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OF FINANCE

Europe 2020 Strategy

Finland's National Reform Programme, Spring 2020

Economic Prospects

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Finland's National Reform Programme, Spring 2020

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| <p>Abstract</p> <p>The European Council adopted a Strategy for Growth and Employment in 2010. The vision of the Europe 2020 Strategy, covering the years up 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 this. As part of its national targets, Finland aims to raise the employment rate of people aged 20–64 to 78%, spend 4% of GDP on R&D, achieve the climate and energy targets agreed in the EU, maintain the proportion of those aged 30–34 who have 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 Council of the European Union adopts recommendations for all Member States aimed at guiding national decision-making to ensure this supports growth and employment. The recommendations issued for Finland in 2019 concern the sustainability of general government finances, improving the cost-effectiveness of health and social services, developing services targeted at the unemployed and those who are outside the labour market, improving the incentives for work, furthering investment in R&D activities, in the low carbon economy and in sustainable transport, and more robust monitoring of household indebtedness.</p> <p>Finland's National Reform 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.</p> | | | |
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| Tiivistelmä | <p>Eurooppa-neuvosto hyväksyi vuonna 2010 kasvu- ja työllisyysstrategian. Vuoteen 2020 ulottuvan Eurooppa 2020 -strategian visio 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. Suomen kansallisena tavoitteena on nostaa 20–64-vuotiaiden työllisyysaste 78 prosenttiin, käyttää tutkimus- ja kehitysmenoihin 4 % bruttokansantuotteesta, saavuttaa EU:ssa sovitut ilmasto- ja energiatavoitteet, pitää korkeakoulututkinnon suorittaneiden 30–34-vuotiaiden osuus 42 prosentissa, pienentää 18–24-vuotiaiden koulutuksen varhain päättäneiden osuus 8 prosenttiin sekä vähentää köyhyys- ja syrjäytymisriskissä olevien määrää.</p> <p>Euroopan Unionin Neuvosto hyväksyy kaikille jäsenvaltioille suosituksia, joilla pyritään ohjaamaan kansallista päätöksentekoa kasvua ja työllisyyttä tukevasti. Suomelle vuonna 2019 annetut suositukset liittyvät julkisen talouden kestävyteen, sosiaali- ja terveyspalvelujen kustannustehokkuuden parantamiseen, työttömille ja työmarkkinoiden ulkopuolella oleville suunnattujen palvelujen kehittämiseen, työnteon kannusteiden parantamiseen, T&K-toiminnan, vähähiilisen talouden ja kestävä liikenteen investointien edistämiseen sekä kotitalouksien velkaantumisen seurannan vahvistamiseen.</p> <p>Suomen kansallisessa uudistusohjelmassa kuvataan, mihin toimiin hallitus on ryhtynyt kansallisten tavoitteiden saavuttamiseksi ja miten EU:n antamiin suosituksiin on reagoitu.</p> | | |
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| Referat | <p>Europeiska rådet antog en tillväxt- och sysselsättningsstrategi år 2010. Visionen i strategin Europa 2020 är smart och hållbar tillväxt för alla. I strategin fastställs mål för hela EU när det gäller sysselsättning, utgifterna för forsknings- och utveckling, klimatåtgärder, utbildning och fattigdomsbekämpning. Varje medlemsstat fastställer motsvarande nationella mål. Finlands nationella mål är att höja sysselsättningsgraden bland 20–64-åringar till 78 procent, att använda 4 procent av BNP för 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 sin skolgång i förtid till 8 procent samt att minska antalet människor som riskerar leva i fattigdom eller utanförskap.</p> <p>Europeiska unionens råd antar rekommendationer för samtliga medlemsländer i syfte att styra det nationella beslutsfattandet i en tillväxt- och sysselsättningsfrämjande riktning. 2019 fick Finland rekommendationer som handlar om den offentliga ekonomins hållbarhet, om bättre kostnadseffektivitet i social- och hälso-tjänsterna, vidareutveckling av service riktad till arbetsökande och personer som står utanför arbetsmarknaden, bättre incitament för att ta emot arbete, främjande av investeringar i forsknings- och utveckling, koldioxidsnål ekonomi och hållbara transporter samt bättre uppföljning av hushållens skuldsättning.</p> <p>I Finlands nationella program beskrivs vilka åtgärder regeringen har vidtagit för att uppnå de nationella målen och hur man reagerat på EU:s rekommendationer.</p> | | |
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1 Introduction

The coronavirus pandemic and the measures taken to prevent its spread have brought the global economy to a standstill in a manner that has been unprecedented in its scale and suddenness. Finland is no exception, and the pandemic will hit our economy hard. There is now an exceptional degree of uncertainty in the economic forecasts. The Finnish economy is expected to contract by 5.5% this year, assuming that the restrictions will only remain in effect for three months.

Until now, the Government's objective of achieving an employment rate of 75%, given normal global and related domestic economic circumstances, has been supported by steady economic growth. However, the coronavirus pandemic will reverse the employment trend as the number of employed persons will fall substantially. If the impacts of the pandemic and the measures taken to contain it will be short-lived, the employment rate is expected to be close to 72% in 2022.

In the longer term, economic growth is impacted by structural factors. Continuous decline in working-age population and structural unemployment are weakening the growth potential of the Finnish economy. Moreover, the capital stock is shrinking, a result of a falling investment rate.

The coronavirus pandemic, the measures taken to contain it and a temporary but rapid weakening of the Finnish economy will have a substantial impact on general government finances. A sharp fall in output, employment and consumption will mean less tax revenue and higher benefit expenditure. The measures taken to mitigate the negative impacts of the coronavirus pandemic and to ease the economic distress of companies will also hit general government finances this year. On the other hand, the purpose of these measures is to ensure that households and businesses can survive the crisis with relatively minor human and economic damage, which will help Finland to recover rapidly from the crisis. The measures introduced because of the coronavirus situation and their impacts on general government finances are discussed in more detail in Finland's Stability Programme, published together with the National Reform Programme.

As set out in the updated guidelines received from the European Commission in April, the focus in this year's National Reform Programme is on long-term structural challenges, the reforms introduced before the pandemic and on progress achieved in the meeting of the country-specific recommendations. Progress in the meeting of the Europe 2020 targets and sustainable development targets is also reviewed.

When the acute stage of the crisis is over it will be more important than ever to find solutions that will make the economic resources more efficiently and extensively available and that help to consolidate Finland's general government finances. In that situation, we must find ways to boost investments, employment and growth so that the public sector obligations and services can be safeguarded in an ageing Finland.

In its spending limits discussion on 8 April 2020, Prime Minister Marin's Government decided that in addition to the decisions already made, the Government will submit a proposal for a supplementary budget to Parliament in May. The proposal will contain measures helping the Finnish economy to recover rapidly from the crisis. In the same connection, the Government emphasised that it is also essential to introduce structural measures that will put Finland back on a path of sustainable growth, high employment and sustainable general government finances after the crisis. The Government will prepare a sustainability roadmap, which will specify the potential of different measures in narrowing the sustainability gap. In its autumn 2020 budget session, the Government will make macroeconomic policy decisions and set out measures that will enhance the sustainability of general government finances and boost employment, taking into account the changes that have taken place in the economic operating environment. The Government is committed to ensuring that the burden caused by the crisis is shared in a socially and economically fair and ecologically sustainable manner between generations.

Preparations for a comprehensive reform of Finland's health and social services are continuing (Chapter 3.1). The reform is needed so that gaps in wellbeing and health can be narrowed, better and more equal access to the services can be ensured, cost-efficiency of the services can be enhanced, and cost increases can be slowed down.

Prime Minister Marin's Government has also launched preparations for a comprehensive social security reform that would allow citizens to combine work and social security. Incentives for work will also be enhanced by reforming the unemployment security system and services for the unemployed, by raising the age of eligibility for additional days of unemployment allowance and by developing adjusted unemployment security. As described in Chapter 3.2, the measures designed to boost employment have targeted young people, immigrants and the long-term unemployed. Introduction of more effective employment and economic services, employment pilot projects in municipalities, the pilot project encouraging SMEs to recruit unemployed jobseekers, overhaul of the system of

labour immigration, and the appointment of a parliamentary working group to overhaul the system of continuous learning are also designed to boost employment.

In its macroeconomic policy, the Government is taking measures to create a sound basis for research and development (R&D) investments, and for a transition to low-carbon economy and sustainable transport (Chapter 3.3). The 2020 Budget contains additional funding for research and innovation. In connection with the transition to low-carbon economy and energy, the Government has launched an overhaul of energy taxation and Finland's climate change act. Improving the transport infrastructure is key to building sustainable transport. The Government is also promoting transition to low-carbon transport through legislative reforms, taxation and a roadmap for fossil-free transport.

The Government has introduced macroprudential measures to restrict lending by banks and to prevent households from accumulating excessive debts (see Chapter 3.4). Over the past few years, a range of new instruments has been added to the macroprudential toolkit and measures have been introduced to limit the tax deductibility of housing loan interest payments. A report on preventing excessive household indebtedness and on improving the macroprudential toolkit was published in October 2019. Based on the report and comments on it, legislative proposals will follow during 2020. Price controls on consumer credits were introduced in September 2019. Preparations for legislation on a positive credit register will be launched in early 2020 and the register will be introduced during the current government term.

A policy enhancing the overall economic operating environment helps to boost investments (Chapter 3.5). Smooth functioning of the product, labour and financial markets is essential. Removing obstacles to investments should also be a priority. In public investments, the focus should be on infrastructure investments that help to enhance the long-term growth potential of the Finnish economy. Continuity and predictability of policies are also essential in the efforts to encourage investments.

Finland has made progress towards achieving the Europe 2020 goals and already in 2018, it met the targets for renewable energy, energy efficiency and higher education. In employment, Finland is getting closer to achieving the target set for 2020, but more work is still needed to achieve the poverty reduction target. There was a substantial decrease in R&D investments during the prolonged downturn and the target for 2020 (R&D expenditure at least 4% of GDP) will probably not be met, despite a broad range of different policy measures.

Finland's National Reform Programme, which will be published simultaneously with the Stability Programme, has been prepared by the Ministry of Finance's public officials and it has not been reviewed by the Government. The National Reform Programme will be published on the Ministry of Finance website and it will be submitted to the European Union on 30 April 2020.

2 Macroeconomic situation

From the economic perspective, the coronavirus pandemic is a global disruption slowing down the level of economic activity in all parts of the world. In addition to a major negative demand shock, we are primarily facing a negative supply shock, which originated in China and which is spreading through global production chains. Decisions restricting free movement of people and business operations are substantially slowing down the level of economic activity.

The negative economic impacts become more severe as the virus spreads and as more people are infected and especially as more extensive and long-term restrictions are introduced to contain the virus. Estimates of the duration of the coronavirus disruption are changing on a daily basis, which makes forecasting particularly difficult.

Finnish GDP is expected to contract by 5.5% in 2020, assuming that the measures restricting economic activity will not last for more than three months. The volume of foreign trade will fall rapidly, and there will be a particularly sharp decline in private consumption and investments this year. However, the impact of the coronavirus is expected to recede and the economy to recover rapidly during the second half of the year.

The number of employed persons will decrease by 2% this year, and the employment rate will fall to just over 71%. Driven by falling employment, unemployment will increase substantially in 2020 and the jobless rate will reach 8%. If the measures to contain the pandemic will be of short duration, the rise in unemployment may also be moderate.

Finnish GDP is expected to grow by 1.3% in 2021 and 2022. Driven by external demand, export growth will be restored and growth in private consumption will reach normal levels. Private investments will recover more slowly because large forest industry projects will probably be postponed and housing construction investments will decline further. There will no longer be any fall in housing construction investments in 2022, which will be the biggest single factor supporting GDP growth that year. The expected economic recovery and slower rise in nominal wages will gradually increase demand for labour in 2021 and 2022. The employment rate is expected to reach 72% in 2022 as the working-age population continues to shrink.

The coronavirus pandemic, the measures taken to contain it and the sharp economic slowdown will cause a rapid rise in general government deficit and debt. The measures taken to minimise the impacts of the pandemic and to ease the economic distress of companies will also weaken general government finances. Assuming that there are no policy changes, Finland's general government deficit will grow by almost EUR 14 billion this year, to EUR 16.6 billion (7.2% of GDP).

General government budgetary position will improve in 2021 as the economy grows and the temporary support measures introduced because of the coronavirus situation are coming to an end. However, the economic growth expected in the coming years will not be enough to balance the general government budgetary position and Finland's general government finances will remain substantially in the deficit.

In addition to the coronavirus pandemic and cyclical factors, Finland's general government finances are also affected by structural problems. Ageing of the population will automatically increase public spending and weaken the growth potential of the economy, thus slowing down growth in tax revenue. Finland's general government finances suffer from a long-term sustainability problem.

There has been a moderate fall in general government debt-to-GDP ratio in recent years. This year, the debt ratio will take a sharp turn upwards, rising almost ten percentage points, to nearly 70%. The sudden rise in the debt ratio is caused by the contraction of GDP and especially by a huge increase in central government and local government deficits. In 2024, the debt ratio may already be close to 80%.

The risks affecting general government finances are closely connected with the overall economic developments. A rapid and strong economic recovery from the disruption caused by the coronavirus pandemic will also ensure that general government finances will only be moderately affected. However, if the coronavirus pandemic and the restrictions introduced to contain it will last longer than assumed, tax revenue will contract more than predicted and unemployment expenditure will increase more than forecast. Moreover, general government contingent liabilities and especially the rapid rise in guarantees will pose a risk for general government finances. Guarantee authorisations will also be increased this year as part of the measures introduced to support companies. Extensive realisation of the liabilities would lead to higher public spending and further exacerbate the impacts of a higher debt-to-GDP ratio.

Finland's macroeconomic situation and the state of its general government finances are described in more detail in Finland's Stability Programme, published simultaneously with this document, and the General Government Fiscal Plan for the period 2021–2024, published on 16 April 2020.

3 Implementation of country-specific recommendations and policy priorities

3.1 Long-term sustainability of general government finances

Recommendation 1: Ensure that the nominal growth rate of net primary government expenditure does not exceed 1.9% in 2020, corresponding to an annual structural adjustment of 0.5% of GDP. Improve the cost-efficiency of and equal access to social and healthcare services.

Structural reform of health and social services

Rapid increase in health and social services expenditure in the coming years, caused by an ageing population, and weakening of the dependency ratio, caused by a decline in working-age population, are the key challenges threatening the sustainability of Finland's general government finances. The challenges facing the service system are not identical in all parts of the country.

The provision of public health and social services in Finland is the responsibility of municipalities (N=294 in mainland Finland). In 2019, a total of 74 municipalities provided the basic health and social services independently, in 160 municipalities the services were provided by joint municipal authorities, and the remaining 61 municipalities were members of cooperation areas, in which one municipality has prime responsibility for the services. In 2019, 47.7% of the people living in Finland were assigned to health centres of municipalities that provided their health services independently, while 30.8% of the population were assigned to health centres operated by joint municipal authorities.

Preparation of the health and social services reform is continuing. The preparatory work carried out during previous parliamentary terms and the constitutional framework for the reform are key considerations in the process. In the reform, self-governing regions (counties), which are larger than municipalities, would be responsible for providing health

and social services and rescue services. The main difference to the reform outlined during the previous parliamentary term is that the first stage of the reform planned by the current Government would only concern the provision of health and social services and rescue services, and it does not include freedom of choice for users of health care services.

The main objective of the reform is to narrow gaps in wellbeing and health, ensure that all Finns have equal access to high-quality health and social services, enhance the availability of the services, safeguard the supply of professional workforce, respond to the challenges arising from changes in society, and slow down cost increases.

The reform can only become reality if the counties are steered in a manner that allows high-quality and cost-efficient operations and if the availability of the services can be improved. Better service integration and shifting of focus to basic services are fundamental to ensuring cost-efficiency. The steering should be based on a well-functioning knowledge and knowledge-management system. Under the envisaged system, most of the counties' activities would be financed by central government in accordance with the universality principle and, as self-governing entities, the counties would themselves decide on the use and allocation of the funding. Decisions on the counties' right to levy taxes would be made later.

The key principle in the preparation of the funding model for the counties is that the model must ensure the provision of adequate health and social services in the manner laid out in the Constitution of Finland. Factors causing changes in costs at county level each year (estimated increase in health and social services needs, changes in prices, and changes in tasks) would be considered when decisions on the level of national funding are made. As outlined in the Government Programme, one objective of the health and social services reform is to slow down cost increases. The funding model must therefore provide incentives for cost control so that the sustainability of general government finances can be ensured. County finances would account for a significant proportion of general government finances in the future. The tasks and funding of the counties would be assessed in the General Government Fiscal Plan and the Government's annual report.

Before the entry into force of the health and social services reform, basic health and social services will be developed within the framework of the programme *Future Health and Social Services Centres*. The purpose of the programme is to overhaul the operating practices of health and social services and to develop human-oriented service entities. It is envisaged that the services developed in the programme could be introduced in the new counties as the health and social services reform enters into force.

3.2 Labour market

Recommendation 2: Improve incentives to accept work and enhance skills and active inclusion, notably through well-integrated services for the unemployed and the inactive.

In its Programme, the Finnish Government is strongly committed to the objective of achieving an employment rate of 75%, given normal global and related domestic economic circumstances. Ensuring a higher employment rate is also the key factor in the revenue base of the Government Programme.

A ministerial working group and tripartite task forces have been appointed to promote employment and to propose new measures. Each of the task forces will discuss specific themes: service structure, pay subsidies and benefits, skills and labour market match, employment of persons with partial work ability, labour immigration and integration, labour law, and local collective bargaining.

Social security reform

The Government has launched a social security reform, which will be prepared in a parliamentary committee on the basis of research and studies. The aim is to create a system that is more clearly structured and functions better than the existing one and that allows citizens to combine work and social security in changing life situations. Social justice, safeguarding livelihood in the face of social risks, and providing incentives to work are the key considerations in the reform. In the future, social security will support the balance between an individual's rights and obligations in a manner that is compatible with achieving stronger general government finances and a higher employment rate. The committee will discuss basic social security, earnings-related benefits, and social assistance, their funding, how they relate to each other, and how to ensure better match between services and benefits. The objective of the social security reform is to reduce the need for long-term social assistance. The committee was appointed in March 2020 for a term lasting to 2027.

Parallel to the social security reform, the Government is also planning a comprehensive social assistance reform, as outlined in the Government Programme. The aim is to ensure last-resort income security and timely services for individuals in need of financial support. The Government has also launched a programme to develop health and social services centres as part of the work to improve health and social services and to overhaul the service structure. The working group tasked with overhauling the social assistance scheme is expected to present its proposal for a new act on social assistance during the current parliamentary term.

Reforming unemployment security

Reforming unemployment security and services for the unemployed

As outlined in its Programme, the Government will prepare a reform of the unemployment security system and services for the unemployed. The aim is to shorten the periods of unemployment, make short-term employment more attractive, encourage job seeking, and adjust unemployment benefit sanctions so that a more reasonable balance of rights and obligations can be established. It is envisaged that in the future, the jobseeking obligation and services (such as training and rehabilitation) would be set out in the personal employment plan. It is also stated in the Government Programme that the resources for jobseekers' personal services provided at Employment and Economic Development Offices will be safeguarded. Detailed contents or timetable of the changes are not yet known.

Raising the minimum age for additional days of unemployment security

Notwithstanding the maximum payment period, ageing unemployed are eligible for unemployment allowance until the age of 65 on certain conditions. This arrangement is called additional days of unemployment security.

The minimum age for eligibility for this benefit has now been raised by one year for individuals born in 1961 and after that. In the future, individuals in this age group may become eligible for the additional days at the age of 62, or a year later than in the past.

The aim is to reduce unemployment and boost employment by extending working careers. The additional days may increase unemployment among ageing individuals in two ways. Firstly, the existence of the additional days may encourage companies to dismiss ageing employees first when reducing workforce. Secondly, the right to additional days may reduce incentives for employment among ageing unemployed, which in turn may make re-employment more difficult. Previous increases in the minimum age of eligibility have helped a growing number of ageing workers to continue in working life. Raising the minimum age is estimated to reduce unemployment by 7,400 and increase the number of employed persons by 6,000 by the year 2025.

Reforming the adjusted unemployment benefit scheme

The Government has taken measures to boost the employment rate by developing the unemployment security system so that part-time or short-term employment would be a more attractive alternative to full unemployment. When the option of combining partial employment with unemployment benefits has been examined, the Finnish system of adjusted unemployment benefits (the mechanism determining how earnings impact the level of unemployment benefits) has been considered generous in international

comparisons.¹ The earnings principle applying to the combination of earned income and unemployment benefit² may have caused delays in the payment of unemployment benefits. The delays in the payment of unemployment benefits tend to make partial employment less attractive during unemployment.

Combining earned income and unemployment benefits as part of the adjusted unemployment benefit scheme is now easier. Under the change that entered into force on 1 April 2019, income from work only starts affecting the unemployment benefit after the individual concerned has received the income. The payer of the benefit can check the amount of the wages from the Incomes Register. The change will reduce delays in the payment of adjusted unemployment benefits and it also helps to equalise income formation over longer periods. The latter effect arises from the fact that the wages reduce the unemployment benefits for the period when the wages have been at the disposal of the unemployment benefit recipient. The change will also facilitate the use of the Incomes Register in the payment of unemployment benefits and thus it will ease the administrative burden arising from the supply of the wage details by the unemployment benefit applicant and the employer.

Abolishing the activation model of the unemployment security

The activation model was abolished on 1 January 2020. The activation model reduced the unemployment benefits of the unemployed jobseekers that did not meet the activity requirement set out in the model. As the model has now been abolished, parties paying unemployment benefits no longer monitor how actively unemployment benefit recipients are seeking work. However, the recipients must still report their income and hours worked for the payment of the adjusted unemployment benefits and for monitoring the employment requirement.

Despite the abolition of the activation model, unemployed jobseekers must also in the future actively seek work and training and to act in accordance with the employment plan prepared in cooperation with the Employment and Economic Development Office. For example, unemployed jobseekers must seek work and be prepared to accept work offered to them, and take part in services and measures promoting employment. Unemployed jobseekers who fail to meet these obligations, may lose their unemployment benefits for a specific period or until further notice.

1 Kyyrä et al. (2018)

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

Local government pilot projects to boost employment

In the local government pilot projects to boost employment (1/2021–6/2023), which will be launched in spring 2020, the operating model applied in the regional employment pilots completed at the end of 2018 will be continued and expanded. A total of 20 pilot regions and 89 municipalities are involved in the further preparations of the projects, which will strengthen the role of municipalities as providers of employment services. The pilot projects have a combined client volume of 186,000 jobseekers, which is 37% of all jobseekers registered in TE Offices. Final decisions on the pilot regions will be made after Parliament has approved the act on the pilot projects, which is currently under preparation. The Government will submit its legislative proposal to Parliament in April and the act is expected to enter into force at the start of 2021. Under the act, which will remain in effect for a limited period, the responsibility for the services of the target group and the powers concerning them will be transferred to the municipalities taking part in the pilot projects. These municipalities will provide the target group with TE services in accordance with the existing legal provisions on services and unemployment security.

The objective of the pilot projects is to promote the employment and training of unemployed jobseekers more effectively and to find new ways of securing the supply of skilled labour. In the pilot projects, services and service models supporting employment will be developed so that the service needs of individual clients, obstacles to their employment, and skills development needs can be effectively identified and addressed. More effective coordination of employment services, expertise services and health and social services at the municipal platform is the key instrument used in the pilot projects.

The main aim of the pilot projects is to provide long-term unemployed and individuals in a vulnerable labour market position with better access to the labour market. Unemployed individuals and jobseekers registered in employment services that are not eligible for the earnings-related unemployment allowance are referred to the pilot services. The target group also comprises all jobseekers aged under 30, all foreign-language speakers, and immigrants that are unemployed or registered in employment services at the TE Offices of the pilot regions.

The aim of the pilot projects is to enhance effectiveness by combining central and local government resources, competence and services. Central government will transfer personnel resources under the supervision of municipalities, and central government decision-making powers on employment appropriations will also be transferred to local government in accordance with the client volumes of the projects. Municipalities are expected to make inputs to enhance the service level and to improve individual services.

Recruitment subsidy pilot project

As outlined in the Government Programme, a recruitment subsidy pilot project is planned to support growth of SMEs. The project is intended to ensure better labour market match and encourage more SMEs to recruit unemployed jobseekers. The pilot project would create a minimum-administration subsidy scheme to lower the threshold of private traders to recruit their first employee.

The aim is to promote rapid employment of unemployed individuals, encourage more entrepreneurs to become employers and to boost the growth of enterprises by encouraging private traders and micro enterprises to recruit people (recruitment subsidy).

The details of the pilot project will be drawn up in cooperation with researchers during 2020.

Measures supporting the employment of immigrants

Measures to promote the integration and employment of immigrants will continue in accordance with the Programme of Prime Minister Marin's Government. The work to develop a new integration model was launched in 2019 with the aim of producing a model, which supports the employment of immigrants and their social integration and inclusion, helps to develop the content and availability of services, enhances the quality and effectiveness of integration services in relation to the objectives set for integration, and provides a clearer framework for the services intended for the early stages of the integration process. In order to achieve the objectives, a common framework will be modelled for the client process: Measures will be taken to enhance the integration process driven by the TE Administration and municipalities, to provide clearer targets for client steering and services, and to develop their contents and guidance and the way in which they are monitored. There will be particular attention to ensuring that the target group left outside the services can be reached and provided with access to the services (especially parents at home).

As outlined in the Programme of Prime Minister Marin's Government, support for the activities of multidisciplinary municipal competence centres will continue. The competence centres are engaged in multidisciplinary cooperation to identify and enhance the skills of immigrants and to ensure more effective guidance: the service needs and employment potential of the clients are assessed and the clients are provided with services tailored to their needs, or they are directed to a service path taking them forward. In addition to the competence centre already operating in Helsinki, similar centres were also established in Espoo, Vantaa, Turku and Tampere in 2019. Support for the activities will continue in the period 2020–2022.

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

The purpose of the project *Developing Guidance for Refugees* is to provide jobseekers that have arrived in Finland as quota refugees, and other jobseekers with foreign backgrounds with an easier path to training and working life. The people working in the project are engaged in development work at national, regional and local level. In the project, the clients are provided with training in their own mother tongue, and the usability of electronic tools as guidance support is examined. Communication, advisory and guidance personnel in TE Offices, municipalities and education institutions are also provided with training. Higher-quality guidance will make it easier for people with refugee background and other immigrants to move to working life and education. Receptive client work has been launched as part of the project.

Kela has also been working to develop vocational rehabilitation of immigrants in the period 2018–2020. The aim is to combine vocational rehabilitation with language learning so that the immigrants can learn Finnish while working and undergoing rehabilitation.

The result-based employment pilot KOTO-SIB (Social Impact Bond) for immigrants ended on 31 December 2019. The purpose of the pilot was to provide immigrants with rapid paths to employment. A total of 2,211 immigrants took part in the pilot between 2016 and 2019, and 869 of them found employment. The results of the pilot are assessed by comparing the taxes paid and unemployment benefits received by the participants with the taxes paid and unemployment benefits received by the reference group three years after the participants had left the project.

Promoting international recruitment and labour immigration

In its Budget proposal in autumn, the Government decided to launch Talent Boost, an extensive action plan to attract special experts, employees, startup entrepreneurs, students and researchers to Finland. The action plan will enhance the supply of skilled workforce and labour market match, boost the growth and internationalisation of enterprises, and research, development and innovation activities (RDI), help to attract investments, help foreign students and researchers to settle in Finland, and improve the recruitment and diversification skills of employers. Its objective is to raise Finland to a new level in terms of its attractiveness to international talent and their families.

The key measures are:

- shortening the processing period for work-based residence permit applications to one month, as outlined in the Government Programme
- determined action to attract and retain international talent (including students and researchers), and help them and their families to settle in Finland
- creating a model for international recruitment
- benefiting from international talent in supporting the growth and internationalisation of companies and RDI activities, and in attracting investment
- increasing receptiveness and diversity in the workplace.

Close long-term cooperation between central government, cities, education institutions, businesses and other actors is required to attract, accommodate and integrate international talent and to put its skills to effective use. The Talent Boost action plan will provide a framework for this cooperation.

As part of Talent Boost, the Government has decided to launch an ambitious overhaul of labour immigration, in which the aim is to significantly increase employment. The objective is to shorten the processing time of work-based residence permit applications to one month during the current government term. Bottlenecks of labour immigration will be eased and the activities will be put under the responsibility of a single performance-managed body. The administration of labour immigration (including students, researchers, entrepreneurs and trainees) was transferred to the Ministry of Economic Affairs and Employment as of 1 January 2020. A project to develop the aliens legislation and permit procedures has been launched to remove the bottlenecks concerning work-based and study-based residence permits. Additional resources will be allocated to the immigration process (Ministry for Foreign Affairs, Ministry of the Interior, Ministry of Economic Affairs and Employment), the necessary legislative changes will be introduced, and practices governing labour immigration will be overhauled.

To ensure mobility of labour and labour market match, the need for harmonisation of regional work permit procedures will be assessed. On 12 March 2020, Minister of Labour Tuula Haatainen decided to appoint a task force on preventing the exploitation of foreign labour within the framework of the project to encourage labour immigration. Sufficient resources for the supervision of employment terms and conditions will be ensured.

More effective employment and economic services

Smooth work-to-work mobility and supply of skilled labour will be ensured by promoting vocational mobility and by ensuring more effective TE services. The steering group for reforming employment and business services has decided to launch the preparation of a national TE service strategy. Key elements include comprehensive career planning

and career guidance services, flexible work-based training arising from the needs jointly anticipated with enterprises, on-the-job learning, and surveying the skills acquired at work and during leisure time.

Introduction of the Job Marketplace, a digital meeting point for jobs and people, is making progress. The trial version was launched in 2019. The features of the Job Marketplace will be gradually introduced during 2020, and the service will become fully operational in 2021.

In December 2019, TE Services introduced an electronic service for relaying information on pay subsidy jobs. In the same connection, changes were made to the pay subsidy card, which contains the details of the pay subsidy eligibility of the unemployed jobseeker, level and duration of the pay subsidy, and the period of validity of the card (including the grounds for termination of validity). The jobseeker can print out the card in the *Oma asiointi* web service after the option of subsidised employment has been added to the employment plan.

Promoting employment and preventing social exclusion among the young

To ensure more effective implementation of the youth guarantee, the Ministry of Economic Affairs and Employment appointed a cross-administrative working group in November 2019. The term of the working group will extend to the end of February 2023, and its task is to promote the national coordination of multisectoral services intended for young people and to disseminate good operating practices. The aim is to help young people to move to training and the labour market, to prevent prolonged youth unemployment, to identify factors contributing to the risk of social exclusion among the young, and to enhance the effectiveness of early intervention models.

The legislative amendment on vocational rehabilitation for the young provided by Kela entered into force on 1 January 2019. The aim is to ensure that young people aged between 16 and 29 who are outside working life or are not studying would quickly receive low-threshold support on the basis of impaired functional capacity and would be flexibly referred to suitable services so that they can move to education and working life. Young people are actively referred to the Kela-provided rehabilitation through *Ohjaamo* service points and outreach youth work. In a new service, young people are also provided with individual services and coaching. As a result of the legislative amendment, a total of 2,600 young people used vocational rehabilitation services in 2019, and a substantial increase is expected in the coming years.

Continuous learning

The Government has launched a continuous learning reform, which will provide a response to people's lifelong need for upskilling and reskilling. The reform will be prepared by a parliamentary working group, which will examine the process of continuous learning from an overall perspective. Integrating the provision and funding of the training path, social security, change security, unemployment security, self-motivated and labour market training, and recognition of skills into the new system of continuous learning will be considered in the process. The process of developing the system will continue over the government term but the parliamentary working group and the group monitoring its work are expected to present first policy proposals by the end of 2020.

One of the tripartite task forces of the ministerial working group promoting employment is preparing proposals for achieving better match between skills and working life. The task force is examining the overall response to skills needs in the labour market and it is expected to draft proposals for ensuring the supply of skilled labour. Its main task is to develop work-based labour market training and to enhance regional and vocational match between the supply of and demand for labour.

The new act on adult education will enter into force on 1 August 2020. One aim of the new act is to ensure better combination of studies and work.

Preventing long-term unemployment and enhancing work ability

Work ability programme

Increasing employment among individuals with partial work ability is key to achieving a high employment rate and to ensuring the supply of labour. It also allows individuals with partial work ability to benefit from the positive impacts of employment. Work is one of the key sources of wellbeing as it strengthens community spirit and thus also provides opportunities for inclusion. However, limited work ability can make it especially difficult or even impossible to find employment without support measures. At the same time, supporting the work ability of those already in employment ensures continuing employment and return to work and prevents unemployment.

As outlined in the Government Programme, the work ability programme will be jointly implemented by the Ministry of Economic Affairs and Employment and the Ministry of Social Affairs and Health. Basic services will be strengthened as part of the health and social services reform and they also include the services supporting the work ability and employment of the unemployed. These mainly consist of the health and social services and rehabilitation services. The purpose of the work ability programme is to make the services a permanent part of the service system so that measures can be taken to support the work ability of the unemployed and they can proceed on their employment paths more rapidly.

Job coaching provided by social services helps jobseekers to move to open labour markets. This requires integrated services provided by a broad range of different sectors. The key is to ensure equal services to support work ability for all working-age people.

The aim of the work ability programme implemented by the administrative branch of the Ministry of Social Affairs and Health is 1) to provide unemployed individuals with partial work ability with better prerequisites for employment and to enhance their work ability, functional capacity, and social inclusion; 2) to create a multisectoral service structure in which the need to support the work ability of the unemployed with partial work ability is identified and that provides client-oriented services and service paths; 3) to develop the competence of professionals so that they are familiar with the structure of the work ability support services and are able to use the structure for the benefit of their clients; and 4) to produce information to combine the services and benefits of unemployed individuals with partial work ability, and to develop legislation.

Low-threshold services to support work ability

The Ministry of Social Affairs and Health will launch the application round for discretionary government grants in April 2020. In the projects, work-ability support services for unemployed individuals with partial work ability will be built for the health and social services centres of the future, and social services clients will be able to benefit more extensively from supported employment. The purpose is to support the employment and work retention among unemployed individuals with partial work ability and long-term unemployed, prevent prolonged unemployment and disability, and to enhance working life participation of individuals in a vulnerable labour market position.

Not enough attention is paid to the need for work ability support when the content of TE services is prepared, and this is especially the case in recruitment situations. The services are rarely provided as service packages or in such a form that they would specifically lower the recruitment threshold of the jobseekers. For this reason, the input of the work ability coordinators in TE Offices will be increased by 20 person-years. In TE Offices, the work ability coordinators will work in a wide range of tasks to ensure that more consideration is given to different service needs, and they will also focus on the strengthening of the employer community. In the pilot projects to be launched in the TE Services, there will be more focus on recruitment situations in the services for individual clients, which will also allow a better response to employers' needs.

Measures will also be taken to encourage the creation of jobs that are more suitable for individuals with partial work ability. A programme to speed up employment through public contracts will be launched in early 2020. The purpose is to encourage municipalities and other public sector actors to include employment requirements in their contracts with service providers. A more extensive programme to promote the activities of social enterprises will also be prepared and their operating prerequisites will be enhanced.

Combining partial disability pension and earned income

In its autumn 2019 budget session, the Government decided to introduce a linear model for partial disability pensions. The decision is in accordance with the Government Programme, and the purpose is to provide individuals on partial disability pension with more incentives for work and to eliminate incentive traps. The Government proposal for the linear model will be submitted to Parliament in spring 2021 and the legislation could enter into force on 1 January 2023.

3.3 Investments in R&D activities, transition to low-carbon economy and sustainable transport

Recommendation 3: Focus investment-related economic policy on research and innovation, low carbon and energy transition and sustainable transport, taking into account regional disparities.

This subsection discusses investment-related economic policy measures promoting R&D activities, transition to low-carbon economy and sustainable transport. These measures do not only concern public investments but the economic policy as a whole, which will provide a basis for promoting both public-sector and private-sector investments.

Regulation, taxation and functioning of the financial markets are some of the factors considered by companies when they make investment decisions. In its analyses, the European Commission has concluded that shortage of skilled labour, lack of cooperation between higher education institutions and the business sector, and long permit processes are some of the factors discouraging investments in Finland. The investment strategy is discussed in more detail in subsection 3.5 whereas in this subsection, the focus is on the investment priorities presented by the Commission in its recommendation. The matter is discussed from the perspective of direct public investments and other measures encouraging investments.

Main objectives and steering of the research and innovation policy

The key objectives of the research and innovation policy are as follows: enhancing the quality and effectiveness of R&D activities, structural and operational overhaul of public research activities, creation of globally successful innovations, and diversification of the business structure. This boosts productivity, creates jobs with high added value and enhances international competitiveness.

Policy measures in this area are guided by the Programme of Prime Minister Marin's Government and the future-oriented investments outlined in the document. Under the Government Programme, the proportion of R&D expenditure of GDP (R&D intensity) should be increased from the current level of 2.7% to four per cent by the year 2030. By the year 2030, Finland should also be the world's most attractive environment for experimentation and innovation. Achieving the targets would require substantial additional public-sector and private-sector inputs and qualitative and operational changes in R&D and innovation activities. The national RDI roadmap, outlined in the Government Programme, will also be finalised during spring 2020. The document will set out the key objectives and tools for Finland's research and innovation policy for the coming years.

Additional funding for R&D activities

Universities, universities of applied sciences, Academy of Finland, state-owned research institutes and Business Finland are the key pillars of the research and development funding provided by central government.

In the 2020 Budget, R&D funding is increased by EUR 69 million, which means that it will exceed the two billion limit (totalling EUR 2,063 million). In terms of the comprehensive strengthening of the innovation system, the 2020 Budget is fairly balanced even though the funding authorisations of the Academy of Finland are reduced. From the perspective of total funding for scientific research, substantial increases in R&D budget funding for universities (nominally +9.5%) fully compensate for the reduction. The Government has, for example, decided to increase basic funding for universities by EUR 40 million from 2020 (about one third of this increase is allocated to R&D) and to implement the index increase for universities (which has remained frozen for many years).

In the 2020 Budget, additional resources are allocated to R&D and innovation subsidies, which are both channelled through Business Finland. The increase will partially compensate for the cuts made in the 2010s and encourage Finnish companies to do more to enhance their international competitiveness, increase exports and create new and higher quality jobs through expertise and innovation.

The Programme of Prime Minister Marin's Government envisages EUR 85 million for circular economy over a period of three years. A total of EUR 22.5 million of this funding will be allocated to circular economy this year. Most of the funding (EUR 16.5 million) will be channelled to a new circular economy innovation and investment subsidy scheme, in which the subsidy decisions are made by Business Finland. A total of EUR 12.5 million of the EUR 16.5 million allocated to the innovation and investment subsidies this year has been earmarked for battery IPCEI projects. Furthermore, three million euros of the package has been channelled to the circular economy activities of VTT, two million to the Bio and Circular

Finland programme of Business Finland, and one million to the Ministry of Economic Affairs and Employment for developing circular economy ecosystems and knowledge platforms.

A circular economy aid scheme, intended for companies developing domestic circular economy solutions, was also introduced in 2018. This year, a total of one million euros has been earmarked for this aid, which is granted in accordance with the de minimis rules governing state aid in the EU.

Other measures to support R&D activities and scientific research

Determined efforts will be made to attract and retain international talent. The Ministry of Education and Culture is implementing its internationalisation policies in higher education and research, set out for the period 2017–2025. The Academy of Finland is focusing on quality, impact and renewal, all key areas in its international cooperation in the period 2017–2021. These policies are also in line with the Talent Boost action plan launched by the Government to attract international talent to Finland.

International competitiveness and attractiveness of Finland's research and scientific community can be strengthened by investing in research environments and infrastructures. The national strategy for research infrastructures was presented in January 2020 (Strategy for National Research Infrastructures in Finland 2020–2030 - Creativity, renewal and knowledge on a sustainable basis). The roadmap of research infrastructures for the period 2020–2021 will be updated on the basis of the strategy.

Open access to public information is a key principle of the information policy. The opening up of public information resources will continue. Implementation of the data-oriented research development programme (2017–2021) is continuing. In summer 2019, Finland was selected as the location of one of the supercomputers of EuroHPC (European High-Performance Computing Joint Undertaking). Finland is contributing a maximum of EUR 50 million to the undertaking between 2019 and 2026.

The implementation of the vision for higher education and research in Finland 2030, jointly prepared by the Ministry of Education and Culture, Finland's higher education community and stakeholders, is continuing. The objective of the vision is to raise the level of education, provide more opportunities for continuous learning in higher education institutions and increase Finland's R&D intensity.

Innovative public contracts and related services will be developed. This also helps to create reference markets. The aim is to increase the proportion of innovative purchases to ten per cent of all public contracts by the end of the parliamentary term.

Ministries will continue their joint work to implement the health sector RDI growth strategy and to strengthen the research and innovation ecosystem. Implementation of the health sector growth strategy has been the joint responsibility of three ministries (Ministry of Economic Affairs and Employment, Ministry of Social Affairs and Health, and the Ministry of Education and Culture), providers of research and innovation funding (Business Finland and the Academy of Finland) and health sector actors, and it serves as a development pilot for central government. The roadmap steering the implementation of the growth strategy will be updated (for the period 2020–2023) by summer 2020. The aim is to ensure that the key objectives of the growth strategy can be achieved and that consideration is also given to the changes taking place in the operating environment (such as the ongoing pandemic). In addition, there will also be improvements in the indicators used to measure the implementation of the roadmap. An international evaluation of the health sector growth strategy is also in progress and it will be completed during 2020. The evaluators are examining the strategy from the perspective of the service system. National competence centres, such as the cancer centre, neuro centre, genome centre and pharmaceutical development centre, are being established or have already been set up in Finland. The purpose is to boost health and social sector RDI activities, and to promote individualised healthcare. There is no doubt that Finland's wellbeing and health sector information resources are among the best in the world. The Act on Secondary Use of Health and Social Data provides a uniform basis for the use of this information in RDI activities, teaching, knowledge-based management, official reports, supervision and steering. Controllers are already building their own operations in accordance with the act's provisions, and the data permit authority (Findata) has been established.

Transition to low-carbon economy and energy

In order to achieve the climate objectives set by Prime Minister Marin's Government and the energy and climate objectives set by the EU for the year 2030, Finland has already introduced a number of steering instruments and is planning further measures.³ In addition to direct public investments, changes made to the operating environment of the parties making the investments (for example, through taxation) may also boost investments speeding up the transition towards low-carbon economy.

Overhauling the Climate Change Act

In autumn 2019, the Government launched an overhaul of the Climate Change Act to ensure that Finland can achieve its carbon-neutrality objective by the year 2035. The Climate Change Act is a framework act and only the authorities are obliged to comply with its provisions. However, the aim is to give the new act a stronger role as a steering instrument. Finland will update its target for 2050 and add emissions reduction targets for 2030 and 2040 to the new act in line with its path to carbon neutrality. The revised

³ Finland's climate objectives and targets are discussed in more detail in Chapter 4.3.

Climate Change Act will also contain provisions on the land-use sector and the objective of strengthening carbon sinks. To implement the objectives and targets set out in the Climate Change Act, Finland will update its medium-term and long-term climate plans and prepare a climate programme for land use. The Government proposal for the new Climate Change Act is expected to be ready in 2021.

Energy tax reform

As outlined in its Programme, the Government has launched preparations for the overhaul of Finland's energy taxation. The key parts of the proposal are expected to be ready in autumn 2020. The Finnish system of energy taxation has been environmentally-based since 2011 and its aim is to encourage environmentally friendly consumption and investments. Under the reform that is now under preparation, the energy tax refund scheme for industries would be abolished and the electricity tax class II would be set at the minimum EU level. Changes to the energy tax refund scheme would eliminate the energy tax subsidies granted to the use of fossil fuels in industrial production and would provide strong incentives to abandon the use of fossil energy sources. At the same time, the electricity tax class II would be lowered so that the elimination of the subsidies would not substantially affect the competitive position of companies. The reform would be implemented over a transition period and together with other measures, it would be cost-neutral from the perspective of general government finances.

According to the Government Programme, emissions would also be reduced by lowering tax subsidies of combined heat and power production and by raising heating fuel taxation. These measures would increase tax revenue by a total of EUR 100 million during the current parliamentary term. Other ways of reducing emissions include transferring mines to the electricity tax class I and removing them from the energy tax refund scheme, and transferring heat pumps and data centres generating heat for district heating networks to tax class II.

Investments in renewable energy and energy efficiency

The main purpose of energy subsidies is to encourage investments that help to transform energy generation into a low-carbon system in the long term. In 2019, the subsidies for transition to renewable energy and for boosting energy efficiency totalled EUR 52 million. Support for renewable energy investments accounted for EUR 34 million and energy-efficiency investments for EUR 18 million of this sum. Most of the subsidies for renewable energy were granted to solar energy and biogas projects. In most of the projects, the subsidies account for between 10% and 30% of the total investment.

Additional measures to achieve the climate objectives

Prime Minister Marin's Government and the parliamentary groups of the Government parties held a joint climate meeting in February 2020 under the theme 'a fair transition to a carbon-neutral economy'. Climate policy measures aimed at closing the gap between the climate objective and the measures already introduced, timetable of the measures, and a fair transition to a carbon-neutral economy were discussed at the meeting. Following the meeting, the Government announced a roadmap for achieving the carbon-neutrality objective ('a fair transition towards a carbon-neutral Finland') and a roadmap for sustainable taxation.

As specific measures, the Government decided to 1) urgently examine what action should be taken to dismantle barriers to investments in terrestrial and marine wind farms and to release major investments; 2) implement the legislative amendments allowing housing companies to utilise solar energy for household electricity; and to 3) take measures to promote the use of solar energy and other renewable energy production in public buildings and commercial properties.

The Government also decided to launch preparations for promoting climate innovations through a climate fund. The fund would not be a state fund but a limited liability company, which would finance and scale solutions offered by business operators and a broad range of other actors, and digital transition solutions to develop circular economy and clean technology solutions and to enhance energy efficiency. The aim is to make Finland a pioneer developing and introducing digital and technological innovations across administrative and sectoral boundaries. Ambitious climate and digitalisation objectives support each other in many ways. The climate fund would be able to join public platforms, and take part in joint projects between the private and public sectors, and in industrial-dimension scaling. The fund would also be able to produce reports and launch development projects and promote the culture of experimentation. The climate fund would be able to use millions of euros during the current parliamentary term.

Sustainable transport

The transport sector is changing rapidly, and it is impacted by several megatrends occurring simultaneously. The change is accelerated by climate change mitigation objectives and the challenges arising from growth in traffic as well as the opportunities created by digitalisation and technology. Finland is one of the pioneers in the renewal of the transport sector and this transition offers growth opportunities for a broad range of different actors. Finland's strengths lie in such areas as transport sector digitalisation, electrification and service intensity. Climate solutions for transport and mobility are also a global growth market and they open up export opportunities for Finnish companies.

Strategic transport infrastructure and regional accessibility

To enhance companies' operating prerequisites, to ensure better transport links and to reduce the maintenance backlog, a large number of road, rail and waterway projects are underway in different parts of Finland. A total of EUR 351.2 million will be spent on the planning and construction of these projects in 2020. The appropriations for basic transport infrastructure maintenance have been permanently increased by EUR 300 million to reduce the maintenance backlog of roads, railways and waterways. Together with other spending increases, funding for basic transport infrastructure maintenance will be raised by EUR 362 million in 2020.

In early 2020, the State of Finland and 26 municipalities also agreed on the establishment of the project companies promoting the planning of the Finland Railway and the One Hour Train. The project companies will be responsible for planning and funding of the rail projects up to the construction stage. In the Finland Railway project, a fast rail link between Helsinki and Tampere is envisaged, and its planning costs are estimated at about EUR 150 million. The planning of the project comprises the Airport Railway between Pasila and Kerava via Helsinki Airport, and the continuation of the rail line to Tampere. In the One Hour Train project, a fast rail link between Helsinki and Turku is envisaged, and its planning costs are estimated at about EUR 75 million. The planning comprises a shortcut between Espoo and Salo, and the double-tracking of the section between Salo and Turku. Fast rail links make commuting easier and enhance regional accessibility.

Transition to low-carbon transport

Traffic emissions account for about one fifth of all greenhouse gas emissions generated in Finland and about 40% of the emissions of the burden-sharing sector.⁴ According to the current Government Programme, Finland aims to halve its traffic emissions by the year 2030, compared to 2005 levels and reduce traffic emissions to zero by the year 2045. The international targets for reducing traffic-related greenhouse gas emissions have been set by IMO and ICAO within the framework of international cooperation.

Key measures to reduce traffic emissions that have already been introduced include the act on distribution obligation and the binding CO₂ limits for car manufacturers in the EU. The act amending the act on distribution obligation was approved in February 2019. Under the amendment, 30% of all liquid transport fuels sold in Finland must be biofuels. The new binding CO₂ limits for passenger cars and vans for 2030 were approved in the EU in January 2019. The average CO₂ emissions (g/km) of new passenger cars must be 37.5% lower than in 2021. The average CO₂ emissions of new vans must be 31% lower than in 2021. The EU has also approved similar statutory limits for heavy vehicles.

⁴ The emissions of the burden-sharing sector comprise transport, agriculture, separate heating of buildings and waste. Road traffic accounts for more than 90% of all domestic traffic emissions. Passenger cars account for about 54% of all road traffic emissions, 41% is generated by vans and lorries, and the rest by such vehicles as buses, coaches and motorcycles.

Other measures involving alternative power sources/technologies that have already been introduced in Finland include the purchasing subsidies for fully electric cars and conversion subsidies for existing vehicles, subsidies for constructing the distribution infrastructure, and a subsidy scheme for charging points in housing companies. Measures have also been introduced to enhance the energy-efficiency of the transport system, including the walking and cycling infrastructure investment programme, and the climate-based increase in public transport subsidies.

In November 2019, the Ministry of Transport and Communications appointed a working group to consider long-term emissions reduction targets in the transport sector and measures to achieve the reductions. Based on the proposals of the working group, the ministry will prepare a roadmap for fossil-free transport, in which such issues as the introduction of congestion charges and the development of emissions trading in the transport sector to reduce traffic emissions, and adequacy of sustainably produced biofuels and focusing of them in the transport sector will be assessed, and transport emissions indicators for use as a basis for taxation and other measures will be developed. As part of the roadmap work, the ministry will also assess measures that are essential from the regional perspective and which aim to reduce the emissions generated by the transport system: distribution infrastructure for alternative power sources, walking, cycling, promotion of public transport, new transport services, and the investments promoting the above measures.

The key measures required to achieve the objectives and their costs as well as other impact assessments are summed up in the roadmap. The impacts of the different measures will also be assessed from the perspective of local government finances and social sustainability (including geographic regions). The roadmap will be ready in September–October 2020 and will be considered by the Government in October–November 2020.

In addition to the measures outlined in the roadmap, transport sector investments and the achievement of the climate objectives can also be steered through taxation. In autumn 2019, a working group appointed by the Ministry of Finance started preparing the sustainable transport taxation reform. The task of the working group is to assess the effectiveness and impacts of the existing transport taxation system and other tax instruments and tax-like fees. The working group is expected to submit recommendations for tax measures required for more effective emissions steering and for safeguarding the tax base. It will also examine how to reduce emissions through changes in the taxation of fringe benefits.

Sustainable growth, investment and internationalisation in the transport sector will also be promoted through the National Growth Programme for the Transport Sector 2018–2022, which will be updated during 2020 in accordance with the Programme of Prime Minister Marin's Government. The programme is based on the principle that business-driven

development, and growth and internationalisation of the transport sector will be jointly promoted by the research field and public and private sectors. Focus in the programme is on the development of business-driven ecosystems and client-oriented services. In 2019, focus was on the creation of effectiveness indicators for the programme, and the work on the transport sector ecosystem was also launched.

3.4 Household indebtedness

Recommendation 4: Strengthen the monitoring of household debt and establish the credit registry system.

Household debt in relation to disposable income has doubled over the past 20 years, totalling 129% at end of the last quarter of 2019. Most of the debts (more than 70%) are related to housing. Over the past few years, the housing loan stock has been growing steadily at an annual rate of about two per cent but housing company loans and consumer credit have been the main factor boosting household indebtedness in the 2010s. Housing company loans have been growing at an annual rate of about ten per cent over the past two years but the rate was even faster between 2010 and 2015. For many years, the volume of consumer loans granted by banks has grown substantially faster than the housing loan stock (at an annual rate of about five per cent).

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

Macro-prudential measures

There are new features in the indebtedness of Finnish households that are difficult to tackle with existing macro-prudential instruments. In its report presented on 1 October 2019, the working group appointed by the Ministry of Finance on 31 October 2018 (Ministry of Finance, 2019) proposed the following measures to curb excessive household debts and to improve the effectiveness of macro-prudential instruments:

- The existing loan ceiling should remain unchanged but in the future, it should, in addition to the credit institutions, also apply to other business operators that grant housing loans to consumers. The maximum loan-to-value ratio for credit institutions and other actors granting loans should be set at 85% (for loans taken out for the first home, the ratio should be at 95%).

- The working group proposed the introduction of a maximum debt ratio, under which a private individual or a household could only borrow up to 4.5 times their annual gross income. The loan to be granted, previous loans and the share of housing company loans should be considered in the calculation of the debt ratio. Loans of less than EUR 20,000 referred to in Chapter 7 of the Consumer Protection Act should not be considered.
- It was also proposed that the maximum repayment period of housing loans should be limited to 25 years.
- The working group proposed that housing corporations should only be granted loans up to 60% of the debt-free price of the new homes on sale. Furthermore, the loan should be paid back within 25 years and no instalment-free periods should be granted during the first five years after the construction of the housing unit.

It is stated in the Government Programme ('Inclusive and competent Finland – a socially, economically and ecologically sustainable society'), which was submitted to Parliament as a Government statement on 6 June 2019, that "the household sector's fast growing indebtedness makes it vulnerable to a fall in incomes and a rise in the level of interest rates. Based on the preparations of a working group, decisions will be taken on the measures required to curb growing direct and indirect indebtedness of households and to secure financial stability".

The consultation round of the working group's report was completed at the end of November 2019. Based on the feedback on the report, the Ministry of Finance will prepare a Government proposal for amendments to the Act on Credit Institutions and certain acts related to it during 2020. The Government is expected to submit the proposal to Parliament during its 2021 spring term.

Credit register of household debts

In the country-specific recommendations for Finland for 2019 adopted by the Council within the framework of the European Semester, it is proposed that Finland should strengthen the monitoring of household debt and establish a credit registry system. A positive credit register has been mentioned as a key instrument in the efforts to curb excessive debts in a number of reports. The establishment of the register is envisaged in the Programme of Prime Minister Marin's Government. According to the Government Programme, the positive credit register will be introduced during the current government term. A ministerial working group chaired by the Minister of Justice decided on 24 October 2019 that the positive credit register would be centralised and maintained by the public authorities. The preliminary review preceding the law-drafting process was completed in early 2020 and the legislative work is expected to start in March 2020.

The data content of the register would be extensive and under the policy decision made by the ministerial working group on 24 October 2019, it would include consumer credits. Provisions on consumer credits are contained in Chapters 7 and 7 a of the Consumer Protection Act (38/1978). As a rule, these provisions apply to all credits granted to consumers by business operators, including the credits within the scope of the directives 2008/48/EC and 2014/17/EU. Inclusion of other information in the register will also be examined during the preparatory process.

The purpose of the law-drafting process is to prepare the legislation required for introducing the positive credit register and to ensure that it is also technically possible to implement the system within the target timetable. The objectives of the system, its data content, the purpose of and legal basis for processing the data, and the authorities that would be responsible for the system and act as the controller of its data content will be determined in the preparatory process. In accordance with the policy decision made by the ministerial working group on 24 October 2019, it will also be determined whether the positive credit register should be introduced in stages so that a register containing at least the consumer credits could be introduced in spring 2023.

Other measures aimed at preventing excessive household debts

Over the past few years, action has been taken to address the problem of excessive household indebtedness through legislative action, by providing the authorities with additional resources and by introducing a number of other measures. By acquiring more resources, the authorities will be better placed to provide economic counselling, which in turn will help to prevent excessive indebtedness. New legislation has been introduced to tighten the terms and conditions of instant loans, and the enforcement legislation has been changed to encourage acceptance of work. Price controls of consumer credits were introduced in September 2019. Under the act that entered into force on 1 September 2019, the interest rates on consumer credits may not exceed 20%. The new act also sets limits on other credit costs and specifies how much can be charged for extending the payment period. The purpose of the legislation limiting the price of credit is to prevent debt problems, ensure more transparent credit pricing and make it easier to supervise compliance with the law. Effectiveness of the prices controls is monitored and, if necessary, tighter provisions on such matters as the marketing of consumer credit will be introduced.

Furthermore, access to free of charge economic and debt counselling services has been enhanced by making the counselling the responsibility of legal aid offices as of 1 January 2019. A project on pre-emptive economic counselling was launched in September 2019 and it will continue until 2021. The purpose is to provide citizens with better counselling on the management of personal finances and prevent debt problems from arising

and from becoming more serious. Individuals with excessive debts can also apply for restructuring loans from the Guarantee Foundation or social loans, which are provided by a number of municipalities for their residents.

3.5 Investment strategy

Key economic factors encouraging investments

Business operating environment supporting growth

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

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

Absence of legal or other obstacles to market access is also a factor encouraging investments. Over the past few years, Finland has introduced a number of legislative changes boosting competition and opening markets in a broad range of different sectors. These include the deregulation of shopping hours, the Act on Transport Services, (which, among other things, eased regulation in the taxi sector), the plans to increase competition in passenger rail transport, positive changes to land use planning regulation, opening of the natural gas market to competition, relaxing of the alcohol legislation and the Act on Accommodation and Catering Services, opening of the chimney sweeping market to competition and strengthening of the position of SMEs in the legislation on public contracts.

Availability of business financing

In Finland, availability of financing has not been the main obstacle to investments in recent years⁵ even though there are bottlenecks slowing down internationalisation and the expansion of growth companies.⁶ Even though the bottlenecks do not affect all companies, solutions to them should be found. Venture-stage funding, in particular, has been affected by a market failure, and Business Finland Venture Capital and Finnish Industry Investment are working to solve the problem by making investments in venture capital funds investing in startup companies. Business Finland Venture Capital and EIF have set up a co-investment fund to promote business angel funding. It is essential to remove all identified obstacles preventing the flow of private capital to venture capital investment funds (foundations and non-profit organisations) so that role of public funding can be reduced in a controlled manner as the markets expand.

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

According to the latest SME barometer, strict collateral requirements are the most serious obstacle to obtaining funding. Small enterprises in particular have been affected by a shortage of collateral and last autumn, Finnvera introduced an unsecured SME guarantee to ease the situation. The new scheme covers 80% of the loan granted by a bank.

5 In Finland, the proportion of companies affected by funding constraints (6%) is slightly below EU median (EIB 2019) and on average availability of funding for SMEs has also been considered a minor problem compared with other euro area countries (ECB 2019).

6 Because of the corona crisis, business funding and subsidies provided by the administrative branch of the Ministry of Economic Affairs and Employment have been increased. The aim is to safeguard the financial position of companies and to prevent unnecessary bankruptcies. Finnvera's domestic funding authorisations will be temporarily increased from EUR 4.2 billion to EUR 12 billion. Finnvera primarily provides guarantees for loans granted to companies by banks. Finnish Industry Investment has launched an EUR 150 million stabilisation programme. A total of EUR 1.45 billion in business subsidies will be channelled through Business Finland and ELY Centres (situation on 20 April 2020). Furthermore, under the COVID-19 temporary state aid framework of the EU, the notified process on more flexible business subsidies and guarantee and loan terms is still in progress.

Functioning of the labour market

Functioning of the labour market and availability of skilled labour also play a crucial role when companies make investment decisions.⁷ The Finnish population is well-educated and there are also good opportunities for training during working careers. Because of continuous changes in economic structures and the labour market, the Government is working to make these opportunities more flexible and to ensure that they can better promote new skills. Predicted decrease in the labour force is discouraging companies from making investments.

Promoting R&D investments

Promoting R&D investments is a key element of the national investment strategy. The public sector is also making R&D investments but the aim is to leverage private sector R&D investments through public inputs. There is now particular emphasis on projects driven by leading companies. Achieving the national EU2020 target (4%) will pose challenges. The key objectives of the research and innovation policy are as follows: enhancing the quality and effectiveness of research and development activities, structural and operational overhaul of public research activities, creation of globally successful innovations, and diversifying the business structure. Investments as well as research, development and innovation projects can also help to find new innovative solutions in such areas as the development of bioeconomy, promotion of the circular economy, low-carbon society and climate change adaptation and mitigation.

International investment environment

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

Encouraging foreign investment is one of the tasks of Business Finland. Business Finland grants funding for subordinated loans for growth engine ecosystems. Growth engines are cooperation networks aimed at creating business activities of more than one billion euros. They are implemented by means of a company-driven partnership model in cooperation with R&D organisations and public-sector actors.

⁷ In its 2020 country report on Finland, the European Commission highlighted the relatively high unemployment and the structural bottlenecks in the labour market. The employment rate remains lower than in comparable Nordic countries and in some age groups, the figures are even below EU average. Incentives to work and low regional mobility are given as structural reasons for the problems.

The development of the Team Finland actor network and service models will continue with the aim of promoting exports, achieving a more international SME sector and attracting foreign investments. By working together within the framework of the available resources, the Ministry for Foreign Affairs, Business Finland, Ministry of Education and Culture and the Ministry of Agriculture and Forestry have gradually expanded Finland's national network in the world.

Investment projects

In the country report on Finland (European Commission, 2020) and in the country-specific recommendations, R&D activities and education, transition to low-carbon economy and sustainable transport were highlighted as the investment challenges facing Finland. The country report also highlighted the recommendations concerning employment, active labour market participation and household indebtedness. In autumn 2019, Prime Minister Rinne's Government outlined one-off future-oriented investments and permanent transport infrastructure investments to address these challenges. The investments will be spread over the period 2020–2022, and the Government has not yet allocated all appropriations for the future-oriented investments.

As part of its future-oriented investments, the Government will allocate business-driven RDI funding to high-risk projects helping to speed up the renewal of business structures. The purpose is to encourage companies and other organisations to engage in RDI activities and joint programmes speeding up reforms, increasing added value and boosting productivity. The funding will also promote the creation of new ecosystems in Finland involving activities worth billions of euros. The business-driven RDI package is part of the economic policy measures focusing on research and innovation.

Finland is also working to speed up transition to low-carbon economy and energy through temporary circular economy investment and innovation subsidy, by promoting electronic infrastructure and biogas infrastructure, and through grants provided by the State Housing Fund to improve energy efficiency in residential buildings.

In response to skills development needs, especially in the labour market, the Government has also channelled additional funding to vocational education and training. The purpose of the funding, allocated to the development of employment and economic services, is to increase active inclusion. Moreover, a number of hospital districts have launched hospital modernisation and upgrading projects in order to make health and social services more cost-efficient and more easily available. Investments planned for the transport system are discussed in more detail below.

More details about transport system investments

Investments in the state-owned transport infrastructure have been on a fairly low level in recent years but maintenance funding has been substantially increased. Under a transport system legislation reform introduced in 2018, Finland's transport infrastructure will in the future be developed on the basis of a twelve-year national transport plan, which will outline the priorities for developing and maintaining the transport infrastructure and services as well as transport system support functions over a period of 12 years. In addition to the measures themselves, the plan may also contain the Government funding programme for the projects. A more long-term approach to the development of the transport system requires that the costs, impacts and funding of the national transport plan have been determined and taken into account in the planning process and decision-making. The first national transport plan, covering the period 2021–2032, will be prepared during the current government term under parliamentary steering so that decisions on it can be made in spring 2021. The Government report on the preparation of the national transport plan was submitted to Parliament in January 2019. Developing transport services will make it easier to opt for more sustainable modes of transport, which will contribute to the mitigation of climate change.

In addition to the preparation of the national transport plan, the use of off-budget funding in transport infrastructure development projects has also been examined in Finland. This has been prompted by the broader economic impacts of the development projects on society at large. Because of these impacts, it may be justified to start more projects and bring them forward. Faster connections help to make the transport system more effective, boost regional development and contribute to the achievement of sustainable transport objectives in all areas of society. Rail links shorten commuting distances between and within large urban areas, which will improve the effectiveness of economic activities in cities and other municipalities.

In February 2020, the negotiations on the establishment of two project companies between the state, municipalities and other shareholders were successfully completed. The agreement must still be approved by the decision-making bodies of each shareholder. The project companies would be responsible for funding and planning of rail projects up to the start of the construction stage, and any decisions on construction would be taken separately. During the planning stage, the project companies would finance the activities by means of capital injections provided by the shareholders. In the long term, when the rail links are already operational, the project companies could also use access charges and revenue generated from property development as sources of income.

The One Hour Train project company has been established to plan a fast rail link between Helsinki and Turku. The planning costs for the link are estimated at EUR 75 million and the

construction costs at EUR 2.76 billion. It is envisaged that the new rail line could become operational at the end of 2031.

The Finland Railway project company has been established to plan a fast rail link between Helsinki and Tampere. The planning costs for the link are estimated at EUR 150 million and the construction costs at EUR 4.6–5.75 billion, depending on the route to be selected.

In addition to using project companies, transport system development investments can also be carried out as joint projects between central and local government. Negotiations on the MAL agreements (framework agreements on land use, housing and transport) with the four largest urban regions are in progress, and a decision on launching MAL negotiations with the three next largest urban regions has already been made.

4 Progress in achieving the national targets of the Europe 2020 Strategy and sustainable development targets

Table 1 lists the targets laid out in the Europe 2020 Strategy, Finland's situation in 2018 and the strategy target for 2020. Each target is reviewed separately in the subchapters.

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

| | EU headline target | Finland in 2018 | Finland in 2020 |
|---|------------------------|---|--|
| Employment rate (20–64-year-olds) | 75 % | 76,3 % | 78 % |
| R&D expenditure / GDP | 3 % | 2,75 % | target level 4 % |
| Climate: | | | |
| Greenhouse gas emissions | | | |
| (outside emissions trading) | -10 % from 2005 levels | 29.9 million tonnes CO ₂ equivalent ¹⁾ (2018) | 28.5 million tonnes CO ₂ equivalent |
| - proportion of renewable energy | 20 % | 41% | 38 % |
| - energy efficiency (end-use energy consumption) | -20 % | 300 TWh (2018) | 310 TWh |
| Education: | | | |
| - proportion of 30–34-year-olds having completed tertiary education | 40 % | 44,6 % | 42 % |
| - early school-leavers | 10 % | 8,3 % | 8 % |
| People living at risk of poverty and social exclusion | 20 million less | 856 000 | 770 000 |

¹⁾Finland's target for 2018 for the sector outside emissions trading is 29.6 million tonnes CO₂ equivalent. In 2018, the sector's emissions were 0.3 million tonnes CO₂ equivalent higher than the target. Source: Decisions (2013/162/EU; 2013/634/EU; EU/2017/1471); Statistics Finland 2019 (provisional data for 2018).

4.1 Employment target

The EU-level employment rate target for Finland is 78% in the age group 20–64-year-olds. The employment rate has risen rapidly over the past few years. In 2019, the employment rate among the 20–64-year-olds stood at 77.2% (men 78.5% and women 75.8%). In 2018, the figure had been 76.3%.

Unemployment in Finland has continued to decline and the employment rate has risen. According to the Labour Force Survey of Statistics Finland, in 2019, the employment rate among the 15–64-year-olds was 72.6% (compared with 71.7% in 2018). In Finland, the gap between the employment rates of women (71.8%) and men (73.3%) is fairly narrow (2019, 15–64-year-olds). According to the Labour Force Survey of Statistics Finland, in 2019, the unemployment rate among 15–74-year-olds averaged 6.7%, compared with 7.4% in 2018. There are also few differences between the unemployment rates between women and men. The unemployment rate among women stood at 6.2%, while the figure for men was 7.2% (2019, 15–74-year-olds). The employment rate among immigrants is below the national average. The employment rate among immigrant women is substantially lower than among immigrant men and they are also more likely to be outside the labour force. There is a clear difference concerning the type of employment between genders: there are more women in fixed-term (W 19%, M 14%) and part-time (W 21%, M 10%) jobs. Shortage of full-time jobs and studying are the most common reasons for taking part-term work.

Until now, steady economic growth has helped Finland to progress towards the employment target. In 2019, in absolute terms, increase in the number of employed persons was fastest in the service sector, especially in business services. In relative terms, highest growth was posted in primary production. At the same time, the number of employed persons contracted in secondary production. The number of employed persons will fall substantially as the corona pandemic is prompting companies to close down their operations and countries to close their borders. It is particularly difficult to make forecasts in an uncertain situation. If the measures introduced to contain the pandemic will be limited to the first half of this year, increase in the level of economic activity during the second half may stop the fall in employment.

The purpose of the measures described in Chapter 3.2 is to boost employment and help Finland to achieve its national targets.

4.2 Research and development target

According to Statistics Finland, Finland's R&D intensity stood at 2.75% in 2018 and at about 2.70% in 2019. Intensity of government-provided research funding was 0.82% in 2019,

but it will increase slightly in 2020 (preliminary estimate 0.83%) as a result of substantial funding increases. This year, central government will allocate a total of EUR 2.06 billion for R&D activities. This means that the appropriations will increase by 3.4% from 2019, which is the second-highest rise since 2010. The R&D intensity target of three per cent, set by the EU, will not be achieved by the year 2020. Moreover, Finland still has a long way to go before it has reached the national Europe 2020 target of 4%, adopted in 2011.

This year, R&D funding will be increased by an estimated EUR 69 million from 2019, which means that it will exceed the two-billion limit (totalling EUR 2,063 million). In nominal terms, central government R&D funding will increase by 3.4%, which is the second-highest rise since 2010. However, the rise in R&D intensity is much less impressive (0.83%) because (at current prices) Finland's GDP is growing at almost the same rate.

4.3 Climate and energy target

Climate targets set out in the Europe Strategy

The aim in the energy and climate package of the EU for the year 2020 is to reduce the greenhouse gas 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 will ensure that the emissions trading sector meets the greenhouse gas emissions reduction targets set 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 is obliged to reduce these emissions by 16% by 2020, compared with the 2005 levels.

Greenhouse gas emissions generated by Finland have been on the decline since 2004. According to the preliminary figures (12 December 2019) provided by Statistics Finland, in 2018, greenhouse gas emissions totalled 56.4 million tonnes of carbon dioxide equivalent (CO₂-eq.). This was 14.9 million tonnes less than in the comparison year 1990. Emissions increased by 2% compared with 2017. More extensive use of natural gas and peat accounted for most of the increase. Emissions outside the EU Emissions Trading System (such as the use of fuels in the heating of buildings, transport excluding air traffic and international maritime traffic, agriculture, waste management and use of F-gases) remained at previous year's levels and were 0.3 million tonnes above the emission allocations set by the EU.

The sum of emissions and removals (net sink) in the land use, land use change and forestry (LULUCF) sector is not included in these total emissions. Emissions of the energy

sector increased by 3%. The emissions generated by industrial processes and product use remained at 2017 levels, while agricultural emissions decreased by one per cent and waste sector emissions by two per cent between 2017 and 2018.

The net sink in the LULUCF sector totalled –9.8 million tonnes of CO₂-eq. in 2018, which was 43% less than in the year before. Record-high fellings were the main reason behind the exceptionally sharp fall in net sinks during one year.

The renewable energy target set by EU for Finland for the year 2020 is 38%. In 2018, renewable energy accounted for 41% of end-use energy consumption. The EU's renewable energy obligation for the transport sector is 10% (including double counting), but Finland has nationally decided on the higher target of 20% for 2020. The biofuel distribution obligation for sellers of road transport fuels will ensure that this target is achieved. Renewable energy accounted for 17.7% of all energy used in the Finnish transport sector in 2018.

Under the Energy Efficiency Directive (EED), Finland aims to restrict 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). Energy efficiency agreements between central government and other actors (industry, services sectors, municipalities etc.) play a key role in Finland's energy efficiency activities. The first agreement covered the period 2008–2016, and new agreements for the period 2017–2025 were concluded at the end of 2016.

Monitoring achievement of the 2030 climate targets

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

The energy and climate policy targets beyond 2020 are discussed in the National Integrated Energy and Climate Plan that Finland submitted to the European Commission on 20 December 2019. The plan describes how Finland aims to achieve the energy and climate targets for 2030 set by the EU. The energy and climate policy targets outlined in the Programme of Prime Minister Marin's Government are contained plan. The measures set out in the National Integrated Energy and Climate Plan are based on the National

Energy and Climate Strategy presented in 2016⁸ and the Medium-term Climate Change Policy Plan presented in 2017.⁹

In addition to the targets for 2030 and the policy measures required to achieve them, the National Integrated Energy and Climate Plan also outlines the impact of existing policy measures on the projected evolution of greenhouse gas emissions, renewable energy and energy efficiency up to 2040. The plan addresses all five dimensions of the EU Energy Union: decarbonisation (including renewable energy and the reduction of greenhouse gas emissions), energy efficiency, energy security, internal energy markets and research, innovation and competitiveness. The plan also describes the effects of the planned policy measures on the energy system, greenhouse gas emissions and the removals caused by sinks, economic development, the environment and public health. Furthermore, the plan assesses the impact of planned and existing policy measures on future investment needs.

The achievement of the targets set for the years 2020 and 2030 is monitored by means of the annual climate report required under the Climate Change Act.¹⁰ At the moment, it seems likely that Finland will achieve the reduction obligation set for the period 2013–2020. The emissions reduction measures for the period 2021–2030 have also been designed so that the obligation can be met by a sufficient margin.

The policy measures detailed in the annual climate report show that Finland has already introduced a number of new steering methods to implement the medium-term climate plan and that additional measures are being prepared. Emissions must be reduced in all sectors but in overall terms, emission trends in the transport sector will be crucial. They will depend on the use of biofuels, transport volumes and the renewal of the car stock. Annual changes in the share of biofuels are reflected in the emissions generated by the transport sector and the burden-sharing sector as a whole.

At the same time, the emissions generated by the land-use sector must be kept below the removals caused by imputed sinks. Finland aims to increase the share of renewable energy to at least 51% of end-use energy consumption and to 30% of end-use energy consumption in road transport. In energy efficiency, end-use energy consumption should not exceed 290 TWh in 2030. Under Finland's electricity interconnection target for 2030, the level of interconnectivity will be held above 15% of the domestic power generation capacity.

8 Ministry of Economic Affairs and Employment (2017): <http://urn.fi/URN:ISBN:978-952-327-478-5>

9 Ministry of the Environment (2017): <http://urn.fi/URN:ISBN:978-952-11-4752-4>

10 Ministry of the Environment (2019): <http://urn.fi/URN:ISBN:978-952-361-019-4>

Government's climate targets for 2035

Achieving carbon-neutrality by the year 2035 is the most important energy and climate policy target contained in the Programme of Prime Minister Marin's Government, and it also provides a link between different emission sectors. According to the Government Programme, Finland will achieve carbon-neutrality by 2035 and be carbon negative soon after that. In addition, Finland also aims to be the world's first fossil-free welfare society. According to the Government Programme, electricity and heat production in Finland must be made nearly emissions-free by the end of the 2030s while also taking into account the perspectives of security of supply and servicing. The new climate policy targets will be incorporated in the Climate Change Act, which will be updated so that the carbon-neutrality target can be achieved by 2035.

4.4 Education target

Early school leavers

In 2018, early school leavers accounted for 8.3% of all 18–24-year-olds.

It is envisaged in the Government Programme that everyone completing basic education will also gain an upper secondary qualification. The minimum school leaving age will be raised to 18. Measures will also be taken to improve student guidance and student welfare services, along with the capacity of comprehensive schools to provide everyone with the skills to complete upper secondary education. The drafting of the necessary legislation is underway and the extended compulsory education is expected to be introduced in 2021.

As outlined in the Government Programme, the Ministry of Education and Culture has launched programmes to enhance quality and equality in early childhood education and care, pre-primary education and basic education. The programmes will cover the period 2020–2022. Under the Right to Learn development programmes, the equality grant scheme will be made permanent, and efforts will be made to narrow learning gaps, to strengthen the culture of literacy and reading and to make the early paths of learning more flexible. More support will be provided for learning and school attendance, and for pupils from immigrant backgrounds, measures will be introduced to enhance inclusion, and there will be more focus on high-quality implementation of curricula for early childhood education and care and other curricula, and continuous learning among teachers.

Tertiary education

Under the target set by the Government, a total of 42% of all Finns in the age group 30–34 years should have tertiary education. In 2018, the figure was 44.2%. According to the

Government Programme presented in 2019, at least 50% of all Finns aged between 25 and 34 should have a higher education degree by the year 2030. The admission procedures of higher education institutions have been updated to encourage students that have completed upper secondary education to move to universities. For example, more emphasis is now put on school certificates in the process. Flexible study paths, continuous learning, recognition of prior learning, and digital learning environments will be developed to facilitate completion of studies and to ensure better combination of work and studies.

Raising educational levels, and promoting the internationalisation of higher education institutions and digital vision of higher education are some of the issues discussed in the negotiations on performance agreements between higher education institutions and the Ministry of Education and Culture in spring 2020.

The Ministry of Education and Culture has supported the implementation of the vision for digital learning environments in higher education 2030 (digital vision). By early 2020, all Finnish universities and universities of applied sciences had signed a letter of intent and committed themselves to the implementation of the digital vision. The objective of the digital vision is to make Finland a model country for flexible learning by making the national learning data resources available to individuals and society. The vision also helps to make Finland more competitive and strengthens the basis for research and innovation.

Models for higher education funding have been updated so that when introduced in 2021, they will provide stronger support for completing basic degrees, and encourage more efficient use of study places and continuous learning, and encourage students to complete their studies more rapidly.

4.5 Poverty reduction target

In 2010, the European Council agreed that the people at risk of poverty or 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 or social exclusion affected a total of about 856,000 people in Finland in 2018 (compared with 890,000 in 2017). In Finland, the risk of poverty or social exclusion can mostly be explained with relative risk of poverty because in 2018, about 640,000 persons lived in low-income households (654,000 in 2017). This is about 75% of all individuals at risk of poverty or social exclusion. About 390,000 individuals lived in under-employed households (compared to about 410,000 in 2017), while about 133,000 persons lived in households suffering from material deprivation (about 143,000 in 2017). During the poverty target

monitoring period (since 2008), the number of people on low incomes and suffering from material deprivation has declined but the number of individuals living in under-employed households has increased. Among the people moving from countries outside the EU, the risk of poverty or social exclusion is almost twice as high as among those born in the EU.

There are differences between women and men concerning the risk of poverty or social exclusion. Of the individuals living in low-income households, 444,000 were women and 412,000 were men. There are slightly more men than women in under-employed households, whereas the same number of women and men live in households suffering from material deprivation. In Finland, the low-income group also includes students, whose low-income status is usually of temporary nature.

All sub-indicators used to describe the risk of poverty or social exclusion are household-based, which means that in households with different-gender couples, both the woman and the men are considered low-income individuals, under-employed or individuals suffering from material deprivation if any of these criteria concerns the household in question. This means that differences between women and men in the perception of the risk are mostly differences between people living alone and single-parent households. Half of all women and almost half of all men at risk of poverty or social exclusion live alone. About 11% of all men and 13% of all women at risk are members of single-parent households (adults and children).

There are few gender-specific differences in the risk among people under the age of 18. In the adult population, those aged 25–34 and 50–64 and at risk are more often men than women. Among those aged 18–24 and individuals past the retirement age, most of the people at risk of poverty or social exclusion are women (especially individuals aged 75 and over). About 30% of all men and 17% of all women at risk are aged 25–64 and living alone, while 25% of the women aged 65 and over and living alone are at risk. About 47% of all men at risk of poverty or social exclusion live in under-employed households, while the figure for women at risk is about 35%.

In 2018, there were about 403,055 Finns in the long-term low-income category, or 7.5% of the entire population. The percentage has remained unchanged for the past two years. Spending long periods in the low-income category is more common among women than men even though the gap has narrowed in recent years. Spending long periods in the low-income category is much more common among retired women than retired men, whereas in the working-age population, it is slightly more common among men.

In Finland, inequalities in income and wealth are low by international standards. In Finland, relative income differences and relative poverty have remained more or less

unchanged over the past 15 to 20 years. In percentage terms, income in all income categories has risen at the same rate, which means that absolute poverty has decreased but absolute income differences have increased. Spending long periods in the low-income category exacerbates the consequences of poverty. There have been no changes in the extent of the phenomenon though a slight decline among the oldest age groups has been noticed. Spending long periods in the low-income category is particularly common among young adults in student age and people in the age group 80 and over. It is more common among men but in the oldest age groups, women are more severely affected.

Trends in basic social assistance

There was an increase in the number of basic social assistance recipients and in the amount of assistance granted after the management of the assistance scheme had been transferred from municipalities to the Social Insurance Institution of Finland (Kela). However, there was a decrease in basic social assistance payments in 2018 and 2019, and the number of recipients and recipient households also decreased in 2019. Granting of supplementary and preventive social assistance remains the responsibility of municipalities. Final statistics on social assistance recipients for 2019 will be published later and the most recent official statistics are for the year 2018. According to these figures, a total of 306,322 households and 469,694 individuals received social assistance in 2018. A total of 8.5% of the Finnish population received social assistance. Men living alone were the most common type of household receiving social assistance (134,139 or 16% of all such households). In relative terms, most of the social assistance went to female single parents (32.0% of the individuals belonging to this group received social assistance).

Because of better basic social assistance statistics, we now also have a better picture of the factors forcing people to seek social assistance. The parliamentary committee tasked with drafting the social security reform will review and overhaul the Finnish social security system during two parliamentary terms. The committee, which will start its work in 2020, will also examine the Act on Social Assistance, while more urgent changes will be considered separately.

In order to reduce indebtedness problems, price regulation of consumer credits was expanded and tightened as of 1 September 2019. Financial and debt advisory services were also overhauled as of 1 January 2019, while at the same time, the services were provided with additional resources so that regional availability of the services can be safeguarded and cooperation in the prevention of debt problems increased. The enforcement service also received extra resources to provide debtors with more effective counselling.

Changes in social security benefits

In 2020, the index increases in benefits were introduced in accordance with the existing legislation. In addition to the index increases, the Government Programme also envisages increases in minimum daily allowances paid under the Sickness Insurance Act, basic unemployment allowance, labour market support and guarantee pensions. As a result of the index increases, the level of benefits tied to the national pensions index rose by 1.0% on 1 January 2020.

The minimum sickness allowance, parental allowance, special care allowance and rehabilitation allowance paid each month were increased from EUR 593.25 to EUR 616 as of 1 January 2018. The purpose was to ensure that the net minimum would be higher than basic social assistance so that the individuals eligible for the minimum would be in the right benefit scheme. The above benefits were increased further as of 1 January 2019, from EUR 24.64 (2018 index level) to EUR 27.86. This raised the monthly benefit to EUR 696.50.

Additional increases to these minimum benefits were introduced as of 1 January 2020. In order to reduce inequalities and to emphasise the primary benefit system, Parliament decided, on the Government's proposal, to increase monthly basic security by EUR 20. Minimum sickness allowance, parental allowance, special care allowance, and rehabilitation allowance were raised to EUR 28.94/day, increasing the monthly allowance to EUR 723.50 (~25*28,94). The index increase referred to above is included in the rise. The 55-day waiting period for minimum sickness allowance was abolished as of 1 January 2019. No sickness allowance was paid for the waiting period or the amounts paid were below the minimum levels. After the entry into force of the legislative amendment, everyone is eligible for minimum sickness allowance immediately after a qualifying period.

In addition to the above increases, benefits of the families estimated to be at the highest risk of poverty (multi-child families, single-parent families) have also been raised. As of 1 January 2020, child benefits of multi-child families were raised by EUR 10/month from the fourth and each additional child, the single-parent increase by EUR 10/month, and the child maintenance allowance by EUR 7.

In accordance with a Government proposal, basic unemployment allowance and labour-market subsidy were raised by EUR 20/month in addition to the index increase as of 1 January 2020. From the start of 2020, basic unemployment allowance and labour-market subsidy have both amounted to EUR 33.66/day. As a result of the increases, these benefits now amount to about EUR 723.69/month. Furthermore, as from 1 January 2020, full guarantee pension was increased by EUR 50, to EUR 834.52/month and full national pension by EUR 34, to EUR 662.86/month.

Basic income experiment

The basic income experiment began on 1 January 2017. In the experiment, 2,000 unemployed individuals aged between 25 and 58 received a basic monthly income of EUR 560 without conditions or means testing. The experiment lasted for two years. The purpose of the experiment was 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 was also to find ways of simplifying the benefit system. The preliminary results of the assessment of the basic income experiment were published on 8 February 2019. There was no improvement in employment among the participants during the first year of the experiment. The register data indicates that during the first year of the experiment, there were no differences in employment in the open labour market between the basic income recipients and the members of the control group. There is a time delay of one year in the completion of the register data, which means that the results for the second year will be presented in spring 2020.

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

4.6 Finland's Europe 2020 and sustainable development targets

The targets of the Europe 2020 strategy are closely connected with the goals of the 2030 Agenda that concern decent work and economic growth (SDG8), industry and innovation (SDG9), climate action and clean energy (SDG7 and SDG13), quality education (SDG4), and poverty eradication, gender equality and reduction of inequalities (SDG1, SDG5 and SDG10).

Finland has already achieved or is close to achieving the goals concerning decent work and economic growth, industry and innovation, affordable and clean energy, quality education, poverty eradication and reduction of inequalities. Finland's greatest challenges concern the need to change consumption and production methods (SDG12), climate action (SDG13), the state of seas and waterways (SDG14) and supporting other countries in the implementation of 2030 Agenda (SDG17, especially the low amount of

development aid). These estimates are based on the annual country comparison produced by Bertelsmann Foundation and the UN Sustainable Development Solutions Network, Eurostat's annual SDG indicator report and the comparison report prepared by the OECD.¹¹

The Finnish Government is in the process of updating the national 2030 Agenda implementation plan. The updated plan will be submitted to Parliament in spring 2020 and it will detail the measures that Prime Minister Marin's Government is taking to achieve the 2030 Agenda goals. Finland is also preparing a Voluntary National Review of its progress in the implementation of 2030 Agenda between 2016 and 2020. The report will be submitted to the United Nations in July 2020.

11 Sachs et al. (2019): <https://www.sdgindex.org/>; Eurostat (2019): <https://ec.europa.eu/eurostat/documents/3217494/9940483/KS-02-19-165-EN-N.pdf/1965d8f5-4532-49f9-98ca-5334b0652820>; OECD (2019): <http://www.oecd.org/publications/measuring-distance-to-the-sdg-targets-2019-a8caf3fa-en.htm>

5 EU funds

The Partnership Agreement is a framework document bringing together the measures, results and reconciliation of European Structural and Investment Funds (ESIF). The ESIF funds are as follows: the European Regional Development Fund (ERDF), European Agricultural Fund for Rural Development (EAFRD), European Maritime and Fisheries Fund (EMFF) and the European Social Fund (ESF). The purpose of the ESIF funds is to support the national objectives of the Europe 2020 strategy. There have been no major changes in the country-specific recommendations issued to Finland between 2014 and 2019 since the preparation of the Partnership Agreement. In the recommendations, Finland has been urged to enhance the labour market capabilities of young people, long-term unemployed, immigrants and other groups in vulnerable labour market position and provide them with better employment opportunities. These recommendations are still valid. The measures targeting these groups have been included in the ESF priority axes of Finland's structural fund programme. Promoting entrepreneurship, competitiveness and internationalisation (through better innovation capabilities, for example) also play a prominent role in the structural fund programme. All priority axes of Finland's structural fund programme have achieved the objectives set out in the performance framework. In the country-specific recommendations for 2019, Finland is urged to improve incentives to accept work and enhance skills and active inclusion, for example, through well-integrated services for the unemployed and the inactive, and focus investment-related economic policy on research and innovation, low-carbon economy and energy transition and sustainable transport, taking into account regional disparities. All in all, it is estimated that about 70% of ERDF funding and 80% of ESF funding has been allocated directly to projects related to the country-specific recommendations.

The employment rate target can be promoted by improving the skills and employability of the labour force on the basis of the working life needs. In ESF projects, public employment services are developed and the unemployed are provided with training, coaching and subsidised work as well as participatory opportunities. The purpose of ESF funding is to facilitate the labour market access of the unemployed and people with partial work ability with the help of support measures and service models. The impact assessments of the ERDF and ESF programmes suggest that ensuring an unbroken development path,

smooth transfers and successful implementation of the individual stages are essential factors in employment projects. Skills development measures introduced in ESF projects have been particularly effective in improving the skills of those already in employment. The projects have helped to increase the number of higher education graduates using measures that reduce dropout rates and encourage students to complete their studies. The projects have encouraged young people to move to education, training or working life and helped to develop educational and training services for groups with special needs. Improvements in employment, skills and inclusion are also reflected in a better renewal and innovation capacity. Multisectoral character of the measures and services are considered a key factor in ensuring their success. The following factors are considered as requirements for success in the activities to prevent social exclusion: genuine social participation from the planning stage onwards, use of a broad range of different measures and more extensively supported instruments, service packages (providing social inclusion services as well as employment and training services on a one-stop shop basis), long client relationships (when required) and higher financial inputs per person than in other priority axes.

In partial ERDF funding, support is provided for the growth and competitiveness of companies and thus also employment. A total of about EUR 565 million in public funding was allocated to these measures between 2014 and 2019. Most of the business development funding and the funding for developing business operating environments have been allocated to Eastern and Northern Finland.

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

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

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

interested in working in the fisheries sector, especially in sparsely populated areas suffering from high unemployment.

The purpose of partial ERDF funding is to support the development of innovation and competence structures in regions and companies' innovation activities. Innovation hubs have also been developed in projects managed by universities and universities of applied sciences by improving the RD infrastructure. A total of about EUR 723 million in public funding was allocated to the above actions between 2014 and 2019. ESF funding is also helping to develop skills and training-related guidance and advisory services in a broad range of different areas, expert networks of employers, teachers and instructors, and new teaching and study methods.

A total of 20% of the ESF funding has been allocated to social inclusion and combating of exclusion. A total of about EUR 156 million in public funding was allocated to the above actions by the end of 2019.

Achievement of the climate-related Europe 2020 targets is supported in the structural fund programme for mainland Finland by providing funding for ERDF projects promoting the low-carbon approach and focusing on enhancing energy efficiency in SMEs and the development of renewable-energy and energy-efficient solutions. At the end of 2019, these measures accounted for 25.3% (about EUR 326 million) of all public funding allocated to ERDF measures. Moreover, in all ESF and ERDF projects receiving funding, the activities are assessed from the perspective of sustainable development. Projects promoting bioeconomy and circular economy that are closely connected with climate and environmental objectives are supported from the rural development programme for mainland Finland. Furthermore, rural development programme instruments also help to improve the 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 the EMFF.

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

6.1 Preparation of the National Reform Programme and participation of stakeholders

The Constitution of Finland 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 in cooperation 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 can 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 provide the basis for the Government's actions in the EU.

In an exceptional move, this year's National Reform Programme has been prepared by Ministry of Finance public officials and it has not been reviewed by the Government.

6.2 Stakeholder participation in the preparation of key reform projects

Health and social services reform

There will be stakeholder cooperation at several levels during the preparations of the health and social services reform. A separate division has been established for regional-level preparatory work, and in addition to ministries, municipalities, the Association of Finnish Local and Regional Authorities, greater regions, the municipal employer, and regional rescue services will also be represented in the division. The division will act as a link between the stakeholders and the law-drafting process. In early 2020, the Ministry of Social Affairs and Health has conducted discussions with regions, and there will also be closer cooperation with regional networks involved in the preparatory process as the reform progresses.

Social security reform

The social security reform will be prepared by a parliamentary committee. Stakeholders, such as labour market central organisations, non-governmental organisations and research institutes, will serve as permanent experts in the committee and be represented in its divisions. The committee will also hear the views of a large number of citizens and non-governmental organisations, and will make use of inclusive working methods.

Reform of the Climate Change Act

In autumn 2019, the Government launched the overhaul of the Climate Change Act to help Finland to achieve its carbon-neutrality target by the year 2035. The Climate Change Act is a framework act and only the authorities are obliged to comply with its provisions. Every effort will be made to ensure that the hearings held during the preparatory process are inclusive and correctly timed. Children and young people and the Saami community, two groups that are vulnerable to climate change, have been selected as key target groups in the hearings.

The preliminary preparations of the new act have included an extensive citizens' survey (attracting 2,548 responses), events in five public libraries (in Helsinki, Tampere, Seinäjoki, Rovaniemi and Inari) in which information on the reform was provided, and events for specific stakeholders. If the corona situation allows, library events will also be held in Lappeenranta and Joensuu. Furthermore, a round table discussion on climate and the Climate Change Act for young people has been held, a workshop has been arranged as part of the *Lapset valtaavat valtioneuvoston* (Children occupy the Government Building) event, there has been a visit by climate strikers of the Tiurasniemi school, and children's views on the Climate Change Act have been heard. Thematic discussions on the sectors covered by the reform (business, sinks and land use, municipalities and regions, legal issues) will be held at the events arranged for specific stakeholder groups. Hearings arranged in cooperation with the Timeout Foundation are planned for the autumn, and other legislative projects of the Ministry of the Environment will also be discussed at these events (Nature Conservation Act, and Land Use and Building Act).

Based on the hearings, majority of the respondents would like to have a more open and a clearer Climate Change Act written in an easy-to-understand language, which contains clear sector-specific objectives and a structure covering all emissions categories. Strengthening the cross-cutting character of environmental aspects in relation to other environmental laws and strengthening of a fair transition process have also been highlighted in the hearings. In Northern Finland, the emphasis was on developing the regulation concerning climate change adaptation and on ensuring that indigenous peoples can be more closely involved in climate-related activities.

Comprehensive reform of energy taxation

In accordance with the Government Programme, the Ministry of Finance has launched preparations of the sustainable taxation roadmap, and the drafting of the energy tax reform as part of the roadmap. The energy tax reform is prepared in a Ministry of Finance working group. The key policy proposals of the working group will be available for the Government at its spending limits discussion this spring. The Government is planning to submit legislative proposals on the key measures to Parliament next autumn.

The working group will prepare the energy tax reform on the basis of the Government Programme. It is also expected to consider other areas of the existing energy tax system where improvements may be needed and, in addition to the carbon-neutrality target, also take into account competitiveness of companies and social and regional policy issues.

The working group consists of experts from the Ministry of Finance, Ministry of Agriculture and Forestry, Ministry of Economic Affairs and Employment, Ministry of the Environment, and the Finnish Tax Administration. As part of its work, the working group will hear the views of a large number of researchers, organisations and key stakeholders.

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