



MINISTRY OF FINANCE

# Europe 2020 Strategy

Finland's National Reform Programme,  
Spring 2018

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Economic Prospects



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## Europe 2020 Strategy

Finland's National Reform Programme

Spring 2018

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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 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. The focus in the recommendations issued to Finland in 2017 is on ensuring the sustainability of general government finances, improving the cost-effectiveness of social and health care services, establishing a closer linkage between wages and productivity, pursuing an active labour market policy, providing stronger incentives for work, and introducing deregulation aimed at increasing competition in the service sector and encouraging investments.</p> <p>The Government is now presenting the tenth 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 korkeakoulututkinon 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 tukevaksi. Suomelle vuonna 2017 annetut suositukset liittyvät julkisen talouden kestävyteen, sosiaali- ja terveyspalvelujen kustannustehokkuuden parantamiseen, palkkojen kytkemiseen paremmin tuottavuuden kehitykseen, aktiiviseen työvoimapolitiikkaan, työnteon kannusteiden parantamiseen sekä säätelyn purkamiseen kilpailun lisäämiseksi palveluilla ja investointien edistämiseksi.</p> <p>Hallitus antaa nyt kymmenennen 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 2017 handlar om att se till att den offentliga ekonomin är hållbar, att förbättra social- och hälso-tjänsternas kostnadseffektivitet, att bättre anpassa lönerna till produktivitetens utvecklingen, att föra en aktiv arbetsmarknadspolitik, att förbättra incitamenten för att arbeta samt att avveckla reglering för att öka konkurrensen i tjänstesektorn och främja investeringar.</p> <p>Regeringen tillkännager nu det tionde 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 strong recovery of the Finnish economy from a prolonged downturn continued during 2017. The outlook for the coming years remains positive even though the growth is expected to slow down slightly.

Competitiveness, employment and public service provision are at the heart of the economic policy of Prime Minister Juha Sipilä's Government. The Government's economic policy is aimed at levelling off general government indebtedness and bridging the sustainability gap through savings as well as measures boosting growth and enhancing public service provision.

The already introduced short-term adjustment measures will consolidate general government finances by EUR 4 billion as planned and, together with economic growth, they have led to a substantial reduction in the general government deficit over the past three years. At the same time, the general government debt-to-GDP ratio is also showing a downward trend. The plan is to bridge the rest of the sustainability gap by introducing structural reforms consolidating general government finances and increasing the employment rate.

The aim of the Government is to increase the employment rate to 72% by the end of its term. Labour market reforms and the economic upturn have led to a rapid rise in the employment rate. It already stands at over 71%, which means that the Government is well placed to meet its target in 2019.

The preparation of the health and social services reform (Sote Reform) is proceeding as planned (see Chapter 3.1). The Government has submitted a revised proposal for the Sote Reform to Parliament. Parliament is expected to vote on the legislative package during spring 2018 before its summer recess and the reform is expected to enter into force in 2020. The aim of the Sote Reform is to generate savings of EUR 3 billion in health and social services expenditure by the year 2030.

The Government has made significant progress in its labour market reforms. The activation model and a legislative amendment under which unemployment benefit recipients can

temporary study and work as entrepreneurs provide additional incentives for jobseeking. To provide more incentives for work, the Government has also lowered the early childhood education fees of low-income and middle-income families. As described in Chapter 3.2, the focus in the active labour market policy measures has been on the young and immigrants.

There is now a stronger linkage between wages and productivity improvements as in the 2017-2018 wage negotiating round, the parties adopted a trade union-driven wage formation model in which the export industries determine the scope for pay increases. Trade unions representing the domestic sector have closely monitored wage settlements in export industries and the agreements already concluded are expected to improve Finland's competitiveness still further.

Major progress has been achieved in encouraging competition in the domestic market (see Chapter 3.3). Measures have been taken to liberalise the retail trade and the new Act on Transport Services is opening sectors of the transport market to competition. To support investments and innovation, the Government has also established the Business Finland innovation funding agency, which brings together public sector innovation funding and provides a platform for a closer cooperation between companies and research institutions.

Macrostability policy measures has been introduced to restrict lending by banks and to prevent households from accumulating excessive debts (see Chapter 3.4). A maximum loan-to-value ratio (loan ceiling) has been set for housing loans. The Government has also added new tools to its set of macrostability instruments by introducing a systemic risk buffer and limited the deductibility of housing loan interest payments.

Finland has made considerable progress towards achieving the EU 2020 goals and has already met the targets for renewable energy and education. However, there was an increase in the emissions outside emissions trading scheme during 2016, which was mainly due to higher transport emissions. In poverty and employment rates, Finland is on its way towards achieving the targets for 2020. 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.

## 2 Macroeconomic situation and scenario

### 2.1 Macroeconomic outlook in the programme period

The Finnish economy continued to grow in 2017. According to the preliminary figures by Statistics Finland, the growth rate was 2.6%. After a period of robust expansion, Finnish economic growth will slow down to approximately two per cent in the forecast period. In the next few years, the economy will be supported by foreign trade and domestic demand. Growth in exports will slow down in accordance with the trends in the world trade and economic growth will no longer be supported by net exports as strongly as before. Household demand will be subdued by slower growth in disposable income. The growth in private investments will also slow down even though the investment to GDP ratio will reach high level.

Wages will rise more rapidly in 2018 and 2019. Unit labour costs will continue to increase, albeit more slowly than in our competitors, and there will be a further improvement in the competitiveness of Finnish industries. Driven by demand, exports are set to grow at a rapid rate and Finland will no longer lose market shares. Exports will continue to be driven by exports of goods. Net exports will support growth throughout the forecast period even though imports of production inputs will also increase. Imports will be boosted by the demand for production inputs and by domestic demand for investments and consumption demand. Labour productivity will increase more rapidly than in the past few years.

Steady economic growth will help to improve general government finances. An economic upturn will mean more tax revenue, which in turn will strengthen both central government and local government finances. The general government budgetary position is becoming more balanced but the economic upturn will not eliminate the sustainability gap.

Despite rapid economic growth, central government revenue will not be enough to cover the expenditure. Local government budgetary position is close to balance. For many years, social security funds have generated large surpluses but as the Finnish population is ageing, social security expenditure has grown and the surpluses have decreased substantially over the past seven years.

For the first time in many years, public debt-to-GDP ratio declined in 2016. Rapid growth in Finland's GDP will cause the debt ratio to shrink, and it is expected to fall below 60% in 2019. With slower economic growth and a continuous increase in age-related expenditure, there is a danger that the debt ratio will start growing again in the next decade.

The rapid and broad-based strengthening of economic activity has improved the employment situation. The employment rate grew by 1.0% during 2017. According to Statistics Finland's Labour Force Survey, the slow decrease in unemployment is at least partly due to the fact that concealed unemployed and other groups outside the labour force have become more active jobseekers, which is normal during an economic upturn. The seasonally adjusted unemployment rate fell to 8.5% in January 2018.

There are good prospects for further growth in employment during 2018 and 2019. The reasonably rapid growth in GDP will maintain the demand for labour force during the outlook period. As the employment rate is improving, there are already shortages of skilled workforce (labour bottlenecks) in certain regions and sectors.

According to statistics, there is no absolute shortage of labour in the Finnish labour market because in overall terms, unemployment remains very high. While Finland is still grappling with high unemployment, the number of job vacancies has increased, which means that the match between the demand for and supply of labour is a problem on the labour market. This shows that the unemployment is of structural nature.

According to the latest figures, unemployment in Finland has declined, while at the same time, there has also been an increase in the number of job vacancies. Both the figures produced by Statistics Finland and the Ministry of Economic Affairs and Employment show that the vacancy to jobseeker ratio has increased since 2016 but despite this trend employers can easily find workforce at aggregate level.

At overall level, labour force mobility, inputs in skills, education and training, correctly focused incentives and work-based immigration are important factors in ensuring a better match on the labour market. However, as the demand for and supply of labour fluctuates in accordance with the economic situation, labour bottlenecks are in a way a natural phenomenon. Ultimately, the bottlenecks will lead to higher wages in sectors suffering from labour shortages, if no other solution to the problem can be found.

The macroeconomic situation in Finland, the state of its general government finances and the future scenarios are described in more detail in the 2019–2022 General Government Fiscal Plan, which is published simultaneously with this document, and Finland's Stability Programme.

## 2.2 Macroeconomic impact of structural reforms

The health and social services reform and the regional government reform are making progress and the last of the legislative proposals were submitted to Parliament in March 2018. The aim of health and social services reform is to achieve savings of EUR 3 billion by the end of 2030. In the short term, the reform will also involve one-off change costs, which are still connected with considerable uncertainty. However, most of the savings will be generated after the outlook period.

In many of the structural reforms, the aim is to enhance competition and to introduce deregulation and it is difficult to assess their macroeconomic impacts. Likewise, the impacts of the measures intended to increase the supply of labour will largely depend on changes in behaviour and for this reason, it is difficult to give exact estimates of their effects on employment and economic growth. The combination of labour supply flexibility and the reduction in daycare fees is, however, estimated to increase the employment by 4,200, as individuals are provided with more incentives to seek work.

## 3 Implementation of country-specific recommendations

### 3.1 Long-term sustainability of public finances

*Recommendation 1: Pursue its fiscal policy in line with the requirements of the preventive arm of the Stability and Growth Pact, which entails achieving its medium-term budgetary objective in 2018, taking into account the allowances linked to unusual events, the implementation of the structural reforms and investments for which a temporary deviation is granted. Ensure timely adoption and implementation of the administrative reform to improve cost-effectiveness of social and healthcare services.*

#### **Health, social services and regional government reform**

Finland is introducing a health and social services reform the aim of which is to narrow gaps in health and wellbeing, provide more equal and easily accessible services and slow down cost increases. The reform will make the system of health care funding more clearly structured, facilitate the coordination of its parts and strengthen the funding-related incentives allowing the system to be developed in a sustainable manner. The reform is introduced simultaneously with the regional government reform under which Finland is divided into 18 counties.

The purpose of the health and social services reform is to provide better integration between health and social services on the one hand, and between basic and specialised services on the other. The reform will also involve client-oriented service integration, in which the clients' service needs are assessed on an overall basis and a flexible and correctly timed availability of the services is ensured. Shared use of client and patient data, electronic services and simplification of the multi-channel funding of health and social services are also some of the areas where improvements can be expected.

With the regional government reform, the responsibility for providing the services will be transferred from municipalities to counties on 1 January 2020. The elections for the coun-

ty councils of the 18 counties will be held in autumn 2018. Intense preparations for the changes are now taking place in all Finnish regions. National steering of the future counties will be simulated in spring 2018 and the background information used in the test will include information on health and social service needs as well as estimates of cost trends.

With the reform, the responsibility for providing health and social services will be transferred from more than 300 municipalities to 18 counties, which will provide a better basis for arranging the services. A larger organisation is better placed to make adjustments as service needs among the population change and there are fewer interfaces in service integration. This helps to improve cost-effectiveness.

Simplification of the multi-channel health care funding is prepared as part of the health and social services reform and the regional government reform. The decisions aimed at ensuring the freedom of choice for health and social services clients will also have an impact on how the simplification will proceed. The changes will be coordinated with the implementation of the health and social services reform and the regional government reform and they will be introduced in stages. Safeguarding the statutory rights of the clients in all parts of Finland on an equal basis and the role of the occupational health care are important considerations in the preparatory process. Social partners and the representatives of municipalities and the future counties take part in the work.

The original proposal for the act on freedom of choice was revised on the basis of the opinion issued by the Constitutional Law Committee and the new Government proposal was submitted to Parliament in March 2018. Parliament is expected to approve the Counties Act, the Act on Organising Health and Social Services and the other acts included in the package during its 2018 spring session. The first county elections are planned for autumn 2018 and the entire reform is expected to enter into force on 1 January 2020.

## 3.2 Labour market

*Recommendation 2: Promote the further alignment of wages with productivity developments, fully respecting the role of social partners. Take targeted active labour market policy measures to address employment and social challenges, provide incentives to accept work and promote entrepreneurship.*

### Wage formation

In summer 2016, the Government and social partners signed the competitiveness pact, which will improve the price competitiveness of Finnish industries. As part of the compet-

itiveness pact, it was also agreed to add clauses to collective agreements providing more opportunities for local-level wage settlements and to work together to make the collective agreement model more export industry-driven.

In the 2017–2018 wage negotiations round, the trade unions representing industrial employees determined the level of pay increases, which means that the other sectors based their own agreements on those made by unions representing export industries. This means that in practice, the ‘Finnish model’ has become reality (even though forest industries decided to remain outside it). The wage increases amounted to 1.6% (for one-year agreements) and 3.2% (for two-year settlements). The wage increases laid down in the agreements also include higher pay rises for specific groups and regions.

All collective agreements (including those for the service sector) have remained within the limits determined by the export sector (3.2% for two-year settlements). In longer agreements, such as those made for 26 months, the increases may be higher and the pay rises are converted into wage increases for 24 months. If for example, the pay increase under a 26-month agreement is 3.47%, it is converted to 24 months using the formula  $3.47 \times (24/26) = 3.2$ .

This means that, in practice, the current negotiating round has been based on the ‘Finnish model’ (linking pay rises with the increases achieved by the export sector).

### **Lowering early childhood education fees**

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% (instead of 10% under the old system). The reductions in the fees total approximately 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 incentive trap impacts, it is estimated that approximately 4,200 people will be employed by 2021 as a result of the reform.



## Unemployment security reform

The activation model for unemployment security clients entered into force on 1 January 2018. Under the model, unemployed jobseekers are only eligible for full unemployment benefits if they work in paid work, earn income as self-employed persons or take part in services improving their employment prospects. If an unemployed jobseeker fails to show the required activity during the 65-day monitoring period, the unemployment benefit paid for the following 65 days will be reduced by 4.65%. An unemployed jobseeker is considered to have shown adequate activity during the monitoring period if they have worked for 18 days, earned a total of EUR 241 from self-employment or participated for five days in employment-promoting services arranged by the employment authorities. In its spring 2018 spending limits discussions, the Government decided that unemployed jobseekers can also accumulate days of activity by participating in employment-promoting services arranged by trade unions, non-governmental organisations, municipalities or other similar bodies. The requirement is that the services have been provided funding by public bodies or that they have been approved by the employment authorities.

The purpose of the reform is to raise the employment rate and encourage unemployment benefit recipients to be active and show initiative in jobseeking for the whole duration of their unemployment.

The purpose of the other changes made in the unemployment security system is to provide more opportunities for individuals to study and engage in business activities while receiving unemployment benefits. The unemployment security legislation was changed as of 1 January 2018 so that the status of the business activities as a primary or secondary source of income is not taken into account during the first four months of the entrepreneurship. A jobseeker is eligible for unemployment benefits for four months even if they are engaged in business activities during the same period. The purpose of the change is to lower the threshold for starting business activities as a primary and secondary source of income as this is expected to shorten the periods of unemployment.

In spring 2018, the Government will submit a proposal to Parliament for amending the unemployment security legislation so that unemployed jobseekers would be eligible for unemployment benefits during their studies provided that the studies last for a maximum of six months, give the jobseekers vocational competence or support their entrepreneurial activities. Jobseekers can also accumulate activity days required under the activity model by studying. 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. The amendments are expected to enter into force in autumn 2018.

The Government has highlighted better regional mobility as a central instrument in the efforts to ensure a better match between demand for and supply of labour force and in the meeting of such challenges as the positive structural change. The Government has introduced measures to support regional mobility and commuting of unemployed jobseekers, including more extensive use of job offers and mobility allowance, targeted provision of information on economic support for mobility and more extensive application of the mobility allowance. Under the amendments to the Unemployment Security Act introduced at the start of 2018, mobility allowance can now also be paid for part-time work in which the average working hours are less than 18 hours a week. Furthermore, the mobility allowance can now also be paid for the duration of work-related training and a higher mobility allowance can be provided on the basis of guardianship obligations and exceptionally long commuting distances.

In 2017, the Government launched a project to examine different models for combination insurance and the costs that would arise from them. The aim is to determine how unemployment security could be based on simultaneously working as a wage earner and an entrepreneur. The project is still in progress and not all of the requested comments have been received yet. The national income register, to be introduced in 2019, will make it possible to transfer wage details to the parties paying unemployment benefits in real time. A project is under way to examine how the adjusted unemployment benefit paid to individuals in part-time employment could be developed against the background of the introduction of the income register so that the perceived risk of delayed benefit payments in connection with accepting short-time jobs would be reduced. Any changes would encourage jobseekers to accept atypical jobs as an alternative to full unemployment. In both projects, the preparations are carried out in cooperation with the main social partners.

### **Enhancing employment and business services**

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

In 2017, a total of EUR 22 million was allocated for improving the effectiveness of employment and business services and for arranging interviews with unemployed jobseekers. The supplementary appropriation allowed TE Offices to recruit additional personnel, to develop their client information systems and to purchase services supporting employment. The purpose of the interviews with unemployed jobseekers conducted every three months is to assess their service needs and provide support for jobseeking.

Updates to electronic services and the service process of private customers were introduced on 1 July 2017. The service reform covers the initiation of private customers' job-seeking process, assessment of services needs and the preparation of the employment plan. The purpose of the reform is to speed up digitalisation and strengthen the client's role in TE services.

The regional government reform will be accompanied by a reform of the employment and business services. Providing employment and business services will become the responsibility of the counties to be established from the start of 2020. In the same connection, the employment and business services will be combined into growth services and some of the services will be opened up for competition. The growth services reform will bring together the services for jobseekers, employers and companies. The purpose of the growth services is to encourage new business activities, help companies to grow and introduce new operating models and become more internationally oriented as well as to respond to changes in the labour market. The Government plans to submit its proposal for legislation on regional development and growth services to Parliament in spring 2018. In the future, employment service clients and services providers will meet at the digital job marketplace, which is open to all. At the job marketplace, clients can find a broad range of different information as well as public and private services. The job marketplace will be introduced in stages by the year 2020.

### **Employment programme for growth companies**

An employment programme for growth companies was included in the Government Programme in spring 2016. The programme will be carried out as pilots under the employment services key project. The purpose of the employment programme for growth companies is to support the competitiveness and business operations of growth companies by providing them with skilled workforce and at the same time reduce unemployment. The aim is to encourage companies to recognise the potential of highly educated unemployed as a major new competitiveness factor in their own business operations. The most important services and operating models for growth companies and unemployed jobseekers possessing special expertise will be brought together under the programme between 2016 and 2019.

### **Trials and outsourced pilot projects**

A variety of pilot projects have been launched in employment services between 2016–2018 and a total of EUR 10 million has been appropriated for them. The purpose of the pilots is to find new innovative ways to provide clients with job opportunities, to prevent prolonged unemployment, to ensure the availability of skilled labour and to promote entrepreneurship. Most of the purchases are by means of impact-based procurement in

which the aim is to provide the clients with paid work or help them to become entrepreneurs. Business-orientation and entrepreneurship as employment options are the main themes in the pilot projects.

As part of the preparations for the county-based model, regional trials will be carried out in 2017 and 2018 and the aim in them is to create client-oriented operating models across the boundaries of administrative branches. Three of the trials will be in the form of county-based organiser-provider experiments, while five will be municipality-based trials involving the provision of client-oriented services. The act on the municipality-based experiments entered into force on 1 August 2017 and it will remain in effect until the end of 2018.

To simulate a competition-based organiser-provider model and to facilitate its phased introduction, a number of growth service pilots will be launched between the end of 2018 and early 2019. The purpose is to achieve benefits of scale and well-structured market openings. The projects to be launched will be adjusted in accordance with regional needs and the results of earlier pilots and trials will be used in the preparations.

### **Employment SIB**

An impact-based employment project Employment SIB (Social Impact Bond) aimed at preventing and reducing long-term unemployment is under preparation. The project will be carried out in accordance with the impact-investment-based SIB model. The aim is to have between 2,000 and 3,000 unemployed jobseekers in different parts of Finland as service participants and the intention is to launch the services in the first regions during the second half of 2018. The service outcomes are measured each year and the state will make the outcome-based repayments between 2020 and 2024. The project is part of the growth services reform in which markets are created for private actors in employment and business services.

### **Promoting youth employment**

The coordination responsibility for the youth guarantee has been transferred to the Ministry of Education and Culture. The new cooperation body, the youth guarantee advisory board, started its work in December 2017. In order to put the network of Ohjaamo service points on a more established basis, the Government has allocated a total of EUR 5 million for the service points for each year between 2018 and 2021. With this funding, a total of approximately 100 employees have been recruited for the network. The number of Ohjaamo service points will also increase to approximately 60 by the end of 2018.

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 and EUR 15 million for purchasing additional performance-based services for young people. The purchases will be focused on young people that have employment as their next goal and on client groups that need more extensive support for entering the labour market. The aim is that the services would reach a total of 10,000 young people.

### **Vocational education and training**

The focus in the Act on Vocational Education and Training, which entered into force on 1 January 2018, is on competence, 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.

The responsibility for providing labour market training was transferred from the labour administration to the education administration, which will mainly provide funding for training for upper secondary vocational qualifications or their parts, training preparing for vocational fields, licence-type training, basic education for adults and teaching of reading and writing skills for immigrants. The funding for this education and training comes from central government transfers to local government. Since the start of 2018, tertiary degree programmes arranged by higher education institutions have been open to recipients of unemployment benefits.

The labour administration is focusing its 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. More opportunities will be provided for on-the-job training with the help of employment-based apprenticeship training and training agreements that do not require an employment contract.

The legislation on the national framework for qualifications and other competence modules entered into force on 1 March 2017. The framework contains the qualifications and syllabuses laid down in the legislation applying to the administrative branch of the Ministry of Education and Culture and the legislation for other administrative branches. The working group appointed in March 2018 is preparing the expansion of the national framework for qualifications and other competence modules into a national competence frame-

work. The working group will present its proposal by the end of 2018. The need to develop lifelong learning and the basis for continuous learning required in a situation characterised by the transformation of work have recently been examined by a broad-based working group appointed by the ministry and by a competence future panel.

### **Integration of immigrants**

Under the migration policy programme drafted by the Government in 2017, services supporting integration and settling in as well as the promotion of good relations between population groups can make it easier for work-based immigrants to feel at home in Finland and to use the competence possessed by immigrants already living in Finland. The competence and networks of international talents are particularly useful instruments in the efforts to encourage growth, internationalisation and the innovation basis of companies in different regions.

The purpose of the Talent Boost action plan launched in 2017 is to make Finland's business, innovation, employment, education and immigration policy into a single package promoting growth. The aim is to make Finland more attractive to international talents and to channel the expertise possessed by them so that it can support business growth, internationalisation and innovation.

The SIB project launched in 2016 with the aim of speeding up the employment of immigrants has been expanded to new areas. In order to provide immigrants with more job opportunities, the competence of immigrants has been strengthened by arranging vocational integration training and by combining language teaching with vocational education and training. Immigrants' training paths and employment have been speeded up by means of SIMHE (Supporting Immigrants in Higher Education in Finland) in which guidance and counselling activities as well as recognition of prior learning services are developed for immigrants with tertiary education and immigrants capable of starting studies in higher education institutions.

New provisions on basic education for adults entered into force on 1 January 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.

The obligatory national language proficiency test was abolished on 1 January 2018 with the entry into force of the Act on Vocational Education and Training. This will make it easier for immigrants and other individuals without any skills in domestic languages to enter

vocational education and training, learn professions and become integrated into Finnish working life. Inadequate proficiency in the qualification language has been added to the act as a new selection criterion.

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.

### 3.3 Competition, regulation and investments

*Recommendation 3: continue to improve the regulatory framework and reduce the administrative burden to increase competition in services and to promote investment.*

As part of the key project aimed at reducing the regulatory burden, the Government will continue the reform of the regulatory framework. As part of the key project, digitalisation of public services, simplification of permit processes and transformation of them into notification-based arrangements are promoted in all administrative branches. The aim in the reduction of the regulatory burden is to improve the daily life of citizens. Most of the 200 or so projects involving better regulation or deregulation listed during the Government term are expected to be in force by the end of 2019.

#### **More flexible regulation for large retail units**

Under Annex 4 to the Government Programme, grading will be abandoned for trade in land use planning and regulation on large retail units in city centres will be reduced. The preparation of an amendment to the Land Use and Building Act on the easing of retail regulation in accordance with the Government Programme was incorporated into the work of the working group on the streamlining of land use planning and building permits, established by the Ministry of the Environment (HE 251/2016). The new provisions entered into force in spring 2017.

The changes are aimed at reducing regulation in land use planning and building and to streamline the issuing of permits, increase construction opportunities and to provide bet-

ter operating conditions for business and encourage competition. The key reforms laid out in the proposal related to regulation of large retail units, scattered construction, land use planning, and the role of the Centres for Economic Development, Transport and the Environment (ELY Centres). The size limit for large retail units was raised from 2,000 gross square metres to 4,000 gross square metres. The dimensioning requirement for city centre operating areas laid out in the regional land use plans was abolished, as was the requirement to take the type of the retail unit into account when locating large retail units outside the city centres. The clarifying provision in section 71(e) of the Land Use and Building Act on land use planning regulations relating to the type and size of retail outlets was also abolished.

The proposed changes will significantly reduce special location controls directed at the retail sector. According to a study commissioned by the Ministry of the Environment, raising the size limit of large retail units to 4,000 gross square metres alone would mean that less than one third of the existing large units reviewed and approximately 4% of daily consumer goods outlets would be subject to special location controls. The easing of regulation would therefore be very significant.

The easing of regulation on large retail units will have significant economic effects. The changes will increase potential for competition in the retail sector and make it easier for retail operators to develop their services. The changes are expected to increase activity in the retail sector and to support the strengthening of economic vitality as a whole, which in turn is expected to indirectly strengthen the sustainability of general government finances.

The changes are expected to promote the development of competition by increasing opportunities for new operators to enter the business, particularly in the daily consumer goods sector. The changes will increase the potential for competition by improving location opportunities for retail outlets outside city centres. It will also become easier to expand existing outlets. The possible negative effects of the changes will probably concern small market areas where opportunities to enter the business might be adversely affected if, for example, the market proves to be insufficient for new operators through the expansion of the existing retail outlets.

In particular, the combined impact of reducing regulation on large retail units and liberalisation of opening hours is expected to adversely affect the competitive position of small local shops and small supermarkets with sales areas of less than 500 gross square metres. The number of daily consumer goods retail outlets has been on the decline and the proportion of all retail outlets accounted for by small retail outlets has fallen. The changes to the Land Use and Building Act, together with the liberalisation of opening hours, are expected to intensify this trend.



The Finnish Environment Institute and the Ministry of the Environment are finalising a report on the impacts of the steering of the retail sector and the methods for assessing the effectiveness of competition.

### **Act on Transport Services**

Regulation of the Finnish transport markets is in the process of being brought together into a single Act on Transport Services. The aim is to promote the creation of new service models, thereby better fulfilling users' needs. The act will encourage the examination of the transport system from an overall perspective as well as facilitate entry into the market and the interoperability of different parts of the system.

The project will put into effect Government projects involving the construction of a growth environment for digital business and streamlining regulation, and it will thus improve the competitiveness of operators. The project will be implemented in three stages. The Act on Transport Services (320/2017) was adopted in May 2017. The act is introduced in two stages: the provisions on the openness of passenger transport data and the interoperability of ticket and payment systems entered into force on 1 January 2018 and the rest of the act will become effective on 1 July 2018.

In the first stage, the act will bring together the provisions on the professional transport of passengers and goods by road, and it will require the digitalisation of road and rail transport services. To support innovation, the provisions have been prepared to be as technology neutral as possible. Regulation will be harmonised and operators' administrative burden eased. The abolition of the taxi transport quota system can be considered a major step with regard to competition. Digitalisation is taken into account by requiring operators to make essential transport service data digital, open and compatible.

There are also provisions on better interoperability of ticket and payment systems. The purpose of these measures is to encourage the creation of new service models, better meet users' needs, and facilitate market access.

The legislative proposal for the second stage was submitted to Parliament in October 2017 and most of its provisions will enter into force on 1 July 2018 (the provisions on acting on behalf of other persons will become effective on 1 January 2019). In this part, provisions on the regulation of aviation, shipping and rail transport services and registers will be added to the Act on Transport Services. In the easing of regulation, the focus is on professional qualifications. The work to promote new mobility service models will also continue. The travel chain thinking will be expanded with a proposal on acting on behalf of others. This allows the incorporation of all modes of transport and a broad range of different ticket products into travel chains. The new applications and services created as a result of

the proposals included in the first and second stage will facilitate and impact the creation and development of new mobility options for consumers and other actors as well as the introduction of a common digital service culture. The proposed changes will improve the availability of consumer services that fulfil the needs of individuals.

The regulatory reforms pertaining to the registers kept by the Finnish Transport Safety Agency are an important part of the second stage of the legislative project in terms of data regulation. The registers now kept by a large number of different bodies will be brought together and updated into a single transport register. The main aim of the register reform is to facilitate and enhance accessibility and usability of a wide range of different register data. The Finnish Transport Agency will also be obliged to make market data and its statistics more accessible, which will provide a better basis for planning in the market.

The purpose of the third stage is to ensure that the objectives for the transport system and associated digital services have been comprehensively taken into account. The project was launched in February 2018. According to the statute project decision, the legislative proposal would be submitted to Parliament during its 2018 autumn session and the act is expected to enter into force on 1 July 2019. The focus is on the promotion of digitalisation in the logistics sector. The aim is to support digitalisation of information in the logistics sector so that physical information could be converted into digital and machine-readable data more easily and development of decentralised information sharing infrastructure could be promoted and to ensure that information can flow more effectively in the logistics networks. The main aim in the project is to promote the construction of a digital operating environment for the logistics sector and to create a basis for new innovations promoting efficiency in the sector and the introduction of automation.

### **Other changes promoting competition**

The first stage of the postal reform entered into force in summer 2016. It abolished the postal operating licences granted by the Government and introduced a system of postal operations based on a notification obligation.

Most of the provisions of the second stage of the postal reform entered into force in autumn 2017. The legislation is part of the digitalisation and deregulation set out as objectives in the Government Programme. The provisions contained in the new act mean that postal regulation can now better meet existing and future customer needs and that access to postal services in all parts of Finland can be safeguarded on the basis of novel entrepreneur-based mail delivery arrangements. Extensive changes were made to the universal service requirement so that comprehensive and high-quality postal services can be guaranteed in all parts of Finland. At the same time, a basis was created for a new delivery market for sparsely populated areas. The act gives the provider of the universal service more

flexibility in its delivery and collection obligations and in the delivery speed of products coming under the universal service requirement. Furthermore, the information contained in the address register system is now more easily accessible and letters delivered to blocks of flats can be placed in building-specific pigeon holes. There were also other technical amendments and minor changes, which are in accordance with the easing of the regulatory burden and streamlining of legislative provisions.

In August 2017, the Government announced its plan to open Finnish passenger rail services to competition. The aim is to improve the quality of rail traffic, make it more responsive to customer needs and to increase the market share of passenger rail services. Under the Government decision, the passenger rail services will be tendered out on the basis of a concession contract model as regional or service packages. The opening of passenger rail services to competition means that VR will no longer have exclusive right to the provision of rail transport services in the Finnish rail network. The Ministry of Transport and Communications has launched the first stage of the opening of the services to competition, which will involve the regional train services in Southern Finland. In order to ensure an equal and competition-neutral operating environment, three state-owned companies will be separated from VR Group Ltd: a rolling stock company, a maintenance company and a real estate company. Services on the first track section subject to the competitive tendering are expected to start in summer 2022. The intention is that nationwide transport services based on the new contracts will be introduced in stages by June 2026.

As part of the comprehensive reform of the alcohol legislation, the Government has removed some of the regulation on the production and sales of alcoholic beverages and put the provisions, previously contained in separate acts, under a single legislative framework. Many of the qualification requirements for restaurant workers and all provisions on restaurant opening hours have been abolished. Parliament approved the legislative package at the end of 2017 and it entered into force on 1 March 2018.

### **Reforms aimed at encouraging investments**

Tekes and Finpro were merged into Business Finland at the start of 2018. One task of Tekes was to allocate key project funding for processing research results as joint projects between companies and research organisations and Business Finland is now continuing this work. By applying a broad range of different funding models, best practices have been sought for transferring expertise from research organisations to companies for use in business operations. The two-stage Challenge Finland funding has encouraged companies and research organisations to establish networked cooperation structures. With Research Benefit funding, company-driven projects have been launched to process the results of research projects provided funding under previous programmes. Networked projects have also encouraged SMEs and large companies to engage in cooperation. Under Innovation

Scout funding, support has been provided for the development of innovation expertise at higher education institutions and research organisations. The funding has helped to highlight the expertise possessed by researchers and research groups on the basis of the principles of open knowledge and clarified the rules applied to the cooperation between companies and research institutions. The projects have also led to a broad range of different operating models and practices aimed at augmenting expertise in the field of commercialisation. Business Finland also provides funding under the TUTLI instrument in which the purpose is to encourage the establishment of research-based companies. Between 2016 and 2018, Tekes and Business Finland have launched projects totalling approximately EUR 300 million in which the focus is on the commercialisation of research results.

### 3.4 Household debt and macrostability policy

The household debt relative to annual disposable income has reached record levels in Finland (127.8%) and it is also above EU average. In 2016, the rate was, however, well below the levels in other Nordic countries (Sweden 155.9%; Norway 193.8%; and Denmark 244.0%).

Macro-stability policy measures have been introduced 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 macro-stability measures over the past few years. A maximum loan-to-value ratio (loan ceiling) 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 a range of new macro-stability measures. The systemic risk buffer was introduced on 1 January 2018. Its purpose is to cover risks that, as a result of the banking system structure, may affect the entire financing 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. As laid out in the Government Programme, the deductibility of housing loan interest payments has been gradually reduced in recent years so that this year, only 35% of the interest payments are deductible. Next year, the deductibility will be reduced to 25%.

In the Ministry of Finance's view, Finland should also have a comprehensive positive credit register and the Ministry of Justice is now examining the feasibility of such a scheme. With the decision by the Nordea Bank to move its head office to Finland, the Financial Supervisory Authority has begun recruiting new personnel to strengthen its banking supervision capacity.

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 households indebtedness.

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

Table 1 lists the targets under the EU 2020 Strategy, Finland's situation in 2016 and the strategy target for 2020. Each target is reviewed separately in the sections of this chapter.

**Table 1. EU targets and national targets in accordance with the Europe 2020 Strategy**

	EU headline target	Finalnd in 2016	Finalnd in 2020
Employment rate (20–64 year-olds)	75%	73.40%	78%
R&D expenditure / GDP	3%	2.75	target level 4%
<b>Climate:</b>			
Greenhouse gas emissions (outside emissions trading)	-10% from 2005 level	31.33 <sup>1)</sup>	28.5 million tonnes CO <sub>2</sub> equivalent
- share of renewable energy	20%	38.70%	38%
- energy efficiency (end-use energy consumption)	-20%	306 TWh	310 TWh
<b>Education:</b>			
- proportion of 30–34 year-olds having completed tertiary education	40%	46.10%	42%
- early school-leavers	10%	7.9%	8 %
People living at risk of poverty or social exclusion	20 million less	849,000	770 000

<sup>1)</sup> Finland's target for 2016 for the sector outside emissions trading is 30.3 million tonnes CO<sub>2</sub> equivalent. In 2016, the sector's emissions were 1.1 million tonnes CO<sub>2</sub> equivalent higher than the target. Source: Decisions (2013/162/EU; 2013/634/EU; EU/2017/1471); Statistics Finland 2017 (2016 provisional data).

## 4.1 Employment target

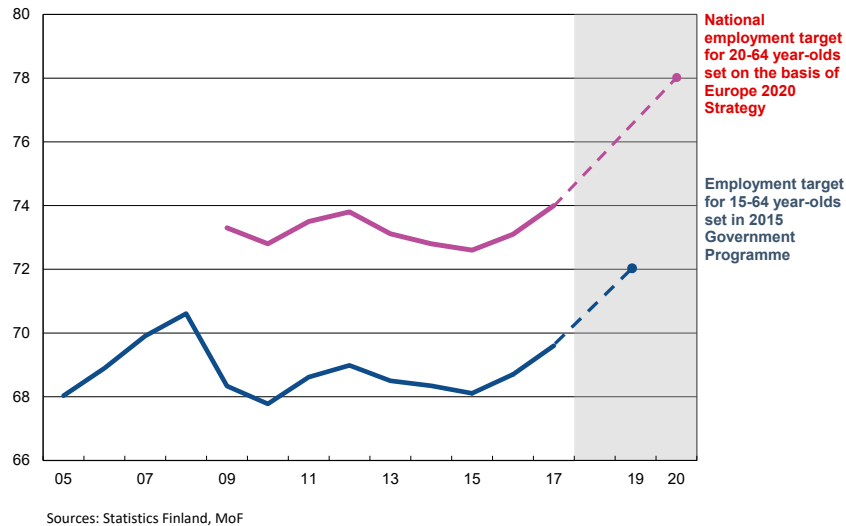
The EU-level employment rate target set for Finland is 78% in the age group of 20–64 year-olds. In 2017, this figure was 74.2% (men 75.9% and women 72.4%).

The unemployment in Finland is decreasing and the employment rate is increasing. According to Statistics Finland's Labour Force Survey, unemployment in the age group 15–74 year-olds averaged 8.6% in 2017 (8.8% in 2016). In 2017, the employment rate in the age group 15–64 year-olds stood at 69.6% (68.3% in 2016).

Achieving the employment target would require rapid economic growth even though employment is now growing in all main sectors. Construction is the sector with the strongest employment growth, but the situation is now also improving in manufacturing industry. In the construction sector, availability of labour may slow down growth in the future. In industrial production, productivity improvements will keep employment growth at moderate levels. However, the use of intermediate products will mean higher employment, especially in the service sector. Employment in services is also growing at a steady rate.

There is no longer any deterioration in the structure of unemployment. The proportion of long-term unemployed and what are called difficult-to-employ people is now decreasing but there has been a further weakening in labour market matching, labour availability and the functioning of the labour market and these may become a factor slowing down economic growth. Measures that the Government has initiated to improve employment are described in Chapter 3.

The reforms described in Chapter 3.2 (lowering of early childhood education fees, unemployment security activation model, and permitting studies and business operations during unemployment) are intended to raise the employment rate and help Finland to achieve its national targets.

**Figure 1. Employment rate (20–64 year-olds), 78% in 2020**

## 4.2 Research and development target

The main objectives in the research and innovation policy (R&I) are improving the quality and effectiveness of research activity, structural and operational reforms in public sector research, and diversifying the structure of business and industry.

According to Statistics Finland, Finland's R&D intensity in 2016 was 2.75% and an estimated 2.72% in 2017. The estimated intensity of central government research funding in 2018 is 0.80%, or at previous year's levels. The EU headline target (R&D 3% of GDP) can be achieved by the year 2020 but the national EU 2020 target level (4% of GDP) approved in 2011 will not be reached.

Many of Government's key projects are connected with 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 is 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. Access to public data reserves as well as research material, methods and results will be improved.

The final report of the OECD review of Finland's innovation policy was published in June 2017. In its review, OECD examined the current state of Finland's innovation system and issued a number of policy recommendations concerning structural and content-related



development measures. The Research and Innovation Council has included many of the recommendations in its vision and road map and they have also been taken into account by the Government in its priorities for additional R&I funding. According to the council's vision, Finland will be the most attractive and competent environment for experimentation and innovation in 2030. Priorities in the road map include ensuring the competence base, developing competence platforms and growth ecosystems, as well as internationality as a prerequisite for quality and effectiveness. The aim is that in 2030, the Finnish public and private sector will together invest 4% of the GDP in research and innovation activities.

A new public-private partnership model (PPP model) for ecosystem development has been drafted in Business Finland and the Ministry of Economic Affairs and Employment and the implementation of the model will start in spring 2018. In 2018, Finland will launch a competence centre for innovative public procurement to boost demand for innovative solutions.

A new capital loan of EUR 30 million will be granted in 2018 to encourage industrial renewal and the establishment of business ecosystems. The loan is mainly intended for starting growth-oriented business activities. The loan is expected to encourage the use of innovations and strengthen the competence-based competitiveness of companies.

The Academy of Finland provides key project funding (EUR 30 million between 2016 and 2018) to support young researchers and the use of research results. In order to meet decision-makers' information needs, the Strategic Research Council, operating under the auspices of the Academy of Finland, supports research seeking solutions to societal challenges and renewal of the public sector as well as business and working life. The aim of the Academy of Finland's new flagship programme is to strengthen high-level research and impact clusters.

Under the higher education and research vision for 2030, Finland aims to have a higher-quality, more effective and internationally more competitive higher education system. The work on the road map for implementing the vision will be completed during 2018. The policies for the internationalisation of higher education and research were presented in spring 2017 and the Team Finland Knowledge network was established to strengthen international education and research cooperation as well as to boost expertise and knowledge exports.

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 in which the level and progress of the road map projects have been reviewed. Between 2017 and 2021, Finland will also carry out a data management and computing development programme in which a total of approximately EUR 35 million will be invested

in the infrastructure of the sector, services connected with them and competence development.

The aim in the national growth strategy for R&I in the health sector is to promote research and innovation in the health sector and to encourage the creation of new business. The implementation of the growth strategy road map will boost the competence-based growth of health sectors and the development of the innovation ecosystem as a whole. The implementation of the growth strategy has been a collaborative process involving ministries, providers of R&I funding and sectoral operators.

### 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.

Greenhouse gas emissions generated by Finland have shown a declining trend since 2004. According to provisional data provided by Statistics Finland (8 December 2017), total emissions increased by slightly more than 6% in 2016, compared with the previous year. The emissions outside emissions trading (such as the use of fuels in the heating of buildings, transport excluding air transport, agriculture, waste management and use of F gases) increased in 2016 by nearly 6% from the previous year, exceeding the emissions quota set by the EU by 1.1 million tonnes. Emissions generated by the waste sector declined by almost 7%, and the emissions of industrial processes and products by slightly more than 2%. Agricultural emissions remained more or less at previous year's levels and energy sector emissions increased by approximately 10%. The transport sector accounts for a large proportion of the energy sector emissions outside emissions trading and its emissions increased by more than 13%.

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 will enter into force in spring

2018, Finland must reduce its emissions by 39% by the year 2030, compared with 2005 levels.

The renewable energy target set by EU for Finland for the year 2020 is 38%. In 2016, renewable energy accounted for 38.7% 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. In 2016, the share of renewable energy in the Finnish transport sector was exceptionally low (8.43%). This is because the part of the biofuels distribution obligation exceeding the obligation can be offset for the following year as a lower figure. According to preliminary figures, the 2017 obligation will be substantially exceeded.

Under the Government Programme, Prime Minister Sipilä's Government intends to increase the renewable energy's share of end-use energy consumption to more than 50%, increase self-sufficiency to more than 55%, discontinue the use of coal in energy production, halve the use of imported oil for domestic needs and raise the share of renewable fuels in transport 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>1</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.

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<sup>1</sup> Government report to Parliament on the National Energy and Climate Strategy to 2030, Ministry of Economic Affairs and Employment publications, Energy 4/2017

The measures and targets outlined in the National Energy and Climate Strategy 2017 are:

- Finland will discontinue, with minor exceptions, use of coal in power plants.
- The share of biofuels in transport will be raised to 30% and a 10% biofuel blending obligation will be introduced for light fuel oil used in non-road mobile machinery and heating.
- A target of at least 250,000 electric and 50,000 gas-powered vehicles.
- The electricity market will be developed on a regional and European level.
- Flexibility of electricity demand and supply as well as system-level energy efficiency will be increased. Increasing attention will be paid to the activation of energy efficiency measures by consumers and small businesses.

Technology-neutral competitive tenders will be prepared for the period 2018–2020, on the basis of which support will be granted for cost-efficient new electricity production based on renewable energy.

- Use of renewable energy will be increased so that its share of end-use energy consumption rises to more than 50% in the 2020s.
- Measures undertaken to improve the use of renewable energy and energy efficiency will raise energy self-sufficiency to 55% of end-use energy consumption by the end of the 2020s.
- The share of renewable energy in transport will significantly exceed the targets laid out in the Government Programme.
- The use of imported oil for domestic needs will be halved as planned.

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:

- Budget reservations for such purposes as promoting the infrastructure for electric vehicles and use of biogas in transportation, purchasing subsidies for fully electric vehicles, and the promotion of servitisation of public transport and the transport sector as a whole
- 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
- Examining 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

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 targets

Finland fulfils the EU's headline targets in both education targets. The goal, however, is to develop education from a national perspective.

### People having completed tertiary education

According to the target, a total of 42% of Finns in the age group 30–34 years should have completed tertiary education. In 2016, the figure was 46.1% and in 2017 (provisional data) 45.3%. Under the vision for higher education and research in 2030 presented in autumn 2017, the aim is that by the year 2030, at least 50% of all Finns aged between 25 and 34 have completed tertiary education (See Chapter 4.2 Research and development target for more details about the vision 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 learn-

ing, 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 in 2017 and 2018. This funding will be used to increase cooperation between higher education institutions from the perspectives of digitalisation, development of education and student-orientation.

### **Early school leavers**

According to provisional figures, the proportion of early school leavers among 18–24 year-olds in 2017 was 8.0% (7.9% in 2016). Leaving school early is more common among men than women (9.5% vs. 6.5%). Under the Government Programme, the objective is to make Finland a leading country for modern learning and inspiring education. A new comprehensive school action plan has marked the start for the long-term development of basic education. The action plan supports the digitalisation of teaching, introduction of new curricula and the development of teacher competence. The purpose of the reforms is to improve learning outcomes, respond to future competence needs, renew pedagogy through experimental schemes and provide inspiration for lifelong learning. Operating cultures at schools will be improved through peer support and networks. As part of the action plan, every comprehensive school will have a tutor teacher who shows other teachers the best way to use digitalisation and provides support in the introduction of new pedagogical approaches. Teachers' basic, orientation and supplementary education will also be reformed as part of the new comprehensive school.

The strategies laid out in the Teacher Education Development Programme prepared by the Teacher Education Forum 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.

The test centre operating under the auspices of the Finnish National Agency for Education cooperates with education providers, encourages systemic change and supports long-term development work. The test centre seeks new ways of funding development activities at schools and strengthening management at education institutions and test culture in teaching.

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. This will be achieved through more personalised and flexible study paths and provision of guidance and support as required by them, studies across subject boundaries, and cooperation with higher education institutions. The structure of general upper secondary education will be developed as part of the reform. 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 would 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 proposed new act on general upper secondary education would also contain provisions on learning support for students that have difficulty completing their studies because of learning problems. The act would also lay down provisions on the preparation of personal study plans.

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

## 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 around 849,000 people in Finland in 2016 (compared with 896,000 in

2015). There are approximately 623,000 persons living in low-income households (previous year 634,000), approximately 412,000 persons in under-employed households (previous year approximately 439,000), and approximately 113,000 members of households suffering from material deprivation (previous year approximately 120,000). In Finland, the low-income group also includes students, whose low-income status is usually of temporary nature. During the poverty target monitoring period (since 2008), the number of people on low incomes and suffering from material deprivation has fallen, but the number of those in under-employed households has grown.

In 2016, there were approximately 404,020 Finns in the long-term low-income group, or 7.5% of the entire population. The number has been falling since 2013. Spending long periods in the low-income category is more common among men than women even though the gap has narrowed in recent years.

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. The data on social assistance is now more comprehensive and the information is almost in real time, which will make it easier to develop social security and rehabilitation. The transfer of the basic social assistance scheme to Kela has also highlighted the role of the service provision in the payment service system. The number of electronic applications for basic social assistance has been higher than originally anticipated and Kela's unitary system has slightly reduced the stigma previously attached to social assistance. It is still too early to make any conclusions on the reduction of underuse because the number of social assistance clients has been reduced by improvements in the employment situation, while at the same time, freezing of benefits and the introduction of the activation model have increased the number of users.

Elderly long-term unemployed who are in a particularly difficult labour market position have been eligible for pension subsidy as of 1 June 2017. 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 guaranteed pension (EUR 760.26 per month at 2017 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. It is estimated that in 2017 the pension subsidy was paid to approximately 5,300 persons each month.

To adjust general government finances, the national pension index was lowered by 0.85% from the 2016 level. The change affects the national and guaranteed pensions and well as other benefits linked to the national pension index, which include disability benefits, the basic daily allowance of unemployment security, labour market support and the child



increment. The single parent supplement of child allowances was maintained at the 2016 level, but otherwise child allowances were reduced by 0.91%. The index adjustment made to the basic component of social assistance in 2018 corresponds to the normal index adjustment.

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 guaranteed pension from the beginning of 2017. The change will promote the employment of people with partial work ability and ensure the implementation of the rehabilitation.

To curb growth in general housing allowance expenditure, the approved maximum housing allowance expenditure was not increased between 2015 and 2017. Students were transferred under the general housing allowance scheme from 1 August 2017. This means that fewer students are now eligible for housing allowance than before and that priority is given to those who have large housing expenditure relative to income. With the introduction of the reform, students are in an equal position with other low-income people with regard to housing allowance. 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 will last for two years. The purpose of the experiment is to find out how incentives encouraging recipients to accept work could be incorporated into social security and how it could be adapted to changes in working life. At the same time, the aim is also to simplify the benefit system. The Government has also commissioned a study on active social security, which was presented in February 2017. Possible further measures will be considered in the spring. The study group's report examines how the existing social security system, particularly unemployment security and adult social work, could be used more extensively as a basis for developing the skills of the unemployed, for preventing exclusion from the labour market and for lowering the threshold to employment.

Based on the report on active social security, a steering group has been appointed for experiments with active social security and for modelling participation income for young people. The term of the steering group will end on 31 March 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. Active social security could provide incentives and encourage people to engage more extensively in society. The modelling of the participation income for young people is based on the proposals made by Professor Heikki Hiilamo in 2017. Processing of the proposals will involve a more detailed analysis of the current situation, basic structure of the participation income, definition of the levels of participation income and the clarification of the incentive mechanisms. After the modelling, it will be determined whether the participation income can be introduced.

## 5 EU funds

The Partnership Agreement is a framework document bringing together the measures, results and reconciliation of European Structural and Investment Funds (ESIF). It has been prepared on the basis of the strategic objectives and key challenges set out in the Europe 2020 Strategy, its National Reform Programme and the Council's country-specific recommendations. 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 employed), 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 is promoted by supporting the renewal and growth of companies and by improving the skills and employability of individuals on the basis of the working life needs. More than 40% of all publicly funded measures of the structural fund programme are directly connected with R&D activities (approximately 3.5% of all Finland's R&D expenditure). However, when consideration is given to the private funding generated by the programme, the figure is substantially higher than this. Regional differences are substantial; in many regions, funding provided under the auspices of ERDF is the main source of funding for R&D activities.

In the rural development programme for mainland Finland, funding is provided for cooperation between rural companies and projects promoting the RDI theme. The rural development programme involves EIP (European Innovation Partnership) funding, which has proved an effective tool in the promotion of research and practically oriented innovations. Funding for digitalisation and improved broadband access in rural areas is also provided from the rural development programme.

The main aim of the operational programme for Finland under the auspices of the European Maritime and Fisheries Fund (EMFF) is to create a competitive operating environment for the fisheries sector and to provide a basis for the sustainable growth and renewal of its value chain. Supporting the innovation work taking place in the fisheries cluster, generation of added value and promoting of bold experiments play a central role in this process.

Achievement of the climate targets set out in the Europe 2020 strategy are 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 also supported from the rural development programme for mainland Finland. Furthermore, rural development programme instruments also help to improve the status of the Baltic Sea and other water bodies 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 EMFF. The priority area of integrated maritime policy, in which the aim is to coordinate the measures in different policy sectors in maritime matters and to strengthen blue growth, is treated as a separate package in the fund.

ESF projects involving the development of guidance and advisory services, expert networks for employers, teachers and instructors and novel teaching and studying methods help in the achievement of the objective for people with tertiary education. School dropout rates can be reduced with projects in which the focus is on improving students' life-management skills, promotion of multi-professional cooperation and development of personalised learning paths. The aim of the ESF projects facilitating the access of the unemployed and people with partial work ability to the labour market with the help of support measures and service models is to reduce the number of people at risk of poverty and social exclusion. The third sector working in close contact with the client interface and various low-threshold services have proved effective. Despite these measures, youth unemployment has remained high, at approximately 20% of the labour force. Finland has not received special funds for combating youth unemployment.

In particular, the country-specific recommendations issued in 2017 under which Finland should take targeted active labour market policy measures and promote entrepreneurship involve activities that can be supported from ESIF funds. In ESF projects, public employment services are developed and the unemployed are provided with training, coaching and subsidised work as well as participatory opportunities. ESF support helps to develop the competence of entrepreneurs and personnel working in companies and other organi-

sations with the aim of improving productivity and wellbeing at work. ERDF provides partial funding for the paths of start-up enterprises and individuals planning to become entrepreneurs and supports growth-oriented SMEs. ERDF also helps in the development of operating environments and networks of enterprises. All in all, it is estimated that slightly over 70% of ERDF funding and approximately 80% of ESF funding has been allocated directly to projects related to the country-specific recommendations.

The European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund also support companies in their development work and competence enhancement. Development of rural enterprises, competence development in them, and renewing investments are funded from the rural development programme. Funding for leader groups provides rural residents with more participatory opportunities, allows them to improve their competence and helps to create new solutions for organising rural services. Smart Villages is an initiative of the European Commission and its purpose is to enhance the vitality of rural areas. The instruments of the rural development programme provide an effective way of responding to the initiative. Smart solutions are provided funding under the auspices of ELY Centres and Leader groups. The European Agricultural Fund for Rural Development also supports local-level development through fisheries local action groups. The measures supported through the European Agricultural Fund for Rural Development are particularly useful in the implementation of the country-specific recommendation concerning the increasing of competition, promotion of entrepreneurship and the reduction of the administrative burden.

## **6 Institutional issues and stakeholder participation**

### **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 6 April and the Government Plenary Session on 13 April. Parliament was notified of the preparation of the National Reform Programme with an E-communication on 13 April.

## 6.2 Participation of stakeholders in the preparation of key reform projects

There has been stakeholder involvement at several levels in the health and social services reform. In the national preparation, stakeholders are represented in working groups and they also have an opportunity to submit comments. At regional level, the implementation is in the form of more practically oriented planning of daily work and regions have included stakeholders in the process in accordance with their own situation. Organisations and regional entrepreneurs are typical partners in the work. Social partners have been involved in the preparation of provisions relevant to personnel. Involvement of the stakeholders will become more extensive after the legislative package has been approved and the county councils have been elected. Legislation provides a stronger basis for cooperation agreements. Stakeholders play an extremely important role in the organisation and development of services and they also help citizens to have a greater say in the matters.

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. The recordings of the stakeholder events could be viewed on the Ministry of Transport and Communications website after the events and they have actually been seen by a large number of people.

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.





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