate policy interaction will be strengthened
- Under the medium-term climate change plan, Finland also aims to become carbon neutral by 2045, and the emissions and carbon sinks should be in balance by that year.

In accordance with the Climate Act, the Government appointed the National Climate Panel for a four-year term, which starts at the beginning of 2016 and expires at the end of 2019. The panel serves as a scientific and independent expert body and its task is to support climate policy planning and decision-making.

## 4.4 Education target

### Tertiary education

Under the target, a total of 42% of Finns in the age group 30–34 years should have completed tertiary education. In 2018, the figure was 44.0%. According to the vision for higher education and research in Finland in 2030 presented in autumn 2017, at least 50% of all Finns aged between 25 and 34 will have tertiary education by the year 2030. The

selection procedures for tertiary education will be reformed to support the transition from upper secondary level. Cooperation between upper secondary and tertiary education will be expanded to ensure that young people move more quickly into further education. Flexible study paths, recognition of prior learning, and digital learning environments will be increased in order to facilitate completion of studies and better reconciliation of work and studies. In the negotiations held in 2016 for the agreement period 2017–2020, the Ministry of Education and Culture agreed with the higher education institutions on various targets aimed at accelerating entry into working life. This goal will be supported by allocating to it strategy funding for tertiary education. The Government also decided to allocate additional funding for the development of tertiary education between 2017 and 2019. This funding will be used to increase cooperation between higher education institutions from the perspective of digitalisation, development of education and student-orientation and some of it will also be channelled to the development of continuous learning.

### **Early school leavers**

In 2017, early school leavers accounted for 8.2% of all 18–24 year-olds. Under the Government Programme of Prime Minister Sipilä's Government, Finland aims to become a leading country for modern learning and inspiring education. The New Comprehensive School action plan, aimed at long-term development of the comprehensive school, supports the digitalisation of teaching, introduction of new curricula and the development of teacher competence. The purpose is to improve learning outcomes, respond to future competence needs, renew pedagogy through experimental schemes and provide inspiration for lifelong learning. The strategies laid out in the Teacher Education Development Programme set out the direction for Finnish teacher education and career-based competence development. The recommendations contained in the development programme will be incorporated into a total of 20 teacher education change programmes. Structures, goals and operating practices of teacher education will be updated. The introduction of digital material and new learning environments will be speeded up by means of digi-pedagogical supplementary education and through trial and innovation projects.

In its mid-term policy review on 28 April 2017, the Government adopted an action plan under which a reform of Finland's system of general upper secondary education has been launched. The purpose is to make general upper secondary education more attractive as a form of education providing general knowledge and eligibility for further studies in tertiary education, enhance the quality of education and learning outcomes, and facilitate the transition from upper secondary education to tertiary level. The aim is to encourage the provision of more extensive studies across study modules and subjects and help students to develop their competence in a broad range of different fields. Syllabuses and



the studies included in them will be measured on the basis of credits. Students would have the right to receive, on a regular basis, personal counselling and other guidance for their studies and further studies. The new act on general upper secondary education also contains provisions on learning support for students that have difficulty completing their studies because of learning problems. The act also lays down provisions on the preparation of personal study plans.

The reform will strengthen the cooperation obligation of general upper secondary education providers, especially the obligation concerning cooperation with higher education institutions, so that a part of the studies included in the general upper secondary education syllabuses must be arranged in cooperation with one or more higher education institutions. Teaching must also be arranged so that students can improve their international competence. There will no longer be any limits to how many times matriculation examination tests can be retaken. Education providers must also arrange the tests for those retaking them and for those taking additional tests for their examination. The Act on General Upper Secondary Education will enter into force on 1 August 2019. The national core curriculum for general upper secondary education will be updated during 2019 and 2020 and the curricula based on it will be introduced in autumn 2021.

A gradual changeover to a digital matriculation examination began in 2016 and the spring 2019 examination will already be fully digitalised. The matriculation examination will also be structurally overhauled. The purpose of the overhaul is to support the achievement of the objectives laid out in the general upper secondary education reform. In its new form, the matriculation examination will provide the students with a stronger general knowledge base and more flexibility, and the reform will also make the examination more international. In the future, the examination will give a better picture of the maturity, knowledge and skills of the students.

In the new examination, students must take at least five tests (compared to four under the old system). Thus, the examination becomes a more balanced package, providing a better measurement of how successfully the students have absorbed the general upper secondary school syllabus. In the future, the matriculation examination will also include tests crossing subject boundaries. The position of the students will improve as the technical test specifications used in the past examinations are changed. Better methods to recognise prior learning will also be introduced.

The new act on the matriculation examination is also expected to enter into force on 1 August 2019. The changes introduced under the new act will apply to students that take the examination in spring 2022 or later. In practice, this means the students starting general upper secondary education in autumn 2020. The students who have already started taking the examination or will start taking it in autumn 2021 at the latest will complete the examination in accordance with the existing legislation.

## 4.5 Poverty reduction target

In 2010, the European Council agreed that the people at risk of poverty and social exclusion should be assessed on the basis of three indicators: relative risk of poverty, material deprivation and the under-employment of households. When all the indicators determined by the European Council are taken into account, risk of poverty and social exclusion affected a total of about 894,000 people in Finland in 2017 (compared to 849,000 in 2016). In Finland, the risk of poverty and social exclusion can mostly be explained with relative risk of poverty because in 2017, about 652,000 persons lived in low-income households (621,000 in 2016). This is about 70% of all individuals at risk of poverty and social exclusion. About 410,000 individuals lived in under-employed households (compared to about 412,000 in 2016), while about 154,000 persons lived in households suffering from material deprivation (about 113,000 in 2016). During the poverty target monitoring period (since 2008), the number of people on low incomes and suffering from material deprivation has declined but the number of individuals living in under-employed households has increased. Among the people moving from countries outside the EU, the risk of poverty and social exclusion is almost twice as high as among those born in the EU.

There are differences between women and men concerning the risk of poverty and social exclusion. Of the individuals living in low-income households, 459,000 were women and 431,000 were men. There are slightly more men than women in under-employed households, whereas the same number of women and men live in households suffering from material deprivation. In Finland, the low-income group also includes students, whose low-income status is usually of temporary nature.

All sub-indicators used to describe the risk of poverty and social exclusion are household-based, which means that in households with different-sex couples, both the woman and the man are considered low-income individuals, under-employed or individuals suffering from material deprivation if any of these criteria concerns the household in question. This means that differences between women and men in the perception of the risk are mostly differences between people living alone and single-parent households. Nearly half of the people at risk of poverty and social exclusion are people living alone (in both women and men). About 12% of the men and 14% of the women at risk are members of single-parent households (adults and children).

There are few differences between the risk perceived by women and men under the age of 25, whereas in the working-age population, there are more men than women among the people at risk (especially in the age groups 25-34 and 50-64). Among those past the retirement age, most of the people at risk of poverty and social exclusion are women (especially among the individuals aged 75 and over). About 30% of the men and 17% of

the women at risk are aged 25-64 and living alone, while 22% of those aged 65 and over and living alone are at risk. About 53% of the men at risk of poverty and social exclusion live in under-employed households, while the figure for women at risk is about 40%.

In 2017, there were about 398,400 Finns in the long-term low-income category, that is, 7.4% of the entire population. The number has been falling since 2013. Spending long periods in the low-income category is more common among women than men even though the gap has narrowed in recent years. Spending long periods in the low-income category is much more common among women than men in retirement age, whereas in the working-age population, it is slightly more common among men.

The responsibility for granting and paying basic social assistance was transferred from the municipalities to the Social Insurance Institution of Finland (Kela) on 1 January 2017. According to the final statistics for the year 2017, the number of social assistance recipients increased as a result of the change, which was also expected. The amount of social assistance paid also increased. The estimate was that the change would reduce underuse by about EUR 90 million and in the end, the decrease was EUR 86.8 million. The number of recipient households increased by 44,000. A total of 8.5% of the Finnish population and 9.9% of all Finnish households received social assistance in 2017. Social assistance was paid to a total of 305,168 households and 467,139 persons. Men living alone were the most common type of household receiving social assistance (133,515 or 16% of all such households). For women living alone, the figure was 11%. In relative terms, female single parents were the largest group of social assistance recipients (31.0% of them received this type of assistance). Because of better basic social assistance statistics, we now also have a better picture of the factors forcing people to seek social assistance. In the future, this will make it easier to develop social security and rehabilitative activities.

### **Changes in social security benefits**

As a public finances consolidation measure, the national pension index was frozen for the years 2017 and 2018, and in 2017, the index was also lowered by 0.85% from 2016 levels. The freezing and lowering of the index in 2017 were permanent legislative measures and they will have a permanent effect on national pensions, guarantee pensions and other benefits linked to the national pension index. These index-linked benefits include the disability benefits, the basic daily allowance of unemployment security, labour market support and the child increment. The national pension index will also remain frozen in 2019. The basic social assistance has been raised so that the index freezing has not affected the last-resort income security and this increase was also made for 2019 so that the increase corresponds to the index increase. There have also been changes and increases in other benefits linked to the national pension index. For example, there have been increases in minimum sickness insurance allowances and guarantee pensions, and the latest increases took effect on 1 January 2019.

The minimum level of the young people's rehabilitation allowance and of Kela's rehabilitation allowance for vocational rehabilitation was increased to the level of the guarantee pension from the beginning of 2019. The change will promote the employment of people with partial work ability and ensure the implementation of the rehabilitation.

Elderly long-term unemployed who are in a particularly difficult labour market position have been eligible for pension subsidy as of 1 June 2017. On 1 October 2019, the pension subsidy will be extended to cover all persons born before 1 September 1958. The pension subsidy can be granted to people over 60 years of age who have been almost continuously unemployed for five years. The pension subsidy is equivalent to the full guarantee pension (EUR 784.52 per month at 2019 levels). When the impact of the changes on housing allowance and taxation is taken into account, the net income of the average recipient of the pension subsidy will increase by approximately EUR 200 per month. The pension subsidy will be paid up to the age of 65, the old-age pension age laid down in the National Pensions Act. The pension subsidy is currently paid to about 3,500 persons. Kela estimates that the change will increase the number of subsidy recipients by about 2,800.

To curb the growth in general housing allowance expenditure, the approved maximum housing allowance expenditure was not increased between 2015 and 2018. Maximum housing allowance expenditure was tied to the cost of living index (instead of the rent index) from the start of 2019. Students were transferred under the general housing allowance scheme from 1 August 2017. As a result, students are now in an equal position with other low-income groups with regard to housing allowance, and in the channelling of the allowance, better consideration can now be given to students who spend a large proportion of their income on housing.

### **Basic income experiment**

The basic income experiment began on 1 January 2017. In the experiment, 2,000 unemployed individuals aged between 25 and 58 receive a basic monthly income of EUR 560 without conditions or means testing. The experiment lasted for two years. The purpose of the experiment is to find out how social security could be changed in order to improve the incentives to accept work and how it could be adapted to changes in working life. At the same time, the aim is also to find ways of simplifying the benefit system. The preliminary results of the assessment of the basic income experiment were published on 8 February 2019. There was no improvement in employment among the participants during the first year of the experiment. The register data indicates that during the first year of the experiment, there were no differences in employment in the open labour market between the basic income recipients and the members of the control

group. There is a time delay of one year in the completion of the register data, which means that the results for the second year will be presented in early 2020.

The results of a questionnaire survey suggests that, at the end of the experiment, wellbeing among the basic income recipients was higher than among the members of the control group. Basic income recipients had fewer stress symptoms and fewer problems with their concentration and health than the members of the control group. They were also more optimistic about their future and their chances of influencing developments in society. The first results are not yet final and no definite conclusions from the effects of the basic income experiment can be made at this stage. The results will be published in 2019 and 2020.

### **Other experiments and projects under way**

The participatory social security experiment was launched in September 2017 and it will continue until the end of 2019. The aim is to promote the participation, wellbeing, working life capacities and working-life orientation of working-age people outside working life and studies and to prevent social exclusion. The information collected during the project will be used in the development of social security and social services.

PRO SOS – building a new system of social work together, a national priority axis 5 ESF project, is now under way. The purpose of PRO SOS has been to structure adult social work and one of the key tasks has been to support the changes arising from the transfer of basic social assistance to Kela. Modelling the cooperation between municipalities and Kela actors has been necessary in order to safeguard the guidance of clients receiving social assistance to social work services. The project has involved the development of work-orientation of financial social work, which is needed in the mitigation of the adverse effects of poverty, improvement of the clients' financial operating capability and the breaking of the cycle of multi-generational deprivation. Furthermore, rapporteurs were appointed at the end of 2018 to examine the broader issues concerning the future of social work and their recommendations for the strengthening of social work will be presented during spring 2019.

The modelling of the participation income for young people has been launched on the basis of the proposals made by Professor Heikki Hiilamo in 2017. While the working group has been reviewing the matter, it has been concluded that it is not practicable at this stage to introduce a new benefit for young people, except for the changes already made to the rehabilitation allowance. At the same time, however, the aim is to use and develop the existing service and benefit system so that the participation of young people can be enhanced. The working group has prepared its opinions on the basis of the existing legislation and benefit system and their purpose is to provide a range of options for the

next Government. The working group has been considering options encouraging young people to acquire training and improving the situation of young people outside working life, education, training and services, and models in which the process for applying social assistance and cooperation between the authorities could be enhanced so that they would support the objectives listed above. The working group has concluded that a comprehensive social security reform could transform the system that the group has used as a basis for its work.

## 5 EU funds

The Partnership Agreement is a framework document bringing together the measures, results and reconciliation of European Structural and Investment Funds (ESIF). The ESIF funds are as follows: the European Regional Development Fund (ERDF), European Agricultural Fund for Rural Development (EAFRD), European Maritime and Fisheries Fund (EMFF) and the European Social Fund (ESF). The Partnership Agreement was approved in 2014 and it took into account the Council's country-specific recommendations, given in connection with the 2014 Semester, with respect to the following challenges: expansion of research and innovation, weaker competitiveness of businesses in sparsely populated areas and the reduction of services, unemployment (particularly young people, elderly people and the long-term unemployed), changing competence needs and flexible transitions during education and work, exclusion from working life, and growth of wellbeing and health disparities as well as inequality.

The purpose of the ESIF funds is to support the national objectives of the Europe 2020 strategy. The employment rate target can be promoted by improving the skills and employability of the labour force on the basis of the working life needs. In the country-specific recommendations for 2018, Finland is encouraged to provide better incentives for accepting work and to ensure sufficient and well-integrated services for the unemployed and individuals outside the labour market. In ESF projects, public employment services are developed and the unemployed are provided with training, coaching and subsidised work as well as participatory opportunities. The purpose of ESF funding is to facilitate the labour market access of the unemployed and people with partial work ability with the help of support measures and service models. The third sector working in close contact with the client interface and various low-threshold services have proved highly effective. Encouraged by positive experiences, many of the low-threshold Ohjaamo service points for young people have already been put on a more established basis by providing them with national funding.

The impact assessments of the ERDF and ESF programmes suggest that ensuring an unbroken development path, smooth transfers and successful implementation of the individual stages are essential factors in employment projects. The following factors

have been considered as requirements for success in the activities aimed at preventing social exclusion: genuine social participation from the planning stage onwards, use of a broad range of different measures and more extensively supported instruments, service packages (providing social inclusion services as well as employment and training services on a one-stop shop basis), long client relationships (when required) and higher financial inputs per person than in other priority axes. All in all, it is estimated that about 50% of all ESF funding has been allocated directly to projects related to the country-specific recommendations.

In ERDF co-financing, support is provided for the growth and competitiveness of companies and thus also employment. A total of about EUR 451 million was spent on these activities between 2014 and 2018. Most of the business development funding and the funding to developing business operating environments has been allocated to Eastern and Northern Finland.

The European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund encourage companies to develop and grow and to enhance their business competence and cooperation skills. The purpose of rural development funding is to encourage the renewal of the business structure and the creation of new jobs by supporting the creation of new business and renewing investments. This also reduces the need for current transfers and helps to reduce the number of low-income households. According to a number of surveys, rural development funding has created desired positive policy effects on business growth.

The key challenge in rural areas is the poor availability of skilled labour, which hampers the growth of successful enterprises. Funding for leader groups provides a basis for better inclusion and competence of rural residents, for the growth of local entrepreneurship, and it also helps to identify solutions for renewing the rural service structure.

The aid provided by the EMFF supports fisheries industries and helps to develop new products and ways of entering new markets. These measures create new opportunities and reduce the need for current transfers. The European Maritime and Fisheries Fund also supports local-level development through fisheries local action groups. Supporting employment through training and networking projects has created job opportunities for individuals interested in working in the fisheries sector, especially in sparsely populated areas suffering from high unemployment.

The purpose of ERDF co-financing is to support the development of innovation and competence structures in regions and companies' innovation activities. A total of about EUR 573 million in funding was allocated for the purpose between 2014 and 2018. Guidance and advisory services in competence and training, expert networks for



employers, teachers and instructors as well as novel teaching and studying methods are also extensively developed with ESF support.

A total of 20% of the ESF funding has been allocated to social inclusion and combating of exclusion. About EUR 132 million of this total had been spent by the end of 2018.

Achievement of the climate targets set out in the Europe 2020 strategy is supported in the structural fund programme for mainland Finland by providing financing for ERDF projects promoting low-carbon activities in which the focus is on encouraging energy efficiency in SMEs and the development of renewable energy and energy efficient solutions. Moreover, in all ESF and ERDF projects receiving funding, the activities are assessed from the perspective of sustainable development. Projects promoting bioeconomy and circular economy that are closely connected with climate and environmental objectives are supported from the rural development programme for mainland Finland. Furthermore, rural development programme instruments also help to improve the state of the Baltic Sea and other water systems and find solutions to sustainable food production. Measures promoting sustainable development, such as measures connected with the management of aquatic ecosystems and improvement of their status, are also supported through the EMFF.

## **6 Institutional issues and the participation of stakeholders, especially social partners and other administrative levels in the preparations**

### **6.1 Preparation of the National Reform Programme and participation of stakeholders**

The Finnish Constitution lays down provisions on the national preparation of decisions made in the EU. Under these provisions, the Government is responsible for the national preparation of EU issues and decides on the measures to be taken by Finland in respect of them.

EU affairs are prepared in the competent ministries, if necessary, working with other ministries, and they are coordinated in the coordination system for EU affairs, in sections under the Committee for EU Affairs and, if necessary, in the Cabinet Committee on European Union Affairs.

Under the Constitution, Parliament has extensive rights to be informed on EU affairs. The provisions are designed to ensure that Parliament has the opportunity to influence the content of the decisions made in the EU. Parliament participates in the forming of the national position during the entire preparation and negotiation process taking place in the EU. The views of Parliament are the basis for the Government's actions in the EU.

The National Reform Programme is presented to Parliament. The National Reform Programme was presented to the Cabinet Committee on European Union Affairs on 29 March 2019 and to the Government plenary session on 4 April 2019 after which Parliament was notified of the completion of the National Reform Programme by E-communication.

## 6.2 Stakeholder participation in the preparation of key reform projects

The proposal for regional government, health and social services reform was withdrawn from Parliament in early March following the resignation of the Government. Stakeholder work was carried out at several levels during the drafting of the reform. In the national preparation, stakeholders were represented in working groups and they also had an opportunity to submit comments. At regional level, stakeholders were involved in the preparations as necessary. The work involved a broad range of different organisations and regional entrepreneurs. Social partners were involved in the preparation of legislation relevant to personnel.

In the project involving the preparation of the comprehensive transport services legislation, the aim was to produce an act covering all modes of transport and that would support and promote digitalisation. This piece of legislation was later renamed as the Act on Transport Services by Parliament. The first stage of the project was divided into three broad-based themes (markets, services and information) and three working groups, open to all interested parties, were set up to develop the themes. About a dozen thematic stakeholder events were held and they could be followed online in real time, while at the same time anonymous questions and comments were also accepted.

A monitoring group in which a large number of stakeholders (sectoral actors, customers, organisations and public bodies) were represented was also appointed to monitor the work. The public officials involved in the project preparation were also frequent visitors to events and forums where they provided information about the project objectives and the reforms being discussed as part of the preparatory process. Separate negotiations were held with the main stakeholders. Citizens were also contacted through such channels as the minister's Facebook chat. The first stage of the Act on Transport Services was prepared under a tight schedule, which required flexibility during the process. The Act on Transport Services was also the first project that was assessed by the Legislation Assessment Council, which was recently appointed by the Government. Stakeholder cooperation will also be a major consideration during the implementation of the new act.

In autumn 2017, Prime Minister Sipilä's Government launched a project to prepare a reform of basic social security and activity, in which the aim was to draft a comprehensive reform of Finland's basic social security system that would enhance employment and activity and reduce inequality.

The aim of the project was to provide decision-makers with a comprehensive picture of the areas of social security and basic security where reforms are needed and of the reform alternatives. The work provided a basis for future solutions in the Finnish social security

system, in which consideration will also be given to the limitations imposed by general government finances, closing of the sustainability gap and the ageing-related challenges. An inter-administrative steering group and a project group were appointed for the project. A parliamentary monitoring group was also appointed for the project and the group has representatives from political parties, central labour market organisations and the main organisations of entrepreneurs and the health and social sector.

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