



MINISTRY OF FINANCE

# The Lisbon strategy for growth and jobs 2008-2010



The Finnish  
National Reform  
Programme

36c/2008

Economic outlook and economic policy



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MINISTRY OF FINANCE

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<b>Abstract</b>	<p>When introducing the second three-year period of the revised Lisbon Strategy in the meeting in March 2008, the European Council confirmed that the present integrated guidelines were to remain valid and were also applicable in the period 2008–2010. In addition, the European Council reconfirmed as cornerstones of the revised strategy the four priority areas approved at the spring 2006 meeting, and emphasised that in the new period the most important issue is to implement the reforms.</p> <p>There are 11 priority areas in the Finnish National Reform Programme. The goal of macroeconomic policy is to ensure economic stability and sustainable public finances. This highlights the need to make provision for the ageing of the population, curbing public spending and boosting productivity to safeguard the provision of public services.</p> <p>The microeconomic policy priorities aim to bring about structural reforms to strengthen competitiveness and productivity by promoting expertise and innovations, fostering entrepreneurship, enhancing market functioning, creating a better infrastructure in ICT and transport and advocating an energy and climate policy that supports sustainable development.</p> <p>The main objectives of employment policy are to raise the employment rate and to improve the functioning of the labour market. Key measures aimed at achieving these objectives consist of extending working careers, improving the incentive effect of tax and benefit systems and wage formation, and better matching of labour demand and supply.</p>	



## Contents

<b>Foreword</b> .....	7
<b>1 Introduction</b> .....	9
1.1 General outlook on economic and structural development.....	9
1.2 Key challenges and the response to them.....	12
1.3 Government Programme .....	16
1.4 European Council guidelines and Council of the European Union priorities .....	18
1.5 The National Reform Programme as a response to issued points to watch .....	21
1.5.1 Reforms to improve competition and productivity in some service areas, and to create the necessary leverage to reduce high price levels .....	21
1.5.2 Measures to achieve the Kyoto targets .....	25
1.5.3 Reforms to address bottlenecks in the labour market, with a particular view to tackling high structural unemployment, especially unemployment of low skilled workers and young people .....	26
1.5.4 Opportunities offered by work-based immigration .....	33
<b>2 Macro policy: economic stability and sustainable public finances</b> ...	37
2.1 The pension system .....	39
2.2 Curbing public spending .....	40
2.3 Securing welfare services .....	42

<b>3</b>	<b>Micro policy: structural reforms to promote competitiveness and productivity</b>	47
3.1	Knowledge and innovations	47
3.2	Promoting entrepreneurship	56
3.3	Improving market efficiency and competition	60
3.4	Improving information, communications and transport networks	63
3.5	Energy and climate policy supporting structural change and sustainable development	67
<b>4</b>	<b>Employment policy: raising the employment rate and improving market efficiency</b>	73
4.1	Extending working careers	75
4.2	Improving the incentive effect of tax and benefit systems and wage formation	77
4.3	Improving the balance between labour demand and supply	79
<b>5</b>	<b>Regional development and support of structural fund policy for finland's national reform programme</b>	83
<b>APPENDIX I</b>		
	<b>The Finnish flexicurity model</b>	87
<b>APPENDIX II</b>		
	<b>Integrated guidelines</b>	93

# Foreword

When introducing the second three-year period of the revised Lisbon Strategy in spring 2008, the European Council confirmed that the present integrated guidelines were to remain valid and were also applicable in the period 2008–2010. In addition, the European Council reconfirmed as cornerstones of the revised strategy the four priority areas approved at the spring 2006 meeting, and emphasised that in the new period the most important issue is to implement the reforms.

European Council considered it important for the Member States to propose, in their national programmes 2008–2010 and thereafter in their annual implementation reports, detailed and concrete policy measures that they intend to implement as a response to the integrated guidelines, country-specific recommendations and points to watch.

This Finnish National Reform Programme 2008–2010 has been prepared according to European Council guidelines. The targets are the same as in the previous 2005–2008 reform programme – raising the employment rate and improving the well-being of citizens in a sustainable way. The focus is on implementing already approved national policies.

The National Reform Programme is based on the Government Programme of Prime Minister Matti Vanhanen's second government, which began its work in spring 2007, the related 2007 Government Strategy Document, and the three cross-administrative policy programmes which are the instruments for implementing the Government Programme, namely: employment, entrepreneurship and working life; health promotion; and the well-being of children, youth and families.

The reform programme is an integral part of Finland's overall economic policy. The main instruments in implementing the programme are the Stability Programme, decisions on spending limits and the Budgets, as well as legislative reforms and the development of the public administration. This approach means that Parliament and various stakeholders have had a number of opportunities at different stages of preparation to present views on the programme.

In accordance with the Government Programme, the promotion of gender equality is taken into account in all decision-making when implementing this reform programme. The gender perspective is mainstreamed in the drafting of legislation, in budget processes and in the early stages of other significant



projects. In the policy programme for the well-being of children, youth and families, for example, all measures are assessed from the perspective of equality and multicultural aspects.

This programme for the period 2008–2010 was prepared following the same procedures as the previous 2005–2008 National Reform Programme. A wide range of stakeholder delegates as well as Government representatives and public officials participated in preparing the programme. The parts of the NRP relating to innovation policy are based on the work of the Science and Technology Policy Council, headed by the Prime Minister. The public administration, collective organisations, the business sector and the scientific community are represented on the council. At various stages of its preparation, the NRP was discussed in the Economic Council, where all the main interest groups and key economic agents, including the Association of Finnish Local and Regional Authorities (the central organ for local government), are represented.

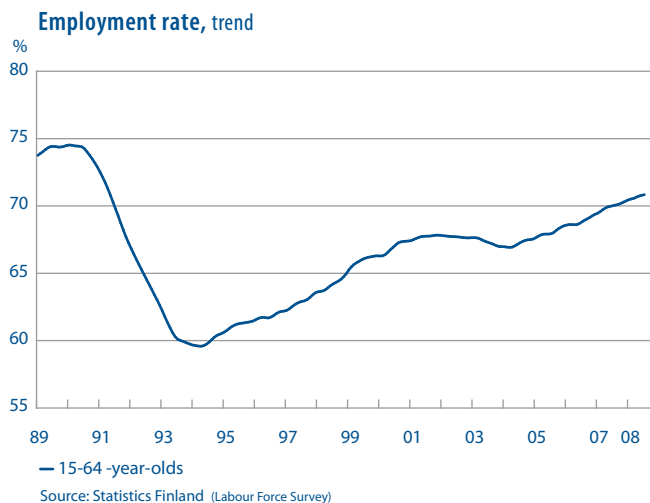
Parliament has been informed of the preparations, and the programme was presented to the Grand Committee before it was approved by the Government.

The implementation of the NPR is monitored in the context of the Government Strategy Document procedure, developed to monitor the implementation of the Government Programme. Assessments of the implementation of policy programmes and other measures are collated for the Government Strategy Document, which is drawn up annually. Monitoring of the National Structural Fund Strategy is also reviewed in connection with this.

# 1 Introduction

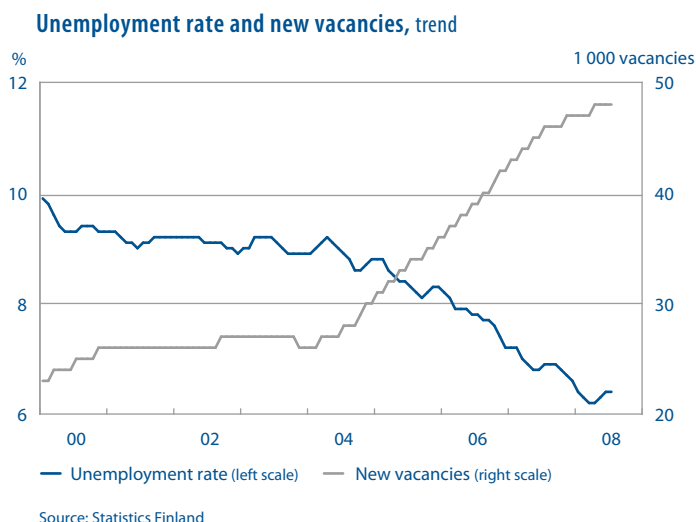
## 1.1 General outlook on economic and structural development

Finland's economy has, to date, survived the weakening of the world economy well. The period of strong economic conditions has passed its peak, however, and economic growth is slowing. Employment continues to strengthen, but price and cost pressures have increased considerably. Higher inflation and deteriorating cost competitiveness together with the weakening of the world economy represent the biggest threat to the continuation of stable economic development.



Total production grew at a brisk rate from the beginning of 2006 to mid-2008. Economic conditions have since weakened since then, however. The growth estimate for the whole of 2008 is 2.8 per cent. Growth in 2009 may fall short of two per cent.

Labour demand is expected to continue to increase, if more slowly. In 2008 the number of employed is expected to be on average a good 40,000 more than in 2007. The employment rate will rise to 70.6 per cent. The growth of labour supply will slow due to the retirement of baby boomers.



The number of vacancies in the first quarter of 2008 was 80,400 – i.e. 17 per cent more than in the corresponding quarter of 2007. Labour availability problems are significant. It has been possible to moderate the creation of labour bottlenecks, however, through increasing not only the number of workers coming from outside the labour force and the number of workers delaying retirement but also through increasing work-based immigration. The unemployment rate will decline to an average of 6.2 per cent in 2008 and will drop below six per cent in 2009.

Work productivity growth is slowing in response to economic conditions. The manufacturing sector's cost competitiveness took a downturn in 2007 and it is expected to weaken further in 2008. This trend also seems likely to be maintained in 2009.

In 2008 the position of public finances remains good. In 2009 the surplus in general government finances is forecast to fall significantly, by 1½ percentage points of GDP. The reasons for this are the weakening of the economy, planned tax cuts and a reduction in property income after a long period of growth. Despite this weakening, the financial position remains good, both by interna-

tional comparisons and relative to the state of Finland's public finances in the past. General government debt as a proportion of GDP will fall during the current year to 32 per cent.

In the medium term, Finland's economic growth will be slowed particularly by an ageing population and the resulting reduction in labour supply. According to a Statistics Finland population forecast, the working-age population will again grow this year and next year very slowly and then start to fall at the end of the decade. This will significantly weaken economic growth opportunities unless working careers are extended further and resources currently outside the labour force are brought into working life. Demographic change highlights the importance of measures aimed at improving productivity.

Reducing unemployment is constrained by the fact that a large part of unemployment is structural. A rise in labour costs might also weaken labour demand. The number of employed is expected to grow further in the next few years but to take a downward turn in the medium term as labour supply weakens.

Significant growth in employment in future will require, as well as favourable development of the world economy, economic policy measures both to lower structural unemployment and to improve the matching of labour demand and supply. International competition and the changes it brings to the division of labour will also require continuous development of labour expertise.

Globalisation requires better systems for anticipating education needs, higher quality education, and a sufficient number of education and training places to safeguard economic competitiveness.

Ensuring national competitiveness is a prerequisite of success in a globalised operating environment. This will not safeguard success on its own, however; successful implementation of the external dimension of the Lisbon Strategy is also needed to secure open and free global trade.

Climate change prevention commitments and others relating to reducing greenhouse emissions and increasing the use of renewable energy may weaken economic growth potential and competitiveness in the medium term. Due to an energy-intensive production structure, achieving climate policy targets sets particularly high demands on the adaptability of the national economy in the case of Finland.

Achieving the country-specific target set for renewable energy sources may be particularly challenging for Finland, because the proportion of renewable energy is currently already high. This will also be decisively dependent on forest industry production, the prospects for which are unfavourable. The Strategy for Sustainable Development approved in 2006, which highlights, for example, the efficient use of materials and accelerated introduction of new technologies, will help in the achievement of energy and climate policy targets. Adapting to low-carbon production and consumption may also create new production opportunities, for whose exploitation Finland has good prospects due, among other things, to its high technological expertise.

The external operating environment of the Finnish economy is changing and many uncertainty factors are connected with the development of the world economy. The slowing of US economic growth in the short term as well as the rebound effects of problems and their possible prolongation overshadow economic prospects. In addition, the development of raw material prices represents a risk factor for inflation and economic growth.

For the forest sector, a particular challenge arises from the timber export duties announced and already partially introduced by Russia, which when fully implemented will have a substantial adverse impact on the sector's raw material management and production. The final effects on Finland's forest industry and on the national economy's medium-term overall production and employment trends will depend on the scale to which the duties are implemented and how well replacement sources of raw wood can be found.

The overall picture of economic development and as well as medium-term development prospects will be discussed in more detail in the Finnish Stability Programme.

## 1.2 Key challenges and the response to them

The goal of macroeconomic policy is to ensure economic stability and sustainable public finances. The more pronounced and long-lasting the state of weakness of the world economy, the more important it is for the domestic elements of a stable economy, namely strong public finances and good price competitiveness, to be in excellent shape. The tax cuts in accordance with the Government Programme aimed at improving employment are well suited to a weakening economic outlook. The tax cuts will boost household purchasing power, lower the tax wedge, improve incentives to work and employment, and promote moderate wage settlements and efforts to reduce structural unemployment.

After a long period of relatively moderate collective agreements, the wage increases agreed in 2007 and at the beginning of this year, mainly agreements extending to the beginning of 2010, are clearly higher than has been the case in recent years. The risk is that the agreed wage settlements will increase inflation over the longer term clearly higher than the inflation of recent years. The situation is very challenging in terms of the coordination of the different elements of macroeconomic policy.

The prospects for the latter part of the parliamentary term are overshadowed by an acceleration of population ageing. At the same time as public expenditure is increasing through the ageing of the population, a contraction of the number of employed threatens to slow growth of total production and tax revenue. In future, productivity growth will be an increasingly important factor, as labour, the second main instrument of economic growth, begins to decline.

The achievement of productivity targets will require investment in expertise in particular.

Maintaining economic stability is a necessary prerequisite of achieving long-term economic objectives. The goal is to keep the financial position of public finances strong in order to safeguard their sustainability. In addition to its policy of increasing the employment rate, the Government's aim is to boost productivity in the provision of public services. Resources will be transferred from one area to another in accordance with changes in demographic and regional structure as well as a new prioritisation of service needs.

The priorities of macro policy are:

- The pension system,
- curbing public spending, and
- safeguarding welfare services and boosting public sector productivity.

### Growth potential

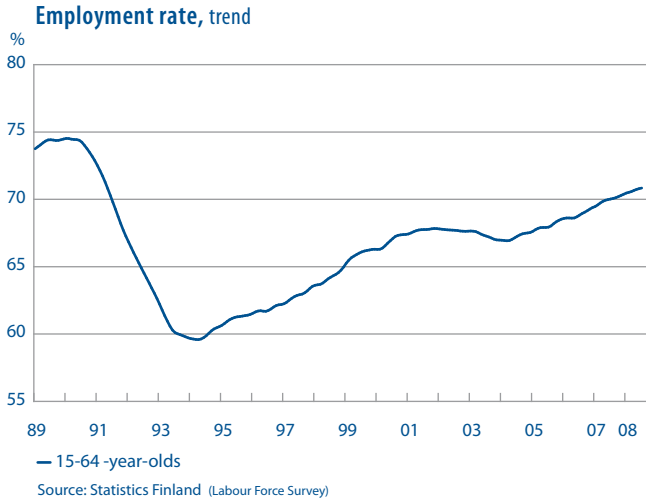
Boosting the growth potential of the economy is a key element of Finland's economic and employment strategy. Potential production has grown in Finland at an annual rate of more than three per cent in recent years. Without a rise in the employment rate and an acceleration of productivity growth, the rate of growth of potential production threatens to slow to around two per cent. Efforts to boost growth potential will include:

- Raising the employment rate ,
- accelerating productivity development, and
- promoting work-based immigration.

Improving the business operating environment and promoting competition are central to achieving these objectives. Means to raise the employment rate are discussed in Sections 4.1, 4.2 and 4.3, to raise productivity in Sections 3.1 and 3.2, and to improve the business operating environment and promote competition in Section 3.2.

### Employment

The employment targets were achieved in the programme period 2005–2008. The employment situation has improved in recent years and labour-market participation in work is high. At the same time, structural unemployment and a cessation of labour supply growth threaten to put the brakes on economic growth.



The main objectives of employment policy in the new period are the same as in the previous programme.

- Extending working careers,
- improving the incentive effect of the tax and benefit systems, and
- better matching of labour demand and supply.

These objectives will be achieved through reforming the tax and benefit system, developing training, and by labour market policy measures. In addition, efforts will be made to promote work-based immigration, improve the quality of working life, raise productivity and to support and develop new forms of work. The aim is to raise the employment rate to 72 per cent by spring 2001 and over the longer term to 75 per cent.

The Ministry of Labour and the Ministry of Trade and Industry were combined into the new Ministry of Employment and the Economy at the beginning of 2008. The objective is to achieve synergy benefits in development services for innovations and productivity as well as for labour expertise and business activity, and also in support for growth enterprises.

The more detailed employment objectives specified in the Government Strategy Document include:

- Ensuring that people's work input is utilised as fully as possible and securing the availability of labour,
- reducing labour market matching problems,
- substantially improving work productivity and the quality of working life,
- developing a labour market flexicurity model,
- promoting work-based immigration and utilising to the full the expertise and work input of the immigrant population, and
- ensuring the incentive effect of the tax and benefit system and of wage formation.

### Implementation of the National Reform Programme 2005–2008

The employment rate exceeded in 2007 the 70 per cent target level included in the Lisbon Strategy. R&D expenditure (% of GDP), moreover, has exceeded for years now the three per cent target level included in the strategy.

In the opinion of the Council of the European Union, Finland has made excellent progress in implementing the National Reform Programme in the period 2005–2007. Finland has also adhered well to the commitments agreed in the spring 2006 European Council meeting in the four key priority areas: investment in expertise and innovation, improving business potential in small and medium-sized enterprises, improving employment opportunities, and energy and climate policy.

According to the opinion, Finland's strengths lie in the reforms that are under way, which will continue developing the national innovation system and increasing the employment rate of older workers. The Council has made no recommendations to Finland on the Commission's proposal, only four points to watch.

The simplification of companies' recruitment practices and the development of wage formation, which were indicated to Finland previously as points to watch, were deleted in the Council's opinion of 2008 on the interim report of the 2005–2008 Reform Programme, as the Commission considered in its report that Finland had implemented appropriate and adequate measures. Two new points to watch were added, namely implementation of measures required to achieve the Kyoto targets and utilisation of work-based immigration.

The Commission stated in its assessment of 2007 that Finland has made good progress in promoting the local-level settlement of terms of employment. In 2007 labour market organisations discontinued centralised agreements and concluded local-level agreements. These included greater opportunities than in



the past to take local conditions into account in wage settlements. Commission also considered in its report that Finland has made good progress in simplifying recruitment procedures.

On macroeconomic policy, the Commission stated in its assessment that spending limits will remain a crucial tool for containing government expenditure. The Commission considered that reforms to boost public sector productivity and the quality of its services are advancing well. In terms of the phasing in of pension reform, the Commission considered that this is advancing according to initial plans and targets. In its overall assessment, the Commission stated that Finland has made very good progress over the 2005–2008 period in implementing the specific macroeconomic measures outlined in the NRP.

In its regular report, the Commission stated that Finland's national innovation system is a role model for a technology-driven economic reform programme. The increasing number of businesses is encouraging and the business environment is favourable for start-ups. However, the limited growth of existing SMEs is a concern. The Commission also considered that Finland is not projected to meet its Kyoto emissions unless additional measures are implemented.

The Council has encouraged Finland to improve in some service sectors. In its report, the Commission stated that while productivity is higher in many services than previously thought, and competition has become more intense, service sector prices still exceed the EU average by around 30 per cent.

The Commission considered in its report that in general Finland has shown good progress in meeting most of the NRP's employment policy commitments.

### 1.3 Government Programme

One objective of Prime Minister Matti Vanhanen's second Government, which began its work in spring 2007, is to improve the well-being of the Finnish people by providing better conditions to create significantly more jobs and boost productivity growth. The Government aims to achieve economic growth that is much faster than that presented in economic forecasts. In this way it will be possible to meet the need to revamp public services and income transfers without jeopardising sustainable public finances. Moreover, to protect the well-being of the nation, ecologically sustainable economic growth will be promoted in accordance with the sustainable development strategy.

With the labour market experiencing challenges such as an ageing workforce and labour mismatches, increasing the employment rate will be more demanding than during the previous electoral period. However, sustained by a resolute policy and providing the world economy remains buoyant and wage trends help support employment, it is possible to create 80,000 to 100,000 new jobs over the current parliamentary term. This would raise the employment rate to around 72

per cent by the end of the term. The long-term target is to boost the employment rate to 75 per cent. Furthermore, the Government is committed to the tripartite equal pay programme, the objective of which is to reduce the wage differential between men and women from the present 20 per cent to 15 per cent.

The Government is continuing the programme-management practice established in the previous Government's term of office. This includes Government cross-administrative policy programmes and the Government Strategy Document procedure used in implementing, promoting and monitoring the Government Programme. The three cross-administrative policy programmes agreed in the Government Programme are: employment, entrepreneurship and working life; health promotion; and the well-being of children, youth and families.

In addition to the policy programmes, the Government attaches particular attention to eight broad-based policy themes. These themes include climate and energy, skills and innovations, administrative reform, structural reform of the municipal and service sectors, social security, social exclusion and social security reform, preparations for population ageing, security and Finland's international position. The strategy document also defines the priorities for sectoral research and provides information on the Government's legislative plan as well as Government statements and Government resolutions to be submitted to Parliament. The implementation of the Government Programme is monitored on the basis of indicators described in the strategy document.

The key policy themes to raise the employment rate and boost productivity are:

- A new innovation strategy.
- Implementation of strategic clusters for science, technology and innovation and a new centre of expertise programme.
- Revision of the structure and administration of universities, including the creation of an innovation university.
- Comprehensive reform of occupationally oriented adult education.
- Reducing the taxation of work.
- As part of the comprehensive social security reform, social security schemes are provided with more incentives for people to work.
- Implementation of taxation and housing policy measures that promote the mobility of labour.
- A revised procedure for setting State spending limits and for the implementation of the productivity programme.
- An overall assessment of the adequacy of the policy on ageing so that a decision on potential further actions can still be made during the current electoral period.

In order to improve social security, publicly funded services and well-being, as of 2008 the Government will upgrade certain principal benefits, develop service structures, and review the entire social security system from the perspectives of enhanced incentives and basic security and the alleviation of poverty. The 2009 budget submission includes proposals on, for example, family benefit increases and additional central government transfers for social welfare and health care.

The main policy areas to safeguard well-being and boost the productivity of public services are:

- Social security reform implemented in stages.
- Restructuring of municipalities and services.
- A policy programme for health promotion.
- A policy programme for the well-being of children, youth and families.
- A service innovation project in social welfare and health care.

The Government Programme was outlined in more detail in the 2007 progress report on Finland's 2005–2008 Reform Programme.

## 1.4 European Council guidelines and Council of the European Union priorities

When introducing the second three-year period of the revised Lisbon Strategy in spring 2008, the European Council confirmed that the present integrated guidelines (broad economic policy guidelines and employment guidelines) were to remain valid and were also applicable in the period 2008–2010. Member States should identify in their national reform programmes and thereafter in their annual implementation reports the detailed and concrete policy measures that they intend to implement in response to the integrated guidelines, country-specific recommendations and points to watch. Section 1.5 presents the measures by which Finland will respond to the points to watch it has been given.

The priority of the new period is implementation. Accordingly, the European Council reconfirmed as cornerstones of the revised strategy the four priority areas approved at the spring 2006 meeting, and called for synergies among them to be exploited to a greater degree.

The European Council stated that flexicurity strikes a balance between labour market flexibility and security and helps both employees and employers to seize the opportunities globalisation offers. The European Council recognised that

there is no single flexicurity model, and calls on Member States to implement the agreed common principles on flexicurity by outlining the national arrangements giving effect to those principles. The Finnish flexicurity model is outlined in Section 4.2 and in more detail in Appendix I.

The European Council also invited the Commission and Member States to strengthen the involvement of relevant stakeholders in the Lisbon process, because the local and regional level has a significant role in delivering growth and jobs. Increased ownership of the growth and jobs agenda at all levels of government will lead to more coherent and effective decision-making.

The European Council emphasised that economic, social and regional cohesion is significant for fulfilling the objectives of the revised Lisbon Strategy and underlines the importance of macroeconomic stability in addressing the long-term challenges ahead. The quality of public finances needs to be improved by raising the efficiency and effectiveness of public expenditure and revenue. The European Council reconfirmed the importance of the social dimension of the EU as an integral part of the Lisbon strategy and in particular stressed the need to further integrate economic, employment and social policies.

#### Points to watch issued to Finland

The Council of the European Union states in its opinion that in the implementation period of its National Reform Programme, Finland should focus on the following challenges:

- continue reforms to improve competition and productivity in some service areas, and create the necessary leverage to reduce high price levels
- implement announced measures to reach its Kyoto targets
- continue reforms to address bottlenecks in the labour market, with a particular view to tackling high structural unemployment, especially unemployment of low skilled workers, including young people, and
- take into account the contribution economic migration can make

These points to watch have also been recognised as being of prime importance at a national level and they have a central position in the National Reform Programme for the period 2008–2010.

#### Recommendations issued to euro area Member States

In its opinion relating to the euro area, the Council of the European Union issued to euro area countries the following recommendations, which they should take into account in their national programmes:

- Pursue budgetary consolidation towards their medium-term objectives in line with the Stability and Growth Pact, striving to achieve an annual structural adjustment of at least 0.5 per cent of GDP as a benchmark.
- Improve the quality of public finances by reviewing public expenditure and taxation, with the intention of enhancing productivity and innovation, thereby contributing to economic growth and fiscal sustainability.
- Effectively implement measures that improve competition, especially in services, and step up measures that promote full integration of financial markets and competition in retail financial services, while strengthening stability and supervision of the financial sector.
- Improve flexibility and security in the labour markets, for example by implementing “flexicurity” strategies, better aligning wage development with productivity growth, and enacting measures to promote labour mobility across borders and between occupations.

Finland will meet the requirements of the recommendation relating to budgetary consolidation (see Section 2). The budget spending limit procedure is the instrument by which the medium-term target will be achieved. In terms of the other recommendations, the key instruments are as follows:

- The government productivity project, the public service structure reform project and the new innovation strategy are the instruments for improving the quality of public finances (see Section 2).
- The national implementation of the Competition Directive is the main instrument for promoting competition in services. In addition, a reform of regulations restricting competition is under discussion, as is a clarification of retail trade opening hours and planning rules (see Section 1.5.1).
- Finland has made numerous reforms improving flexicurity (see Appendix I). An extensive reform of the benefit system is under way. Labour mobility across borders has been promoted in many ways (see Section 1.5.4).

## 1.5 The National Reform Programme as a response to issued points to watch

The point of departure for economic policy is a structural surplus in public finances corresponding to 2 per cent of GDP, which has been set as a medium-term budget target. The national target is to raise the employment rate to 72 per cent by 2011 and in the medium term to 75 per cent. Increasing R&D funding to four per cent of GDP has been set as the national target.

### 1.5.1 Reforms to improve competition and productivity in some service areas, and to create the necessary leverage to reduce high price levels

Finland's business structure has traditionally been industry-intensive. Services, defined the SNA on basis, constituted around 65 per cent of the national economy in 2007. Moreover, a rapid structural change is under way, which also encompasses strong growth in industrial service business. In the new business strategies, industrial products and related services are grouped together into broad product packages. Already nearly half of the turnover of many global Finnish industrial companies consists of such service business. When analysing services and their productivity, it is therefore also worth taking into account this service business, which is developing alongside the traditional service sector and represents an increasing part of industrial sector business.

Traditional service sector productivity in Finland has been considered to be low. The latest research data gives a more positive picture, however. It shows that productivity in Finland is on average at least as good as the average European level. Public expenditure as a proportion of GDP is higher in Finland than the average of EU countries. Public services account for around 18 per cent of GDP, which is roughly the same as the EU average. Municipalities are responsible for most of public services provision. Improving the productivity of publicly funded service provision is therefore particularly important.

Regulation restricts competition in some service areas. To safeguard the availability of services, regulation through licences has in some cases been considered necessary. The establishment of pharmacies, for example, has been regulated, as has part of the transport sector. Furthermore, in some service areas the market structure is oligopolistic. For this reason, the market situation of the retail trade is continually under review, as the sector is exceptionally concentrated. The joint market share of the two largest retail chains is around 75 per cent. The prices of consumer goods are generally higher than the average of the EU countries. This is partly due to sparsely populated areas and long distances, which increase costs. Statutes, however, also restrict service provision, for example with respect to shop opening hours and product selection. Munici-

pal and regional planning decisions can also reduce competition and promote concentration, because they restrict the availability of shop locations and the development of large shopping centres.

### Promoting competition in services

In its supervision and investigation activity, the Finnish Competition Authority has paid particular attention to the effectiveness of competition in the retail trade and in construction. This is linked to a more general effort to allocate supervision resources to sectors in which restrictions on competition can be considered to have the broadest impact. Amendments planned in connection with the Act on Competition Restrictions, for example with respect to supervision of company acquisitions, will facilitate supervision of the service market, particularly in the aforementioned sectors, which have an oligopolistic market structure.

The Government Programme states that the Government will ensure equal conditions for private and public service provision through competition policy. Moreover, the European Commission has intervened in distortions of competition resulting from the activities of state-owned enterprises. In October 2007 a working group was appointed to look into the competition neutrality of state-owned enterprises. The working group's task is:

- To look into the nature of potential distortions of competition connected with business activity practised by the public sector,
- to assess the extent and practical significance of the phenomenon,
- to survey the means by which competition neutrality can be ensured, and
- to give recommendations for policy guidelines and legislative changes.

### Regulation of services

Better regulation of services can have a positive influence on competition, innovations and thereby productivity.

The implementation of the Services Directive is a central part of the national reform of the regulation of services currently under way. The necessary framework regulation and sector-specific legislative changes will be prepared and the administrative structures necessary to implement the Services Directive will be created by the end of 2009. Preparations are being directed by a broad-based working group in which the key ministries and interest groups are represented.

A review and simplification of service sector licence and notification procedures will improve the operating environment, and the creation of a point of single contact will facilitate practical engagement in service business also in the case of services that fall outside the scope of the directive.

Regulations governing retail opening hours will be reviewed in accordance with the Government Programme. The aim is to complete the preparation of this by the end of 2008, at which time policy decisions will be made. The Working Group on Trade and Competition has proposed recommendations on the regulation of land use. Guidelines are being prepared in order to clarify the interpretation of legislation. These relate, for example, to an assessment as to whether the size limit for large retail units is up to date and to the definition of a specialist goods outlet that requires a lot of space.

### Promotion of innovations in services

Competition and innovations are closely linked. Effective competition encourages companies to innovate. Through competition policy and better regulation, it is therefore also possible to promote innovations.

One goal of innovation policy is to further cooperation between the public and private sectors. The aim is to direct knowledge and expertise to those areas where the need for them is greatest. In this context, the objective is to remove such barriers to competition that give rise to the distortion of operating conditions. The taxation advantages of public sector state-owned enterprises, for example, are under review.

Customer-orientation in public services has been low. Efforts are under way to improve the situation. In June 2008 a working group proposed a significant increase in the use of service vouchers. Service voucher legislation will be renewed in 2009 so that the scope of use of vouchers is expanded in social welfare and health care. An increase in the use of service vouchers would support a development in which users of public services can influence with their choices the content and quality of the services they receive. This would create conditions for increased competition and the creation of completely new service products, which is a key objective of the Government's broad-based innovation policy.

Innovation in services has been promoted, particularly through innovation funding, by TEKES, the Finnish Funding Agency for Technology and Innovation. Target areas in 2007, for example, included business services (data processing, research and development, technical and other services) as well as haulage, storage, transport, trade, education and social and health services. Overall, nearly one third of TEKES' innovation funding was allocated to the development of services. Some of the funding was used to promote industrial service business.



Within the framework of the revised EU rules on state aid, promoting services and non-technology development in general is easier than in the past, which will facilitate the further growth of investments made in this area and an expansion of target areas. The new R&D&I framework on state aid entered into force in May 2008 (see Section 3.1).

Non-technology development also has a central position in the just completed proposal for a National Innovation Strategy. The priorities of the strategy also include the promotion of user-oriented innovation activity. Based on these guidelines, additional investment will be made in improving the productivity of services.

### Public service structure reform

Finland's social model includes comprehensive public services. Traditionally the public sector has produced these services itself, but this operating model has gradually begun to change. The private sector is nowadays responsible for a growing proportion of service provision arranged by the public sector. Municipalities have consciously increased the outsourcing of services as well as related procurement and competitive tendering. This development has been fastest in social services. Of public health services, only a few per cent has been outsourced to date, but outsourcing has started to become more common also in the provision of health services.

The Act on Restructuring Municipalities and Services (skeleton law) entered into force in February 2007.

The aim of the Municipalities' Best Service Practices project, initiated in 2007, is to supplement and accelerate the reform of the structure of municipalities and services.

The Government will submit to Parliament in 2009 a report on the implementation of the reform. At that time any measures necessary to achieve the objectives of the Government will also be decided. The report will also assess what progress has been made in transferring duties from municipalities to central government and in revamping the central government's municipal policy and the central government transfer system as well as in developing information systems and citizens services.

A reform of the State regional administration is under way (ALKU project). March 2008 saw the completion of the project's interim report, based on which preparations will continue. The duties of the State regional administration will be organised on the basis of two new authorities into which will be gathered and reorganised the duties of the State's present six authorities (State Provincial Offices, Employment and Economic Development Centres, Regional Environment Centres, Environmental Permit Authorities, Occupational Safety and Health Inspectorates and Road Districts). The objective is a regional administration that is citizen- and customer-oriented, effective and efficient.

The service structure reform and its success is closely linked to the National Information Society Policy (2007–2011). It is coordinated by an advisory board, which reports to the Government annually on its progress. The aim is more efficient utilisation of ICT in different sectors of society. The availability of the public administration's electronic services will be improved and the compatibility and user friendliness of the services promoted. The utilisation of ICT is central to efforts aimed at increasing productivity in the provision of social and health services as well as training and education.

Municipal and service structure reform is also discussed in Section 2.3.

### 1.5.2 Measures to achieve the Kyoto targets

Greenhouse emissions according to the Kyoto Protocol were 80.3 million CO<sub>2</sub> equivalent tonnes in Finland in 2006. In the period 1990–2006, emissions increased almost exclusively in sectors belonging to the EU emissions trading scheme. The emissions trend in sectors outside of emissions trading has been slightly downward and this trend is also expected to continue in the next few years.

In sharing the burden within the EU, Finland emissions target in the Kyoto Protocol period, 2008–2012, has been agreed at the 1990 emission level, i.e. an average of 71.1 million CO<sub>2</sub> equivalent tonnes per year. A positive impact per annum of around 0.6 million tonnes is expected to arise to Finland from carbon sinks. Finland's emissions target would therefore be a total of 71.7 million tonnes per year in the Kyoto period.

In accordance with the Commission's decision, sectors belonging to emissions trading will be granted emissions rights corresponding to an average of 37.6 million tonnes per year. Emissions of sectors outside of emissions trading are estimated to be an average of around 33 million tonnes per year in the Kyoto period. The total volume of emissions for emissions trading sector emissions rights and for other sectors would therefore be an amount corresponding to 70.6 million CO<sub>2</sub> equivalent tonnes. Therefore the number of available assigned emission amount units, 71.7 million, would be sufficient to cover Finland's obligation.

The emissions trading scheme will automatically control the emissions of the emissions trading sector in accordance with the set emissions ceiling. It is the State's responsibility, however, to attend to the emissions balance of the non-emissions trading sector. Connected with the non-emissions trading sector's estimated emissions trend are significant uncertainty factors, which the State will endeavour to cover with Kyoto mechanisms. The State will acquire emissions units using project mechanisms or purchase assigned amount units in accordance with Kyoto Protocol in emissions trading between states. On the basis of decisions made by the end of 2007, it is expected during the Kyoto period

that additional room for manoeuvre amounting to 0.6–1.2 million tonnes will be obtained using the mechanisms in case of uncertainties.

Although Finland's greenhouse gas emissions in 2006 were above the 1990 level, Finland's emissions target will be achieved with the aid of emissions trading, national measures and the Kyoto mechanisms.

The priorities of national energy and climate policy measures are enhancing the use of renewable energy sources, introducing new technology and improving the efficiency of energy use. The Government is prepared to increase the use of hydropower considerably as well as promoting the use of wind power and solar energy. In its programme the Government has committed itself to introducing a feed-in tariff for biogas plants.

From the beginning of 2008, the car tax has been graduated according to emissions. This reform has worked in the desired way; consumers have switched to buying clearly lower emission vehicles than in the past. Graduation according to emissions of the annual road tax for cars is also under discussion. The reform may enter into force in 2010. The fuel tax was increased in 2008. The graduation of taxation on fuels in accordance with their total life-cycle emissions is also under review.

In February 2008, the Government amended the statute on housing repair, energy and health hazard grants in terms of the grounds for awarding energy grants for apartment buildings and terraced houses.

The energy and climate policy is also discussed in Section 3.5, where the climate and energy policy proposals contained in the 2009 budget submission are reviewed.

### **1.5.3 Reforms to address bottlenecks in the labour market, with a particular view to tackling high structural unemployment, especially unemployment of low skilled workers and young people**

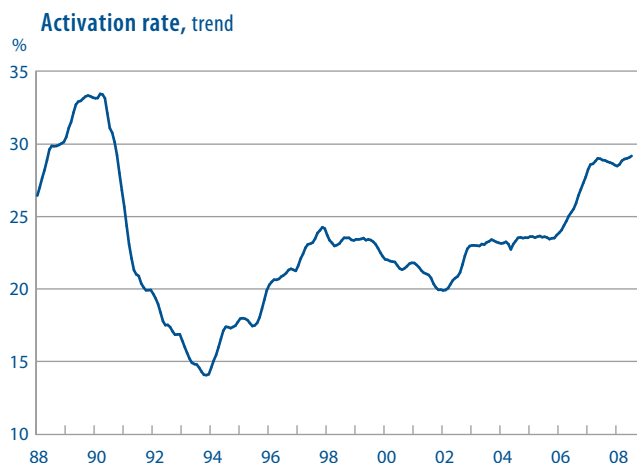
Unemployment remained at a high level after the economic recession at the beginning of the early 1990s. To prevent social exclusion, coordination between administrative areas was improved, initially with a joint services trial implemented in 18 localities, in which the labour administration, municipalities and the Social Insurance Institution of Finland participated. The aim was to develop operating models to employ the long-term unemployed and to improve their preparedness for the labour market. The trial was put on a permanent basis in 2004, at which time the establishment of Employment Service Centres began.

Current structural unemployment is no longer simply a hangover from the 1990s' recession; it is based on the occupational and regional incompatibility of demand and supply. The risk of social exclusion is increased by the obsolescence of work experience and training as well as socially excluding factors such as a

decline in self-confidence and activity as the period of unemployment lengthens. Around half of the long-term unemployed have never been properly integrated into working life.

The employment situation has improved in recent years. The number of unemployed has fallen and nearly three quarters of those who become unemployed find work within three months. Employment service data for March 2008 shows that there were 111,400 hard to employ job seekers – long-term unemployed, repeatedly unemployed, unemployed after labour policy measures and those repeatedly placed in labour policy measures – i.e. around 39 per cent of all unemployed people (employment service unemployed job seekers + those placed in labour policy measures).

The number of hard to employ people has fallen faster than other unemployment, partly as a result of demographic change. A reform of the funding and terms of labour market support, the activity of employment service centres and the improved effectiveness of labour policy activation measures have contributed to the fall in structural unemployment. In addition, employment subsidies for the disabled and physically impaired have been doubled. The activation rate of the long-term unemployed was 28.2% in 2006 and 2007, i.e. above the EU's employment policy target (25%).



Source: Ministry of Employment and the Economy (Employment Service Statistics)

### Structural unemployment in March 2006-2008

	2008 March	2007 March	2006 March	Change 2008-2007		Change 2007-2006	
				people	%	people	%
a Long-term unemployed	45 650	54 917	68 134	-9 267	-16.9	-13 217	-19.4
b Repeatedly unemployed	30 729	36 293	40 992	-5 564	-15.3	-4 699	-11.5
c Unemployed after policy measures	25 709	25 189	30 254	520	2.1	-5 065	-16.7
d Repeatedly placed in policy measures	9 354	10 229	11 997	-875	-8.6	-1 768	-14.7
Narrow structural unemployment (a+b)	76 379	91 210	109 126	-14 831	-16.3	-17 916	-16.4
Structural unemployment (a+b+c)	102 088	116 399	139 380	-14 311	-12.3	-22 981	-16.5
Broad structural unemployment (a+b+c+d)	111 442	126 628	151 377	-15 186	-12.0	-24 749	-16.3
Unemployed job seekers, total	199 732	221 534	257 921	-21 802	-9.8	-36 387	-14.1
Measures, total	87 427	94 608	89 482	-7 181	-7.6	5 126	5.7
Broad unemployment, total	287 159	316 142	347 403	-28 983	-9.2	-31 261	-9.0

MEE, Research and Foresight Group 22.4.2008

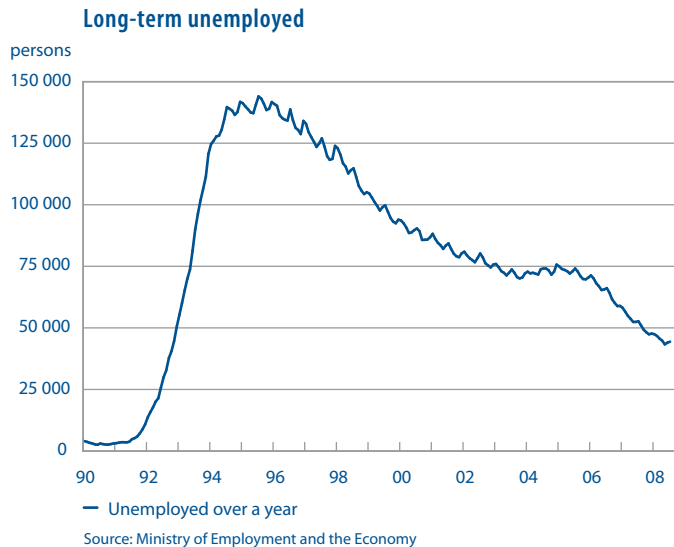
Source: Ministry of Employment and the Economy, Employment Service Statistics

## Labour policy measures to reduce structural unemployment

The previous Government's employment programme for 2003–2007 initiated employment service and labour market support reforms aimed at lowering structural unemployment. Some of the projects of the policy programme for employment, entrepreneurship and working life of Prime Minister Matti Vanhanen's second Government, which began in spring 2007, aim to reduce structural unemployment further from its present level, such as, for example, the social security reform objective of increasing incentives to work.

The target is to improve the effectiveness of labour policy measures so that at least 40 per cent of those subject to such measures are placed in work on the open market within three months. To achieve this target, labour policy measures will be channelled, in collaboration with companies, into workforce training and subsidised employment within companies.

Employment services and company services will be administratively integrated more tightly than at present. The Government has submitted a bill by which the present employment offices will be changed into employment and economic development offices. They will serve job seekers and offer services to new entrepreneurs as well as employer services intended for companies. The aim is that the offices would be better able than at present to advise companies on company services offered by different parties and on their use. At the same time, cooperation between the offices and local company services will be tightened.



Employment service centres (39 centres operating in 2008), established to enhance employment services for the hard to employ, form a cross-administrative network. The employment office, municipality social services and the Social Insurance Institution provide special services at the same operating location to the long-term unemployed and to those who need multi-professional support. The customer group often includes those who are hard to employ, such as those with a work incapacity, the long-term unemployed and people who are otherwise hard to employ.

From the beginning of 2006, the activity of the labour market support was enhanced so that the conditionality of support increases as the period of unemployment lengthens and the unemployed are offered services more intensively. At the same time, labour market support funding was reformed so that support during unemployment is shared equally between the State and the municipalities (previously entirely funded by the State), with the aim of creating employment incentives for local government. The activation rate of long-term recipients of labour market support has risen more quickly than the set target (2006 around 26%, 2007 around 35%).

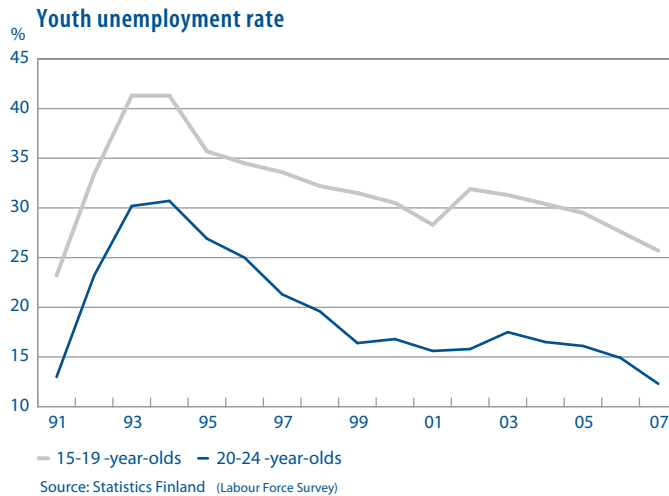
The Act on Social Enterprises entered into force on 1 January 2004. A social enterprise can be granted a wage subsidy for the employment of people with disabilities as well as the long-term unemployed for a longer time than other companies. At the end of 2007 there were 148 social enterprises, double the previous year's number, and they employed around 750 people. The establishment of social enterprises has also been promoted with the aid of social economy and social enterprise theme projects under the EU's EQUAL programme.

The development of the interval labour market is an employment and social policy project to create work opportunities for individuals who for various reasons are difficult to place on the open market. Work opportunities are offered particularly by associations, training and social service foundations, workshops and other organisations, such as social enterprises. To create an interval labour market, the following measures are used: public employment service trial work placements, on-the-job training and working life training arranged at workplaces, wage-subsidised work as well as orientation and occupational employment training. Development measures are funded by both national and ESF appropriations. A national interval labour market development project will be initiated with ESF funding.

One task of the committee working on social security reform (the SATA Committee, appointed in June 2007) is to consider means to reduce structural unemployment. In preparation are proposals for the development of income security, particularly unemployment security, so that social security supports active options and the extension of working careers, and the as rapid employment as possible of the unemployed.

## Youth employment

Due to good economic development, the employment rate for 15–24 year-olds has risen and unemployment fallen. Labour market research for 2007 indicates that 8.9 per cent of young women and 8.8 per cent of young men in this age group were unemployed; i.e. slightly above the EU15 average (6.8% and 7.4%).



Paths to employment will be created and the availability of skilled labour ensured by combining services, training and activation measures. The aim is to give young people skills and bring them into working life more quickly than at present. The social guarantee for young people, launched in 2005, and the educational administration's education guarantee introduced at nearly the same time have promoted the employment of young people. An effort has been made by various means to shorten the currently long time required for higher education students to complete their studies. Little progress has been made with this, however, as a result of which continual attention is being paid to the issue.

Early intervention and an enhanced service process are central to the social guarantee. A specific job seeking plan is prepared for each unemployed job seeker under 25 years of age within three months of their becoming unemployed. The plan agrees on the service to be offered to the young, namely they are promised that they will be offered employment service job application training, a job or training place (training or vocational education), a work placement, on-the-job training, preparatory training for working life, a start-up grant or wage-subsidised work. In addition, they can be offered services related to assessing their working capacity or state of health. In 2007 an individual job seeking plan had



been prepared for around 82 per cent of young people within three months of their becoming unemployed.

### Young people threatened with social exclusion

There are around 20,000 unemployed young people, representing 3 per cent of the 15–24 year-old age group. A study shows, moreover, that the main activity of around 14,000 15–24 year-olds, i.e. around 2 per cent, is unknown. Although the statistics have no data on school attendance, study or work, it is estimated that a significant proportion of these young people are in education. Social exclusion does, not as a rule, appear to be permanent; it would seem to be typical of this stage of life that individuals sometimes study, sometimes work or are sometimes unemployed. According to the report, of the 4,500 young people about whose activity there was no data in 2000, only 400 were still beyond the reach of register data at the end of 2005.

In all three policy programmes – employment, entrepreneurship and working life; health promotion; and the well-being of children, youth and families – attention is being paid to the prevention of social exclusion among young people. The cross-administrative programmes will help coordinate parallel measures better and improve operational effectiveness. The 16–17 year-old young people who are outside education and working life represent a particularly challenging age group. To improve their situation, working groups have been established and projects initiated in the period 2003–2008.

In connection with the policy programme for the well-being of children, youth and families, a working group has been appointed with the task of determining, by the end of 2008, the local-level cross-administrative official cooperation to be offered to young people as well as the placing of the youth workshop system on a statutory basis. Official cooperation will be examined broadly from the perspectives of early intervention, the exchange of necessary information as well as young people's participation and inclusion in municipal decision-making. The Government will discuss proposals in spring 2009.

### Activation measures for young people

The Government has increased by EUR 30.5 million the appropriations available to prevent the social exclusion and to improve the employment of young people. The first part of this 'youth money' (EUR 15.5 million) will be spent in 2008, such that the Ministry of Education will spend EUR 2.5 million on outreach work connected with the youth workshop system as well as EUR 4.25 million on vocational start and expanded on-the-job training in basic vocational training and apprenticeship training. The Ministry of Employment

and the Economy will spend EUR 5.4 million on recruitment subsidies. The recruitment threshold for vocationally trained young people will be lowered by recompensing shortcomings in experience and skills with a wage subsidy payable to the employer (for around 2,000 young people). The apprenticeship training wage subsidy will be increased by EUR 3.35 million (for around 700 young people).

A shortage of starting places in vocational education will be reduced by increasing starting places in areas of upper secondary vocational education where the shortage is greatest (e.g. Helsinki Metropolitan Area) and in fields suffering recruitment problems. Steps will be taken to facilitate the flexible transfer of young immigrants from comprehensive education to vocational education or to upper secondary school. The 2009 budget proposal includes appropriations for the expansion of student places in vocational education.

#### 1.5.4 Opportunities offered by work-based immigration

The Government's objective is an active, comprehensive and consistent immigration policy that takes fully into account labour market needs, the diverse backgrounds of immigrants and international obligations. Work-based immigration from other EU countries to Finland is completely unrestricted.

Work-based immigrants are estimated to account for around 5–10% of net immigration of foreigners, i.e. around 500–1,200 people annually. Overall, the number of foreigners who have immigrated to Finland based on work is now estimated to be around 14,000.

In accordance with the Government Programme, work-based immigration will be promoted also from outside the EU area when the domestic workforce cannot meet shortages in skilled labour. Integration and employment of immigrants will be promoted through training, recognising foreign diplomas, expanding supplementary training and by developing educational opportunities for immigrants. A pilot programme to promote the integration and employment of immigrants will be prepared in cooperation with the State and urban area municipalities for the Helsinki Metropolitan Area, the Turku Metropolitan Area and other significant immigrant areas.

A particular challenge is increasing the international mobility of researchers. The research and development activity of foreign companies in Finland is low, and Finland does not otherwise attract a sufficient number of foreign innovation experts (see also Section 3.1).

Permanent immigration other than work-based immigration will grow steadily, because Finland is committed to bear its humanitarian responsibility and because family ties represent the most significant grounds for immigration (around 65%). Foreigners who are permanently resident in Finland are often employed in atypical jobs in various entry-level occupations that require low expertise.

Discontinuing the Transition Period Act in 2006 and permitting the free movement of labour from Bulgaria and Romania after their accession to the EU in 2007 increased foreigners' opportunities to work temporarily in Finland. Strong growth of temporary working has otherwise been market-driven, however. The Ministry of the Interior is preparing to discontinue the determination of the availability of labour in the job market as a precondition of granting a residence permit to a worker coming from outside the EU.

Foreign workers who move to Finland permanently based on work are located relatively evenly both in various labour market sectors and regionally. They are often well educated, which provides opportunities for regional and occupational mobility.

Several projects to implement the immigration policy programme are in preparation. These include, for example, a project relating to the renewal of worker residence permits as well as a project on evaluating the need for co-operation arrangements in terms of labour mobility. With ESF funding the intention is to promote the integration of immigrants resident in the country, and to prepare a strategy both for increasing Finland's attractiveness and for the induction of foreigners coming to the country.

In accordance with the 2007–2012 Development Plan for Education and Research, a plan of action covering the Ministry of Education's administrative sector and supporting work-based immigration and the employment of immigrants will be prepared.

In the 2007–2012 Development Plan for Education and Research, the Government is committed to increasing the provision of pre-comprehensive school education as well as mother tongue teaching and the teaching of Finnish/Swedish as a second language. A study has been made of support forms and needs in respect of immigrant students' upper secondary school education.

Immigrants' participation on vocational basic training will be promoted by ensuring sufficient provision of vocational basic training and preparatory training for it, and by developing student-selection procedures and study-support services.

An internationalisation strategy for higher education will be prepared during 2008. This will assess the higher education challenges of immigrants, determine the possible barriers of immigrants to access to higher education, study and employment, and to identify solutions to them. The strategy work will also examine the situation and needs in terms of accreditation and supplementary training.

In accordance with Government Programme, vocationally oriented adult education will be reformed. The reform will cover vocational adult education, tertiary adult education, labour policy adult education, and education of personnel. A plan for measures relating to the most urgent work-based immigration as well as immigrants' placement in education and employment will be prepared as part of the reform.

Opportunities to initiate a three-year language education organisation for immigrants, tailored to the needs of working life and in cooperation with higher education establishments, organisers of vocation basic and supplementary training, high schools for adults, folk high schools and adult education colleges, will be reviewed in order to ensure sufficient Finnish and Swedish language skills and to accelerate integration.

Funding for free adult education will include the provision of study vouchers, which will be used to reduce student fees and activate the participation of under-represented groups in adult education. The main target group is immigrants. The offering of subject studies at high schools for adults will be directed particularly to immigrants' language education and to other education deemed important in terms of skills and further studies.

### ESF programmes

Two development programmes relating to immigration have been initiated in the Continental Finland ESF for 2007–2013:

**Priority 2:** Developing early-stage advice and guidance for immigrants.

The programme consists of multi-professional and cross-administrative development projects in various localities. The project objectives are: developing an early-stage low threshold guidance model, recognising and acknowledging skills, preparing skills development paths and improving employer links in order to accelerate entry into employment. The development programme includes the enhancement of entrepreneurship advice services for immigrants as well as development of electronic guidance, language teaching and language skills.

**Priority 4:** A development programme to promote work-based immigration. The programme is part of the implementation of the immigration policy programme, which includes guidelines on the promotion of work-based immigration. The development programme will be implemented in the form of various projects executed in the EU area. The experiences derived from these projects can be utilised in developing national immigration policy, legislation and practices.

The project units of the development programme for the promotion of work-based immigration are:

- Developing an induction system,
- building a cooperation network between Finland and those EU countries from which there is an intention to recruit workers within the framework of the project,
- developing an attractiveness strategy for Finland,
- supporting employers in recruitment, and
- developing and supporting pilot projects.

The objective of the ESF development programme is to pilot and develop work-based immigration measures.

## 2 Macro policy: economic stability and sustainable public finances

The goal of macroeconomic policy is economic stability and sustainable public finances. Achieving this goal requires stable growth and high employment together with low inflation, which maintains competitiveness. The Finnish economy's longstanding strong growth is slowing rapidly following the weakening of the world economy. The uncertainties in the international economic situation remain great. The prospects for the latter part of the Government term are overshadowed by an acceleration of population ageing. At the same time as public expenditure is increasing through the ageing of the population, a contraction of the number of employed threatens to slow growth of total production and tax revenue. In future, productivity growth will be an increasingly important factor, as labour, the second main instrument of economic growth, threatens to decline.

After a long period of relatively moderate collective agreements, the wage increases agreed last year and at the beginning of this year, mainly in agreements extending to the beginning of 2010, are clearly higher than has been the case in recent years. The risk is that the agreed wage settlements will accelerate inflation and threaten to weaken price competitiveness long-term. The more pronounced and long-lasting the state of weakness of the world economy, the more important it is for the domestic elements of a stable economy, namely strong public finances and good price competitiveness, to be in excellent shape.

Higher occupational and regional mobility is needed to ease labour market matching problems. An effort will be made to lower structural unemployment through social security and education system reforms. To safeguard forest industry jobs and promote domestic timber supply, income from timber sales will be made partly tax-free for a fixed period. In 2007, the Prime Minister's Office appointed a working group whose task is to review the operating conditions of the forest industry as well as the forest sector as a whole and to make proposals to improve conditions long term as well as proposals to improve the timber supply in the near future. The working group should complete its work in October 2008.

Finland's Stability Programme sets as a medium-term budget target a structural surplus in public finances corresponding to two per cent of GDP. Finland will also meet this target in the coming programme period.

In the Government's view, the state of Finland's public finances should be assessed in the next few years above all from the perspective of preparing for demographic change. The aim of the Government Programme is that by implementing structural reforms to boost employment a surplus in central government finances equivalent to a structural surplus of 3½ per cent at the level of general government will be achieved, taking into account the projected development of local government finances and social security funds. The Government is also committed during this parliamentary term to assess whether sufficient provision has been made to meet the impending challenges brought about by the ageing of the population, so that any requisite action can be undertaken while the present Government is still in office.

The Government will prepare for pressure on public finances caused by the ageing of the population by strengthening the sustainability of public finances through structural reforms and by practising sound spending and tax policies. A higher employment rate is essential from the viewpoint of sustainable public finances. The labour market is becoming tighter and, unless new measures to boost labour supply are introduced, structural unemployment will begin to restrict sustainable growth.

To curb growth in public spending, the Government is committed to public spending limits to contain expenditure beyond the current parliamentary term. Productivity will be improved by restructuring municipalities and services and through the Government productivity programme. This means enhancing public operations and reallocating public sector personnel to answer better the needs arising from population ageing. Labour demand in the public sector should not be allowed to restrict growth opportunities in the private sector and the rest of the national economy.

The emphasis of tax policy will be easing taxes on work. The tax cuts on work in accordance with the Government Programme and aimed at improving employment are well suited to a weakening economic outlook. In 2009 taxation on labour will be cut by EUR 1370 million. Of this, around EUR 870 million can be considered a genuine easing of taxation on work, because a cut of around EUR 500 million is needed to eliminate a tightening of taxation arising from the general rise in earnings and from progression. The cut includes a 4 per cent inflation adjustment to the tax scale. As a whole, finance policy can be considered to be supportive of overall demand and growth next year through the tax decisions included in the budget proposal.

The aim is to lower structural unemployment through the tax cuts. They will boost household purchasing power, lower the tax wedge, improve incentives to work and employment, and promote moderate wage settlements. In its mid-term review, the Government will assess the scale of tax cuts in the par-

liamentary term, taking into account wage settlements and the sustainability of public finances.

Macroeconomic policy measures can be divided into three priority areas: the pension system, curbing public spending, and securing welfare services and public sector productivity.

## 2.1 The pension system

The old age dependency ratio in Finland will nearly double by 2030, and in 2025 will be the highest of the EU countries. The aims of pension policy are general trust in the sustainability of the pension system, fairness between generations, and extending the time that people remain in work.

The pension system was thoroughly reformed in 2005. The reform appears to have worked in the desired way. The retirement age expectation has risen slightly in recent years. The expectancy of a 25 year-old in 2007 was 59½ years, while in 2004 it was slightly more than 59 years. Under the Government Programme, the effectiveness of the pension reform will be monitored and changes made, if necessary, should the retirement age not rise sufficiently to ensure the sustainability of the pension system.

To ensure sustainable funding, the objective is to raise the retirement age further. To achieve this objective, the employment pension accrual rules were changed such that the accrual rises from 1.5 to 1.9 per cent from 53 years of age and 4.5 per cent from 63 years of age. Following the 2005 pension reform, the duration of employment has no significance for the pension benefit; pension accrues on the basis of annual earnings. If they wish, employees can retire on the employment pension they have earned at 63 years of age or continue working to 68 years of age.

To strengthen the sustainability of the pension system, the opportunities for pension institutions to take risks in investment activity were increased from the beginning of 2007. By increasing the proportion of higher risk equity investments, the aim was to raise the long-term real return on pension assets from 3½ per cent to 4 per cent.

In 2009 the life expectancy factor, by which the starting old-age pension will be adjusted to the increase in life expectancy, will be calculated. The life expectancy factor's lowering effect on pensions can be compensated for by staying in work longer. The flexible retirement age and the above-mentioned accelerated pension accrual from 63 years of age will facilitate this.

Other reforms aimed at extending the time that people remain in work are discussed in Sections 4.1, 4.2 and 4.3.



## 2.2 Curbing public spending

In Finland, population ageing will have a faster and stronger impact on the financial position of public finances than in other countries. The biggest medium-term challenge for public finances is to maintain a sufficiently strong financial position while providing for the growing expenditure pressures arising from population ageing. At the same time, there must be investment in enhancing productivity and public service provision. The successful implementation of the State's productivity project and the restructuring of municipalities and services will play a key role in curbing expenditure pressures.

### Central government

To ensure a responsible and long-term financial policy, the Government is committed to public spending limits to contain expenditure beyond the current parliamentary term. An expenditure policy in line with decisions on spending limits will implement the Government's financial strategy, the aim of which is to increase the well-being of Finns by improving conditions for a significant rise in employment and an acceleration of productivity growth. Measures according to the Government Programme will be implemented to the extent that this is possible within the framework of government decisions on spending limits.

The first decisions on spending limits of the parliamentary term defined a maximum level for most of the budget expenditure, around three-quarters, for the whole parliamentary term. Expenditures affected by cyclical fluctuations and costs largely independent of Government decisions, apart from changes in spending principles, are excluded from the scope of the spending rule, as are expenditures stemming from administrative arrangements or technical adjustments in the budget proposal. The spending limits for the parliamentary term are expressed in the price and cost level for 2008. The overall level of the spending limits will be adjusted annually only for price level changes or for changes in the structure of the budget. Supplementary budgets are included in the spending limits.

The Government Programme allows for adjustments to the level of spending limits to adapt to rescheduling and re-budgeting expenditure. Where expenditure is rescheduled, it is possible to increase the overall spending limit in one budget year by the amount required, provided that in a later year a corresponding decrease is made in the same year's spending limits. If the expenditure for a project or other equivalent entity needs to be re-budgeted and earlier appropriations have not been cancelled, the spending limit will be increased by the re-budgeted amount. Adjustments do not change the financial policy line.

In the 2008–2011 parliamentary term, the volume of central government expenditure will grow by an average of 1.8 per cent per annum. Growth will be fastest in 2008, when expenditure will increase in real terms by close to 5 per cent. Part of the reason for this rapid growth in the early part of the parliamentary term lies in the carry-over effects of decisions taken during the previous term and on the other hand in the timing of expenditure increases agreed in the Government Programme.

### Local government

The prudent approach to spending also applies to local government. Finland has 415 municipalities and 221 joint municipal authorities, which are responsible for arranging and providing the bulk of welfare services in the country. Local government finances overall have been in deficit for the past 10 years. Rapid economic growth in recent years has improved the financial situation of the municipalities, however. Yet, despite the general improvement in local government finances, indebtedness has increased sharply, productivity of basic services has been weak and financial differences between municipalities have remained high.

Population ageing as well as globalisation of the operating environment and continued migration within Finland pose great challenges for the finances of municipalities and their wide responsibility for service provision. The concentration of resources and intensifying competition caused by globalisation are having an increasing impact also on the local government level, with some areas growing stronger while the position of others weakens. Internal migration within the country is creating an increasingly compact community structure, and population growth is largely concentrated in a few major growth centres. The gap is continuing to widen between different municipalities in terms of their financial position and population structure.

Population ageing affects local government finances mainly through growth in expenditure on health care and the long-term care of the elderly. If productivity does not change, the real net cost of social and health care services will grow in 2008–2025 by an average of 2½ per cent per year, in which case expenditure would grow due to changes in demographic structure alone by 50 per cent by 2025. As growth in the need for services will be combined with the simultaneous ageing and shortages of municipal workers, services will clearly become more expensive than indicated by the pressure arising from demographic structure.

To ensure sustainable local government finances, forward provision must be made for the growth in demand for basic services and increasing expenditure pressures. Changes in the operating environment will be prepared for by reforming municipal and service structures so that the availability and quality of services can also be secured in the future. The goal is municipality and service

structures that provide an adequate financial base for service provision as well as opportunities for productivity growth. The reform of municipal and service structures is outlined in more detail in the following section, which discusses public sector productivity.

## 2.3 Securing welfare services

According to international comparisons and the opinions of service users, public services in Finland are considered to be good in terms of quality, effectiveness and cost efficiency.

In 2007 the Government appointed a committee on the comprehensive reform of social security (SATA Committee). The goal of the reform is to improve incentives to work, reduce poverty and safeguard an adequate level of basic security in all life situations. In May 2008, the Government decided to accelerate the reform timetable. The committee is required to have its proposal on comprehensive social security reform ready by the end of 2008 and assessments of the financial and employment effects by February 2009. Proposals for legislative changes must be ready by April 2009, so that the laws in question can enter into force at the beginning of 2010.

The aim is to improve the position of recipients of support by simplifying and streamlining the system. The reform will be implemented so that social security funding is on a long-term sustainable basis. The taxation of social benefits and customer fees will also be reviewed in connection with the social security reform.

The committee's work is supported by four subcommittees: basic security, income security, finance and incentives, administration and processes. The Basic Security Subcommittee will assess the level, adequacy and mutual relationship of basic security benefits, their dependency on other forms of household income, index security and conditionality. The Income Security Subcommittee will assess the development of income security (especially unemployment security) from the perspective of activation options and the extension of working careers in particular. The subcommittee, moreover, will examine the development of unemployment security, labour policy measures, the development of vocational adult education, rehabilitation periods, the interval labour market's income security development needs as well as the work-sharing and part-time systems. Issues relating to incentives to part-time and full-time work will be reviewed in the Finance and Incentives Subcommittee. The Administration and Processes Subcommittee will focus on streamlining and simplifying application processes, award practices and procedures.

The Government's aim is to reduce differences in health and well-being, improve the availability and quality of social and health services, increase participation and reduce social exclusion, cut alcohol consumption, and improve

opportunities for elderly to live at home and cope independently. The most important projects connected with these objectives are:

- The National Development Plan for Social and Health Care Services (KASTE), which will be implemented in 2008–2011. The programme's development areas: 1) developing services for children, young people and families, 2) improving the sufficiency of social welfare and health care personnel, 3) reforming service structures and processes, 4) enhancing basic health care, 5) developing structures for welfare and health promotion, and 6) revamping the interval labour market and reducing long-term homelessness. EUR 24.8 million per year has been allocated for the development projects in the State's budget.
- A social and health care service innovation project, whose aim is to strengthen the service system's capacity to renew itself. This will be implemented as part of the KASTE programme in 2007–2011.
- The combining of the Primary Health Care Act and Specialised Health Care Act into a unified Health Care Act. The aim is for the new act to support and strengthen basic health care and to promote the availability, efficient provision and development of health services.
- Disability legislation will be reformed in stages.
- A National Action Plan to Reduce Health Inequalities 2008–2011. The goal is to reduce inequalities between socio-economic groups in working and functional capacity as well as in perceived health, incidence of disease and mortality.
- Continued implementation of the Alcohol Programme in 2008–2011. The programme aims to reduce the adverse effects of alcohol.
- A Government resolution on development guidelines for exercise and nutrition to promote health is in preparation, as is an implementation plan for 2008–2011.

### Productivity programme

The Government will continue implementing the public administration productivity programme initiated in the previous parliamentary term. In spring 2008 the Government decided to initiate new productivity-enhancing measures, which will reduce the need for personnel mainly in the period 2012–2015. Total personnel reduction impact of these measures will be the equivalent of 4,800 person-years by 2015. Productivity measures decided earlier will reduce the need for government personnel by around 9,600 person-years between

2005 and 2011. In 2009 the productivity measures will reduce the need for government personnel by around 2,000 person-years.

Administrative reforms and efficiency improvements can improve the handling of duties which are the State's responsibility and can enhance service levels. In this way, the number of personnel employed by central government can be adjusted in an orderly manner to existing labour resources in the economy. At the same time, declining resources requires that the State as an employer ensures its competitiveness through a modern human resources policy. Due to the increased rate of retirement, the natural annual attrition of State employees will start to rise from 2011 and will remain high throughout the decade. When natural attrition and the reduction in personnel needs through productivity measures are taken into account, it is estimated that the public administration recruitment requirement for 2012–2015 will total 18,800 person-years.

Ministries will specify new productivity measures for their administrative areas – in terms of content, impact and timing – by October 2008. These reports will also describe the impact of the productivity measures on the operational effectiveness of the administrative areas. Based on this, the Government will discuss the state of preparation and implementation of productivity measures in November 2008.

### Restructuring of municipalities and services

Municipalities and services will be reformed as stipulated in the Act on Restructuring Municipalities and Services (skeleton law), which entered into force in February 2007. The structure of municipalities will be strengthened by merging municipalities and by attaching parts of municipalities to other municipalities. Municipal mergers will be supported with amalgamation subsidies. The subsidy is larger for multiple mergers and in municipality mergers in which the merger results in a municipality with a total population of over 20,000 inhabitants.

Service structures will be strengthened by consolidating individual services that require a broader population base of more than one municipality to be viable and by increasing cooperation between municipalities. In basic health care and in closely related social welfare tasks, a minimum size of around 20,000 inhabitants has been set for a municipality or partnership area. In basic vocational education the minimum size of the population base should at least around 50,000 inhabitants. In 2009 some 32 municipal mergers, involving 99 municipalities, will be implemented. The number of municipalities will decline by 67, and the number of municipalities at the beginning of the following year will be 348.

By the end of 2007 all municipalities had delivered an implementation plan and report, as required by the law. Municipalities are required to make decisions on how they will fulfil the obligations of the skeleton law before a report is submitted to Parliament in 2009.

The skeleton law obliges 16 metropolitan areas and the Helsinki Metropolitan Area as well as their 101 municipalities to prepare metropolitan area plans on how land use, housing and transport integration, and use of services will be improved in the metropolitan area across municipal boundaries. Each metropolitan area was given feedback on their plans in early 2008.

Based on the reports and implementation plans supplied by the municipalities, they were given feedback in which attention was initially paid to fulfilling the population base requirement. The guidance given to municipalities includes information guidance on the arrangement of social and health services as well as vocational education, so that the measures taken would actually improve the municipalities' capacity to take responsibility for the arrangement of services.

To support the restructuring of municipalities and services, the Ministry of Finance initiated the Best Service Practices for Municipalities project. The aim of the project is to encourage municipalities towards customer-oriented and effective development and provision of services. The objective is to curb municipalities' expenditure growth and introduce best practices in local government as a whole.

A further objective is also to promote new arrangement and provision practices for services, public, private and third sector partnership as well as the introduction of customer-provider models.

The restructuring of municipalities and services has been outlined in more detail in the 2007 mid-term report of Finland's National Reform Programme 2005–2008. The reform of public services is also discussed in Section 1.5.1.



### 3 Micro policy: structural reforms to promote competitiveness and productivity

The key goal of Finland's economic and employment strategy has long been to improve the economy's growth potential. Efforts to achieve this have included reforming education to strengthen the knowledge base and increasing R&D investment to boost innovation and productivity. The Government will continue this approach in the 2008–2010 reform programme. Finland's competitiveness is highly rated in international comparisons. Over the long term, however, the economy's growth potential will be based to an increasing extent on boosting productivity, when the labour supply stops growing.

The key aims of microeconomic policy include the structural reforms to improve competitiveness and productivity established in the 2005–2008 programme. Five mutually supportive action areas will create the conditions for productivity growth, namely:

- Knowledge and innovations.
- Promoting entrepreneurship.
- Enhancing market efficiency and competition.
- Improving information, communications and transport networks.
- An energy and climate policy that supports structural change and sustainable development.

#### 3.1 Knowledge and innovations

The level of public and private R&D funding has been around 3.5 per cent of GDP for several years. The private sector funds around 70 per cent of R&D expenditure. In accordance with the decision on spending limits for the



2008–2011 State budget, updated in March 2008, the Government will increase public R&D funding on average by 5 per cent per year.

Growth in R&D activity will be restricted by, among other things, the low number of companies engaged in R&D work. To improve this situation, various activation measures directed mainly at SMEs have been initiated. The results of these projects will be apparent only after a few years' delay, however. In terms of the productivity and effectiveness of R&D funding, it is important to maintain a reasonably high and consistent growth in R&D activity. The high price of energy, the pickup in inflation, financial market problems and the slowing of economic growth are factors that might be reflected in companies' desire to increase investment in R&D activity.

Growth of research expenditure will not increase the number of companies' R&D personnel, which will remain around the 30,000 level. On the other hand, the number of Finnish companies' R&D personnel abroad has doubled during the last couple of years.

An effort has been made in Finland in recent years to broaden innovation policy beyond traditional R&D funding. This is clearly evident in the proposal, completed in June 2008, for a new National Innovation Strategy, in which the priorities of innovation policy will be moved in the direction of markets that promote innovations, non-technological development, user-orientation and public services. Public investments made in these areas make up only a small part of R&D expenditure.

The new R&D&I framework on state aid, adopted by the Commission, entered into force at the beginning of 2007. In accordance with the framework, a new funding decree for TEKES, the Finnish Funding Agency for Technology and Innovation, entered into force in spring 2008. This facilitates the granting of aid also for innovation activity.

R&D expenditure expressed as a percentage of GDP chiefly measures traditional technology policy, from which Finland has been markedly withdrawing in recent years. The R&D indicator poorly describes the innovation of the service sector. In Finland, as in many other EU member states, the GDP share of R&D expenditure in services is very low. According to the latest research, the service sector does not, however, differ significantly from industry in its capacity to innovate.

The service sector's capacity to innovate can best be promoted through broad, non-technological development. In recent years, TEKES' innovation funding has been strongly directed into services, which in 2007 represented nearly one third of R&D funding granted by TEKES to companies. Innovation funding is now additionally being directed to public services that private service providers can also offer.

The 2009 budget proposal includes a EUR 54 million additional investment in innovation policy.

## Government objectives

The objective is to increase total public and private R&D funding to 4 per cent of GDP. Investments in expertise will be made by reforming the research and higher education system, increasing the basic funding of universities and founding an internationally top-rank university. The availability of domestic and international venture funding facilitating the growth of companies will be improved, and the development of the private capital investment sector in Finland will be comprehensively promoted.

The economy's innovation capacity will be strengthened through strategic investments in selected areas, with the objective of supporting development of expertise, improving conditions for the creation and growth of new innovative business activity, and establishing conditions for clusters of expertise to become some of the world's best.

A further objective is to enhance the activity of innovation organisations by tightening cooperation and increasing interaction between actors. A more coherent and effective operation overall requires broad coordination of business and innovation policy measures between different administrative sectors. Better cooperation will be pursued by developing strategy processes that will lead to more effective mutual support of regional and local innovation policy and national innovation policy.

On the basis of national content choices and the strategic strengths of the regions, regional innovation clusters will be created with world-class operating environments. In a country the size of Finland, there can only be a few multi-sector, internationally competitive innovation clusters; specialisation will be required. The specialisation of regions in their own strengths will increase their critical mass of expertise and improve their ability to link with expertise and value networks vital to their own development.

## National Innovation Strategy

The proposal for a National Innovation Strategy was completed in June 2008. The Government will submit a report to Parliament on the issue in autumn 2008.

The objective is safeguard Finland's innovation environment quality, international competitiveness and attractiveness, to ensure that it can answer the challenges of, among other things, ageing, globalisation, climate change and sustainable development. Strengthening internationalisation, activation of users and customers in innovation work and promoting wide-ranging creativity and innovations are, in addition to a high level of expertise, the means by which Finnish innovation activity will be enhanced.

A particular challenge is to utilise more widely than in the past the creativity and innovation capacity of individuals and enterprises. The proposal for a revised innovation policy emphasised the development of products and services based on customers' needs as well as the involvement of users in development work.

The aim is to enhance innovation policy by bringing public administration actors together into a strategically led entity. This will require the introduction of new instruments as well as the reform of existing support functions and organisations.

The strategy proposal includes a detailed action plan. Implementation will include an extensive evaluation of the Finnish innovation system in order to determine the reforms that are necessary. The proposal's key sets of measures are:

- The central government's corporate steering will be renewed for the purpose of becoming a worldwide pioneer of systemic reforms.
- Content-oriented and regional clusters of expertise driving renewal will be formed in Finland.
- The financing and service system promoting growth entrepreneurship will be renewed into a clear entity, operating with entrepreneur and investor orientation.
- New competition and market incentives activating enterprises and other communities in innovation on a broad basis will be created and exploited.
- The national ensemble of expert and financing services will be updated to meet the needs of demand- and user-oriented innovation activity.
- A learning environment encouraging innovation on a broad basis will be developed for Finland.
- The Finnish research and higher education system will be developed into an internationally competitive development environment for expertise and innovations.
- Personal taxation and other key factors that substantially weaken Finland's attractiveness will be revised to a competitive level.
- Finnish management training will be developed to meet internationally top standards.
- The strategies and operations of parties implementing innovation policy will be adapted so as to be in line with the basic choices of the National Innovation Strategy.

## Investment in creating and strengthening clusters of expertise

In accordance with the policy outlined by the Finnish Science and Technology Policy Council in June 2006, the Government will initiate and fund strategic clusters of expertise (known by the Finnish acronym SHOK) in science, technology and innovation in collaboration with the corporate sector. The strategic clusters of high expertise will be utilised to direct new and current funding, personnel and other resources to areas important for companies. The aim of the clusters will be to secure long-term competitiveness.

Key areas of expertise include energy and the environment, the metal industry, the forest sector, health and well-being as well as the information and communications industry and services. The SHOK clusters of expertise will offer top research units and companies utilising research results a new way of cooperating with each other. Research plans formulated jointly by companies and research units will be implemented in the clusters, which will operate either at one location or as a network. The clusters will be application-oriented and will support a multidisciplinary approach.

The roll-out of SHOK clusters has proceeded on schedule. Metsäklusteri Oy was founded in spring 2007, and TIVIT Oy (information and communications industry and services) and Fimecc Oy (metal products and mechanical engineering) in spring 2008. Fimecc Oy's objective is to triple the sector's current EUR 30 million turnover by 2020. Two other SHOK clusters are in the start-up stage. A share issue for an energy and environment cluster is under way, and Suomen Bioteollisuus r.y. is handling preparations for a health and well-being cluster. In accordance with TEKES' new priorities, its innovation funding will be increasingly directed to the funding of new SHOK cluster activities.

The Centre of Excellence Programme (OSKE) was amended and will now be cluster-oriented for the period 2007–2013. Clusters of expertise foster cooperation between the key actors of centres of excellence in different regions. The model facilitates the more efficient utilisation of national resources of expertise dispersed throughout different regions. The operating model will sharpen the programme's targeting and utilisation of high-level expertise and incorporate the programme more closely into the national innovation policy. At the same time, the cluster structure will increase the critical mass required in research and product development as well as national effectiveness in such activity. As the basis of their activities, the 13 clusters of expertise outlined in the Centre of Excellence Programme have prepared strategic programme documents for 2007–2013.

Regional development programmes will be collated into a Cohesion and Competitiveness Programme (KOKO). The programme will network innovation policy actors and support the spread of good practices.

The Finnish Innovation Fund (SITRA) has also initiated an energy programme for 2008–2012, with the objective of improving energy efficiency

through a rapid reform of the construction and real-estate cluster and by activating citizens.

Finland actively seeks to cooperate with the world's best innovation clusters and is associated with significant European and international research and development networks. Outside of Europe, the aim is to increase bilateral cooperation particularly with leading technology countries (the United States and Japan) and emerging economies such as China and India. A new type of cooperation model is represented by the international FinNode innovation centres, which have been established in China (Shanghai), the USA (Silicon Valley), Russia (St. Petersburg) and Japan (Tokyo). The establishment of a centre in India will be examined in autumn 2008. The FinNode centres are consortia of Finland's national innovation actors (TEKES, VTT, Finpro, The Academy of Finland and SITRA) and they promote the international links of Finnish companies and research organisations.

The clusters of strategic expertise (SHOKs) are national JTI programmes, creating a good foundation for Finnish participation in joint European projects. Finland has been actively involved in ERA-NET projects and also in various EUREKA projects.

### Boosting growth of innovative companies

In promoting the growth of companies, Finland lags behind the world's other top countries for innovation and business activity. As part of a wide-ranging innovation policy, it was therefore decided to establish a separate policy entity for growth entrepreneurship as part of general entrepreneurship policy. The policy entity includes measures to improve the climate for entrepreneurs, strengthen serial entrepreneurship, increase and internationalise private venture funding, enhance entrepreneurship training in higher education, and revamp the service entities offered to growth companies.

One key objective is to stimulate in Finland more innovative, internationalising companies with the potential for rapid growth. Growth entrepreneurship will be promoted as part of general entrepreneurship policy, and the special needs of rapidly growing companies will be taken systematically into account in innovation policy, both broadly and in the different policy segments.

Increasing the number of growth companies requires, among other things, the further development of the venture funding environment, company services directed at growth companies and business incubators. Pre-incubator activity and the business environment for early-stage growth companies will be developed so that both material and high expertise resources are directed to this area. Targets will be set for incubator activity, and such activity boosted and further developed by increasing services and concepts that have already been successfully piloted.

To ensure business and growth funding for rapidly growing and internationalising companies, the Government aims to increase significantly the supply of venture capital funding in cooperation with employment pension institutions. In addition, opportunities to encourage capital investment by taxation means as well as the transfer of business expertise to start-ups will be identified.

Increasing the availability of private venture funding will be a key measure in promoting growth entrepreneurship. The public sector is mainly responsible for the early-stage funding of innovative business activity in Finland. Efforts will be made to encourage experienced business professionals and serial entrepreneurs to participate in the operations of new companies. In this way the capital committed to companies will become participative and expert.

A review of barriers to foreign mutual fund investments and of tax relief for capital investments made by private individuals will be made during autumn 2008. Based on this, proposals for developing the private capital investment market and improving the availability of venture funding will be prepared by the end of 2008.

A new financial product aimed at young, innovative companies has been introduced in innovation funding. The aim is to accelerate significantly the growth and internationalisation of the most promising companies. Aid will be channelled via TEKES. This funding can be obtained by small, less than five years old, companies registered in Finland that have an innovative, expertise- or technology-oriented business idea as well as convincing plans for its implementation. Newly established companies and companies that are yet to be established can also apply for funding if the business idea has been sufficiently refined with experts. It is important that companies become large enough to be able to operate in the international market and so that full benefit can be obtained from innovation investments.

### Working life development as part of innovation policy

The quality of working life has a direct impact on operational efficiency, productivity and quality, i.e. on the functioning of the innovation environment. Systematic development of working life simultaneously improves operational effectiveness and the quality of working life. Working life, furthermore, is developed by utilising innovations.

Programmes established to develop working life have been continued and reinforced. Administratively, the promotion of innovation activity relating to technology and work organisations was merged when the Ministry of Employment and the Economy was established at the beginning of 2008.

The implementation of working life productivity and quality development programmes (TYKES) was transferred at that time to TEKES. The present TYKES programme period runs until the end of 2009, after which the inten-

tion is to continue working life development activity as part of TEKES' operations. The employment and economic development centres act as partners to the national TYKES programme and as implementers of regional operations. International comparisons and information exchange between parties that fund the development of working life will be implemented via the ERA-NET (Work-In-Net) project. The aim is to achieve a positive impact on productivity and well-being in at least 70 per cent of the projects. In the entire programme period, a total of around 1,000 development projects, covering nearly 250,000 workers, will be implemented.

### Industrial property rights and copyright strategy

The preparation of a national industrial property rights and copyright (IPR strategy) was initiated in accordance with the Government Programme as part of the reinforcement of national innovation policy. The key objective of the IPR strategy is to broadly survey the current situation of industrial property rights and copyright regulation and infrastructure and to prepare recommendations for measures to develop the current situation. A further objective is to prepare long-term IPR guidelines that will ensure the best possible intellectual property operating environment for both businesses and individuals. The IPR strategy is closely linked to a broad-based innovation strategy. The Government will issue a notice on the strategy to Parliament by the end of the year.

### Reform of the higher education and research system

Finland is currently implementing significant research, innovation and education policy reforms that support the development of the European Research Area. The aim is to develop the higher education and research system to ensure that it can respond to changes in the operating environment and so that Finland's competitiveness grows, well-being increases, and culture, creativity and education are strengthened.

A reform of universities legislation is under way. The intention is for a new Universities Act to enter into force in August 2009. The act will be reformed to increase the autonomy of universities and to make the universities independent legal entities. The reform will strengthen universities as creative and modern learning environments, support universities' opportunities to implement better human resources policies than in the past and to make the career of a researcher more attractive. Strengthening financial and administrative autonomy will create for the universities better operating conditions to enhance the quality and effectiveness of teaching and research.

The structural development of higher education establishments will continue. The goal is to release additional resources for teaching and research through operational efficiencies. The number of higher education establishments and their operating locations will fall. Operational quality will be improved by reforming education and research structures. All universities and polytechnics will update their strategies by 2010. Based on these strategies, a structural development action plan will be prepared for the period 2010–2012. The new higher education structures will be introduced in 2012.

The Helsinki University of Technology, the University of Art and Design and the Helsinki School of Economics will be merged into the Aalto University. The capital of the Aalto University Foundation will be formed by donations of at least EUR 700 million. This capital will be accumulated in stages during 2008–2010 by a Government donation of EUR 500 million and donations of at least EUR 200 million from Finnish business and other financiers. The goal is to create an innovative scientific community from top-flight universities in the fields of technology, economics, and art and design. The merger will create new opportunities for multidisciplinary education and research. The Aalto University is scheduled to start operating in August 2009.

A new University of Turku, based on the University of Turku and the Turku School of Economics, as well as the University of Eastern Finland, formed of the Universities of Joensuu and Kuopio, will open in 2010. In 2007–2008 the number of polytechnics fell by a third.

As part of the reform of the higher education system, the preparation of an internationalisation strategy for higher education establishments has been initiated. The aim is to develop in Finland an internationally strong and attractive higher education and scientific community. The Ministry of Education is preparing the strategy in collaboration with higher education establishments, students, business, funding organisations, sector authorities and other parties. The strategy will be completed by the end of 2008.

The Ministry of Education has prepared an action plan to develop researcher education and the researcher career system for the period 2007–2011. The Ministry of Education, the Academy of Finland and the universities will implement the action plan, as part of which the universities will adopt a four-step researcher career model. The objective is to make researcher careers more transparent and predictable. The aim of the four-step researcher career model is to facilitate and strengthen two-way transfer between universities and other actors – research institutes, companies, public administration – for example by revising the examination of qualifications gained outside academic work, utilising a system of competence descriptions. The four-step system will also give companies and research institutes a tool for examining their own career structures.

A national research infrastructure review and improvement project will be prepared by the end of 2008. The project will review national-level research infrastructures and existing commitments to international research infrastructures.



At the same time, principles for participation in international research infrastructures will be planned and new infrastructure needs reviewed. Conditions for the utilisation and provision of sector research will be developed to correspond to the changing needs of society. This will require improvements in the overall steering and coordination of sector research. A Sector Research Advisory Board, linked to the Ministry of Education, has been established to promote the develop and steering of sector research. A proposal for the structural development of sector research will be prepared in the latter part of 2008.

In spring 2008, the Academy of Finland approved an international operating strategy extending until 2015. The objective is to create new conditions for internationally high-level research, researcher education and attractive research environments. The Academy of Finland's international activity supports and promotes the implementation of the National Innovation Strategy. The key elements of the Academy's strategy are international peer reviews, supporting elite units' top-level research groups and researchers as well as clusters of strategic expertise, participating in the implementation of the national infrastructure policy, internationalising research programme and researcher careers, and promoting the visibility of Finnish science.

FiDiPro (Finland Distinguished Professor Programme) is an Academy of Finland and TEKES joint funding programme to recruit scientists from abroad, offering fixed-term research and teaching posts to top foreign scientists, or Finnish scientists who have worked for a long time abroad, at the professorial level. The aim to create a new kind of international cooperation between basic research and applied research as well as companies' research and development activity. The first FiDiPro professors began their work at the beginning of 2007. TEKES encourages the international mobility of researchers working in research projects by funding the costs arising from this to research organisations.

## 3.2 Promoting entrepreneurship

In close cooperation with interest groups, the Government will implement the policy programme for employment, entrepreneurship and working life, the goal of which is a stable and predictable operating environment for companies. A particular priority is improving growth conditions for companies.

### Promoting entrepreneurship and supporting growth of SMEs

The Government's policy programme for employment, entrepreneurship and working life continues the promotion of entrepreneurship. The priorities are increasing entrepreneurship and boosting growth conditions for companies. The number of companies is still growing in Finland, but the problem is a

lack of growth potential and conditions. Companies possessing rapid growth expectations are fewer in Finland than in other Nordic countries, for example. Moreover, insufficient new, innovative companies have arisen. Measures are directed particularly at improving the growth potential and growth conditions of innovative companies.

Early-stage venture funding in Finland to date has mainly been public funding. The growth opportunities for SMEs to obtain not only growth funding but also the expertise required for growth will be enhanced by improving conditions for the development of a venture funding market.

Following the Commission's approval of a Finnish proposal on the issue, Finnvera Oyj has obtained an exemption from income tax through an amendment to the Income Tax Act. Finnvera Oyj is obliged to transfer the benefit of the exemption to client companies both by lowering the price of funding and by increased risk-taking. Capital investment at the public seed funding stage has been centralised in the Finnvera subsidiary Seed Fund Vera Ltd.

When the Act on Discretionary Government Transfers entered into force in 2007, the previously separate investment and development forms of aid were combined into a new form, namely company development aid. The purpose of this aid is to encourage broader and more diverse company development projects. They can include both material investments and various means to develop business expertise, internationalisation and technology.

New entrepreneurs are supported with discretionary and fixed-term start-up grants. This support can nowadays be obtained by unemployed job seekers as well as individuals setting up businesses from employed work or outside the labour market. Start-up grants can be paid for a maximum of 18 months.

The sole entrepreneur support model trial has been extended to Support Area 1, to all areas subject to sudden structural changes, but also to the traditionally active entrepreneurship area of South Ostrobothnia. The result of this trial will be monitored and the possible extension of the measure to cover the whole of Finland assessed. In the sole entrepreneur support trial, a subsidy can be granted for the salary expenses of the first employee for two years.

A growth company service of the Employment and Economic Development Centres, TEKES, Finpro and Finnvera has been established as part of these organisations' service provision. Innovation services will be developed to support the commercialisation of ideas. Company internationalisation services will be developed to support company growth, and opportunities to increase public funding to growing internationalising companies will be explored.

The reorganisation of Employment and Economic Development Centres and Employment and Economic Development Offices will bring early-stage services in particular closer to companies than in the past. At the same time, other services for the entire company service network are available via local contact points.

The national Enterprise-Finland service system will be continued and its content developed. The revamped services will be offered throughout Finland.

The special needs of academic entrepreneurship and women's entrepreneurship will be reviewed. Both rural entrepreneurship and entrepreneurship in creative sectors will be developed through specific projects.

The Cultural Export Development Programme 2007-2011 and the Development Programme for Business Growth and Internationalisation of Creative Sectors, partially funded by the ESF, were initiated to promote the growth and internationalisation of new sectors.

Entrepreneurship education will be diversified and expanded in comprehensive schools and upper secondary schools, and opportunities for studying entrepreneurship and for obtaining entrepreneurial qualifications will be increased in vocational and higher education.

Entrepreneurship also encompasses social responsibility. To promote this and to support decision-making, the Government appointed a Social and Corporate Responsibility Advisory Board for 2008–2011. One of the board's tasks is to strengthen and promote, through communication and interest group cooperation, Finland's national and international social responsibility policy as well as responsible operating and production practices of companies and other organisations. A further task of the advisory board is to promote the effective application of guidelines on multinational companies approved by the OECD's Council of Ministers and to act as the national contact body monitoring the application of the guidelines as well as to promote knowledge, understanding and the application of the social and corporate responsibility guidelines of other international organisations.

### Improving the regulatory environment

Finland is committed to reducing the administrative burden arising to companies from regulation in accordance with the spring 2007 European Council guideline. National regulation-reduction targets will be set by the end of 2008. National measures to lighten the administrative burden will be focused on simplifying the heaviest regulatory areas, particularly for SMEs, and further developing official procedures. The intention is to implement the programme by the end of 2010.

The aim of the action plan for better regulation is to improve the regulatory environment and clarify legislation, thus promoting the well-being of citizens and the competitiveness of companies. The Government has defined the key principles and measures for improving the regulatory environment in a legislative plan included in its 2007 strategy document. The key priority areas are:

- Promoting influence in European Union legislative work,
- increasing openness as well as interest groups' opportunities to participate in legislative preparation,
- increasing the assessment of alternatives,
- enhancing the assessment of the effects of legislation, and
- improving legislative maintenance.

In addition, the Government has chosen 22 significant regulatory projects whose preparation and quality of preparation will be particularly supported and monitored. Improving the quality of regulations is the responsibility of the Better Regulation Ministerial Group, the Better Regulation Consultative Committee, consisting of representatives of key ministries and interest groups, and the Ministries.

Measures already launched in different sectors will be taken into account in the preparation of a programme to reduce the administrative burden. These include the lightening of bureaucracy related to agricultural support aid, the simplification of environmental permit procedures and the development of companies' electronic official communications. Examples of increasing the use of electronic services are the web-based on-line payment service system ([palkka.fi](http://palkka.fi)) for SME employers, the delivery of financial statement data on the 'one-counter' principle to the tax authorities and the trade register (2009), the introduction of a tax account system (2010), and the development of electronic services in connection with the Enterprise-Finland service system.

New, uniform impact assessment guidelines for proposed regulations were introduced in November 2007. The guidelines cover the financial impact of legislation, the impact on actions of the authorities, the environmental impact and other social impacts. The practical application of the guidelines will be supported by electronic data and by training of legislative preparation officials. The Ministry of Justice will monitor adherence to the guidelines. An expert network was established in autumn 2008 to support and develop impact assessment.

Assessment of the business impact of legislation will be promoted and supported by continuing the entrepreneurship policy programme SÄVY (2004–2007). The assessment of business impact is included in the new impact assessment guidelines. Particular attention will be paid to the cost impact on companies of regulation under preparation (incl. administrative costs), the impact on competition and market efficiency, the impact on SMEs, entrepreneurship and growth opportunities, the impact on investments, research and development activity and innovations, and the impact on business competitiveness.

### 3.3 Improving market efficiency and competition

#### Supervision of competition between companies and reform of legislation

The competition authorities' activity, particularly in the supervision of cartels, has produced results in recent years. The Finnish Competition Authority has focused on investigating the most significant restrictions on competition.

The Government is committed to determining the changes required to the Competition Restriction Act and to implementing these changes. In June 2007, a working group was established to determine the need for legislative changes. The working group, in accordance with its assignment, will in particular:

- Determine the need to regulate competition restrictions other than those within the sphere of current prohibition provisions of the Act on Competition Restrictions,
- assess the need to develop current provisions relating to company acquisition supervision,
- assess the need to develop provisions relating to legal procedure in order to improve, among other things, the Competition Authority's opportunities to focus on interpreting of the most significant competition restrictions, for example in service sectors, and
- assess the effectiveness of and need to develop the Act's present sanction system and damage compensation provisions.

The working group also has the task of assessing the possible benefits of a reform of company acquisition provisions such that, instead of the present dominance test requiring a dominant market position, the SIEC (significant impediment of effective competition) test, which assesses the effectiveness of competition in the market should a planned acquisition be implemented, would be applied. The market structures of service sectors are often oligopolistic. The introduction of the SIEC test in company acquisition supervision could enhance such supervision in these sectors, because it is often the case in an oligopoly that no single actor has a dominant position in the market, but the oligopolistic market structure in itself prevents efficient competition. The SIEC test is applied in the EU's merger regulation and in the company acquisition legislation of a number of other EU countries.

Adjustments to the administrative sanction penalty provision of the Act on Competition Restrictions are under consideration. The maximum penalty could be maintained as before, but the penalty provision would be adjusted so that the level of the payment would be more predictable. This could increase the preventive impact of the Act.

The damage compensation provision of the current Act on Competition Restrictions applies only to damage compensation actions between businesses. It is proposed that the scope of the Act's damage compensation provision be expanded so that parties other than businesses can seek compensation for losses suffered through a restriction on competition. Competition restrictions in the service sector are typically of the kind where those who suffer losses are consumers, for example, as well as business.

### National implementation of the Services Directive

By the end of 2009, the necessary framework regulation and sector-specific legislative changes will be prepared and the necessary administrative structures created to implement the Services Directive. Preparations are being directed by a broad-based working group in which the key ministries and interest groups are represented.

The implementation of the directive is one key element of the development of the service sector's operating environment. The process and simplification of service sector licence and notification procedures will improve the operating environment, and the creation of a point of single contact will facilitate practical engagement in service business also in the case of services that fall outside the scope of the directive as well as facilitating access to the sector and increasing competition.

### Competition neutrality of public and private business activity

In Finland the public sector is fairly widely engaged in business activity. The European Commission has highlighted the possible distortions of competition resulting from the activities of state-owned enterprises. The Government Programme states that the Government will ensure equal conditions for private and public service provision through competition policy.

In October 2007 a working group was appointed to look into the competition neutrality of state-owned enterprises. Working group's task is:

- To look into the nature of potential distortions of competition connected with business activity practised by the public sector,
- to assess the extent and practical significance of the phenomenon,
- to survey the means by which competition neutrality can be ensured, and
- to make recommendations for policy guidelines or regulatory changes.

As a basis for the work, the studies made in Finland on competition neutrality have been surveyed to ascertain the problems identified in the studies and the solutions proposed to solve the problems. In spring 2008 an extensive round of hearings was organised with the aim of obtaining information on the scope and significance of the problems and gathering views on possible solutions.

Based on the views presented, proposals will be prepared for developing legislation and for other operating practices to ensure equal operating conditions for public and private actors. The quality and timing of impact assessments on the implementation of proposals will be decided separately. Work on the assessment of the state-owned enterprise model is also under way.

### Reform of rules on state aid

Finnish legislation requires that state aid be allocated for the purposes of correcting market failures (e.g. support for business R&D) and that aid programmes be systematically evaluated. A key challenge is to review and assess aid policy as a whole, to increase the effectiveness of aid, and create conditions for a reduction in the overall volume of aid. Aid policy will also be assessed to ensure that aid granted does not distort competition on a national or regional level.

Cutting state aid has not been entirely successful. The overall volume of aid, excluding aid granted to rail transport, was 1.53 per cent as a percentage of GDP in 2006 whereas it was 1.41 per cent in 2003. The EU-25 average is 0.58 per cent. However, this high figure was mainly due to agricultural aid. When these are excluded, Finland's state aid (0.35%) is slightly lower than the EU-25 average (0.42%). Finland has performed well in the reallocating aid, however. Sector-specific aid granted is low, around 3 per cent of total subsidies. Priorities in the granting of aid have also been R&D aid in accordance with the objectives of the Lisbon Strategy and aid granted for environmental protection.

Implementation of the Commission regulation package on services of general economic interest (SGEI services), i.e. the Monti Package, has also progressed during 2008. As part of the reporting obligation pursuant of Commission Decision 2005/842/EC, the review of SGEI services has been continued and their mode of implementation assessed from the perspective of the rules on state aid. In autumn 2008 a Government bill will be issued on the amendment of the Act on the Openness and Disclosure Obligation in Financial Activity for Certain Enterprises (19/2003).

On 20 November 2007, the Commission published as part of a Single Market Review a statement on services of general interest, including social services of general interest (KOM 2007/725). The aim of the communication is to clarify the application of EU rules for services of general interest. All interest groups and local officials currently do not have sufficient information on the funding

of financial services with respect to the rules on state aid. The general awareness of regional and local government and interest groups on the application of the rules on state aid to compensation paid for services will be enhanced through communication and training.

### **3.4 Improving information, communications and transport networks**

Finland has succeeded as a producer of information and communications technology and as a technology expert. There is, however, room for improvement in applying information and communications technology and in introducing services. In the public sector in particular there are opportunities to raise productivity by utilising information systems and electronic public services solutions in service provision.

The Government's aim is to promote the building of fibre-optic cables and wireless networks and the development of information society service infrastructure in order to increase the provision of fast communications links. The effectiveness of competition in the provision of information and communication services is reflected in the fact that the average prices of broadband connections have remained relatively stable and at the same coverage of services has improved. An increase in service provision will be promoted by market-based means and by permitting competition between technologies. In areas where commercial provision will not arise, the availability of diverse and high-quality communication services will be ensured with public aid.

The aim of Finland's information society policy is to increase the user-friendliness of services and the competitiveness and productivity of companies, and to promote regional and social equality. In terms of information society development, the key measures will be directed towards developing the following: information society infrastructure; the innovation environment and markets; content and services; expertise and preparedness. Public sector service structures will be revamped and provision of electronic public services will be increased. In transport, the opportunities offered by telematics will continue to be exploited more widely and effectively.

#### **Improving broadband connections**

Studies indicate that 93 per cent of households possessing an internet connection have broadband. If they so wish, 99 per cent of citizens can obtain broadband. Wireless and mobile connections complement the fixed network, par-



ticularly in sparsely populated areas. The coverage of broadband connections provided via mobile communications networks has expanded and transmission speeds have increased significantly.

The biggest challenge of the next few years is to ensure the provision of broadband connections in sparsely settled and remote areas. Reasonably priced, quality broadband connections realised with fibre-optic connections will also be increasingly important in future outside the large population centres as services that require fast transmission capacity, such as high-definition television, become more common. The goal is for high-speed broadband connections to be available to everyone in 2015.

Efforts have been made to promote competition between telecommunications operators via the @ 450 network built to deliver wireless broadband, which will cover nearly the whole of Finland by the end of 2009. Connection speeds up to 100 Mbit/s, based on the construction of fibre-optic cables, will also be offered at a reasonable price to households. Fibre-optic networks have been built mainly in the largest towns and cities.

The Ministry of Transport and Communications has set up a working group to promote the provision of fast and reliable data transfer connections throughout Finland. The working group's task is to monitor the provision of fast data transfer connections and services, to report on the development of such provision and to make recommendations for measures to the Government.

The impact of fixed telephone network fees on the availability of telephone and broadband service and on ensuring citizens' basic services has been reviewed. Based on the review, a proposal for ensuring the service level and reasonable prices of telecom services throughout the country has been prepared. Universal service rules have been amended to cover mobile communications as well as the fixed-line network. A project to amend certain provisions of the Communications Market Act is under discussion. In connection with the project, an appropriate definition of an internet connection will also be examined. According to estimates, the amendments to the Act will raise the universal service connection speed significantly.

The aim is to maintain Finland's position among the leading countries for broadband provision. An effort will be made to resolve the effects of the revolution in technology and service provision, particularly outside the population centres. The purpose is to ensure basic broadband provision throughout Finland. In addition, a research project has been initiated on the telecommunications needs of rural businesses.

In addition, a wide-ranging communications policy review has been prepared of the arrangement and safeguarding of broadband provision covering the whole country as well as its funding, particularly in sparsely settled areas. The review was completed in September 2008.

## Development of ubiquitous information society services

The Ubiquitous Information Society Advisory Board will steer the implementation of the Government resolution on the objectives of the national information society policy for 2007–2011. In April 2008 a practical action programme encompassing around 40 projects was decided upon. The programme emphasises in particular the provision of reliable and user-friendly electronic services as well as the preparedness of citizens and companies as users of electronic services.

The task of the Electronic Identification Development Working Group is to determine and ensure the compatibility and usability of different identification methods in services where identification is required. The working group has prepared an interim report on the present state of electronic identification in Finland at the beginning of 2008. The working group will make its proposal for measures in autumn 2008, after which the Government will make a resolution on the issue.

In spring 2008 a working group was established with the task of proposing measures to accelerate and ensure the transfer to electronic invoicing. The transfer will require coordination between the public administration, electronic invoicing operators and consumers. The aim is to spread the use of electronic invoicing significantly by 2011.

The Government's information security strategy aims to enhance citizens' and companies' confidence in electronic services. To increase information security awareness, an annual national information security day will be arranged. A proposal for a new national information security strategy will be completed at the end of 2008. The proposal will contain concrete measures for implementation in the next few years.

The Utilisation of Information and Communications Technology in Education and Study project will develop a new electronic learning environment and trial technological opportunities in education and in the development of education. At the beginning of 2008, a network coordinated by the University of Helsinki conducted a review which evaluated the current situation of information and communications technology in schools from the perspective of technological environments, software and infrastructure, pedagogic use and effectiveness, and skills resources. A pilot project has been initiated and the schools that will participate in the project will be selected in autumn 2008. The project will continue until the end of 2010.

The Electronic Communications Business Policy Working Group, established in spring 2008 will make a proposal on how the communications sector and market can be promoted and developed while ensuring high-quality communications services for companies and private users. The working group's term of office ends in late 2009.

## Television and radio, and children and young people as media users

In accordance with a decision made by the Government in March 2004, Finland transferred completely to digital television in terrestrial transmission networks at the beginning of September 2007. Cable networks transferred completely to digital transmission at the beginning of March 2008. Instead of the previous 4–5 channels, households with aerials can now access ten free-to-air channels and nearly 20 pay-TV channels. The transfer to the new technology was completed for the most part smoothly. By March 2008, 95 per cent of households with a television had acquired the set-top box necessary to receive digital transmissions. The next challenge is the transfer to high-definition television.

As information and communications technology usage increases, children and young people may also be exposed to content harmful to their development. Because comprehensive monitoring of internet content is impossible, self-regulation of the sector is required in addition to legislation. The Children and Young People Media Forum, established in spring 2008, will assess the role of the internet in children's and young people's lives. The forum's task is to increase the preparedness of children and young people to operate in an electronic communications environment and to consider means to reduce the dangers arising to children and young people from electronic communications. An additional task of the forum is to raise for public discussion topical issues and to identify solutions to problems in cooperation with sector actors. The forum's work is connected with the policy programme for the well-being of children, youth and families.

## Investment in transport links and development of transport services

The Government submitted a report on transport policy to Parliament in March 2008. The key objective of the report is to promote long-term transport policy. At the same time the report serves as a resolution on the transport investments of this parliamentary term and their funding.

The report addresses, among other things, business and climate policy, public transport and pedestrian and bicycle traffic, traffic safety and the haulage market as well as transport networks and their funding. The report includes an investment programme covering the parliamentary term and a list of later projects which are planned. In this parliamentary term 17 transport investments will be initiated, with a total value of approximately EUR 1.9 billion. In addition, the Government is preparing to support with a maximum of EUR 200 million euros the extension of the Helsinki Metropolitan Area metro network (Western Metro).

The report includes general guidelines on transport climate policy and the key transport policy means of combating climate change. According to the report, preparations will be made for the possible introduction in the next decade of road-use fees based on location technology. The introduction of a traffic congestion charge in the Helsinki area will be explored.

Reform of legislation relating to public transport activity is currently under way. The reform is connected with the implementation of the EU service agreement regulation, which will enter into force in December 2009. The national implementation of the service agreement regulation is in preparation. The aim is to increase competition in bus transport services. In this context the special features relating to long-distance and other scheduled traffic as well as the liberalisation of city and metropolitan area traffic, which should be taken into account as competition increases, will be reviewed. The opening of competition in railway transport will also be reviewed. Existing Helsinki commuter traffic agreements will expire in 2017.

### **3.5 Energy and climate policy supporting structural change and sustainable development**

The spring 2007 European Council agreed ambitious targets for combating climate change. The EU undertook unilaterally to implement a 20 per cent reduction in greenhouse gas emissions by 2020 compared with the 1990 emissions level. Moreover, the EU set a long-term indicative target of reducing emissions by 60–80 per cent by 2050.

In accordance with European Council guidelines, the European Commission issued a climate and energy package in January 2008. The package laid down concrete measures designed to implement the national targets proposed by the commission for renewable energy and for the emissions of sectors outside emissions trading. EU-wide targets will be presented for emissions trading sector emissions and for enhancing the efficiency of energy use. As a 2020 target for the use of renewable energy, the Commission proposes for Finland a 38 per cent proportion of end-use energy consumption. This would require an increase by 9.5 percentage points of the proportion of renewable energy use in Finland. According to the Commission's proposal, greenhouse gases of sectors outside emissions trading, such as housing, agricultural and transport, should be reduced from their 2005 level by 16 per cent by 2020.

The Government is currently preparing a long-term Climate and Energy Strategy. The strategy will be presented as a report to Parliament in autumn 2008 and it will specify the measures required by the EU targets in terms of greenhouse gas emissions, renewable energy, energy supply and energy efficiency. The emphasis of the strategy will be on the 2020 targets and on the measures

required to achieve them. Energy saving and promoting the use of renewable energy will be the cornerstones of the strategy. A key point of departure for the strategy will be the cost-effectiveness and market-orientation of the proposed measures. The report will also outline the main elements of energy and climate policy for 2020–2050.

Although the Climate and Energy Strategy is still under discussion, the Government has decided to increase considerably State aid for renewable energy production and energy efficiency. In the final supplementary budget of 2008 and in the 2009 budget proper, state aid for improving renewable energy and energy efficiency will be increased by around EUR 80 million. Renewable energy and energy efficiency investment aid for companies and organisations will be increased by a total of EUR 60 million in 2008 and 2009. Energy grants for homes will be increased by EUR 10 million in 2008, thereby increasing the total amount available to EUR 24 million euros. In 2009 energy grants for homes will be increased by EUR 8 million to EUR 22 million, which will be used to fund energy renovations of apartment blocks and terraced houses. The maximum amount of the household work deduction will be raised to EUR 3,000 in order to support projects improving the energy efficiency of one-family homes in particular. The reform will mainly replace energy grants for one-family homes. In the transport field, a public transport subsidy for large cities, for which EUR 5 million has been allocated, will be introduced. Aid for the felling and harvesting of energy wood will continue at the level of EUR 6.5 million. Investments and other projects in farm-based bioenergy production will continue to be supported with EUR 5 million.

Achieving the long-term climate and energy targets will still require significant additional measures to increase the use of renewable energy sources, to improve energy efficiency and particularly to secure the availability of low-emission and adequate electricity supply capacity. Measures for the next few years will be outlined in the coming Climate and Energy Strategy. Longer term challenges and the response to them will be discussed in a Government energy and climate policy future report to be presented in spring 2009.

In accordance with the national sustainable development strategy, alternative measures will also be assessed from the perspective of sustainable development in preparing the energy and climate policy.

### Reducing emissions outside the emissions trading sector

Most of the emissions of the sectors outside the emissions trading sector consist of emissions from transport, agricultural and construction machines, and the heating boilers of individual homes, which mainly use light fuel oil as their energy source.

The greenhouse gas emissions of sectors outside emissions trading totalled more than 35 million CO<sub>2</sub> equivalent tonnes in Finland in 2005. Finland should lower emissions in these sectors to less than 30 million CO<sub>2</sub> equivalent tonnes by 2020.

In terms of the heating of individual homes, the reduction of emissions means the need to reduce the proportion of oil heating in particular. Replacement solutions are district heating, wood pellets and ground- and air-source heat pumps. In future, it will also be possible in oil heating to replace mineral-based light fuel oil with bio-based fuel oil. Public aid will be available for changes to heating solutions of the existing building stock. The Government budget proposal for 2009 also includes a proposal for the extension of the household work deduction, so that major conversion work to the energy systems of one-family homes can be brought within the scope of the deduction right. In terms of new buildings, heating solutions will be influenced through changes to the legislation that governs construction.

In the transport sector, emissions can be influenced by targeting vehicles and by promoting the use of biofuels as well as in the longer term by avoiding urban sprawl and by reducing in this way the need to travel.

At the beginning of 2008 car taxation was reformed, such that the tax is now graduated according to emissions. This reform has worked in the desired way; consumers have switched to buying clearly lower emission cars than in the past. Traffic emissions will also be reduced by an obligation to increase the proportion of biofuels. The annual road tax for vehicles will also be graduated according to emissions.

In waste management, greenhouse gas emissions can be lowered by reducing the amount of biodegradable waste going to landfills and by promoting the energy use of waste.

### Renewable energy sources obligation

Renewable energy sources accounted for 28.5 per cent of end-use energy consumption in Finland in 2005. The Commission's climate and energy package proposes this figure be raised to 38 per cent by 2020.

This target is very challenging, given that Finland is already one of the world's leading countries in the utilisation of renewable energy sources, particularly bioenergy. In Finland, the proportion of total energy consumption accounted for by renewable energy sources is the third highest in the EU after Sweden and Latvia.

The biggest additional potential for renewable energy is based on increasing the use of wood chips, particularly in the combined production of electricity and heat. According to the National Forest Programme, use of wood chips could be tripled from the current level of around 3.5 million cubic metres.

The entire obligation cannot, however, be fulfilled by increasing the use of wood alone; other renewable forms of energy will be needed. In its Government Programme, the Government has undertaken to increasing hydropower significantly. The aim is also to increase the use of wind power significantly, even though in terms of the need for subsidy it is more expensive than utilising biomass. A further aim is to increase field biomass and the energy use of waste in its different forms.

An increase in renewable energy use of the desired magnitude will not be achieved with present technology without public subsidies. Current subsidy schemes are mainly based on investment and tax subsidies. The introduction of feed-in tariffs in electricity production is being considered.

To achieve the Kyoto targets, the State will particularly support investments directed at renewable energy and improving energy efficiency. Aid will be directed more than in the past to the introduction of new technology. Aid may also be obtained for the introduction of advanced technology already on the market and for new-technology test projects.

### Energy efficiency target

The European Council set for 2020 a target of improving energy efficiency by 20 per cent from what it would have been without new measures. This means at the European level an average reduction in consumption of around 14 per cent compared with the level for 2005. The target is indicative and applicable to the whole EU.

The Energy Services Directive, approved in 2006, obliges member states to indicate that by 2016 they have implemented energy saving measures whose saving impact is 9 per cent of the average energy consumption in the corresponding sectors in 2001–2005. This will be achieved mainly through wide-ranging energy efficiency agreements concluded at the end of 2007.

The targets to be set in the Climate and Energy Strategy for energy efficiency in 2020 are under discussion. A broad-based Energy Efficiency Committee was established in spring 2008 to identify the measures by which the set aims will be achieved. The targets and measures will together form the overall energy saving plan mentioned in the Government Programme.

### Development of energy and environmental technology

Energy and environmental technologies have long been a priority of R&D activity in Finland. In accordance with its strategy, TEKES also aims to increase the attention given to environmental issues in other research and development and innovation activity. In national technology programmes,

more resources are being directed to developing these technologies than in the past. TEKES has a number of programmes under way in which the energy and environmental perspective is strongly evident.

The global market for climate technology is forecast to grow by an estimated 60 per cent between 2004 and 2010. In the environmental sector, the growth areas include waste management, recycling, sustainable use of materials, water management solutions, and measuring and monitoring of environmental data. The energy technology market is growing strongly in all areas relating to renewable energy and efficient use of energy. Finland has what it takes to be a strong international player in the energy and environmental technology market. To ensure this, the Government is investing in energy and environmental technology R&D and commercialisation, for example, by developing public procurement and promoting the domestic market of environmental technology. A proposal for an action plan to increase environmental friendliness in public procurement will be brought to the Government for discussion towards the end of 2008.

Improving material efficiency is also included in the 2005 national programme to promote sustainable consumption and production. The implementation of the programme, such as the activity of the Material Efficiency Service Centre, initiated in 2008, will create instruments for enhancing the use of natural resources and at the same time also for reducing the climate impact arising from this.

TEKES' energy and environmental area funding doubled in 2007 from the previous year, rising to EUR 156 million, which was one third of all TEKES R&D funding. The total budget of TEKES' energy and environmental programmes is currently EUR 550 million, of which around half is TEKES' contribution. Programmes initiated last year, namely Fuel Cell, BioRefine and Sustainable Society, and the Water programme, initiated this year, are contributing to strengthening development in the energy and environmental area, as are programmes that started earlier, such as ClimBus.

A strategic cluster of expertise for energy and environment was approved in spring 2008 after a nearly two-year preparation period by TEKES, the Academy of Finland and business organisations. Companies and the investments of companies have been decisively significant in further preparatory work implemented in cooperation with universities and research institutes. The strategic clusters of expertise (SHOKs) being constructed in Finland will offer top research units and companies utilising research results a new way of cooperating closely with each other.

The Academy of Finland currently has under way a Sustainable Energy research programme (2008–2011), and the Finnish Innovation Fund (SITRA) has just initiated an Energy programme for 2008–2012.

The opportunities presented by energy and environmental technology and eco-innovations will, at their best, support both the competitiveness of the



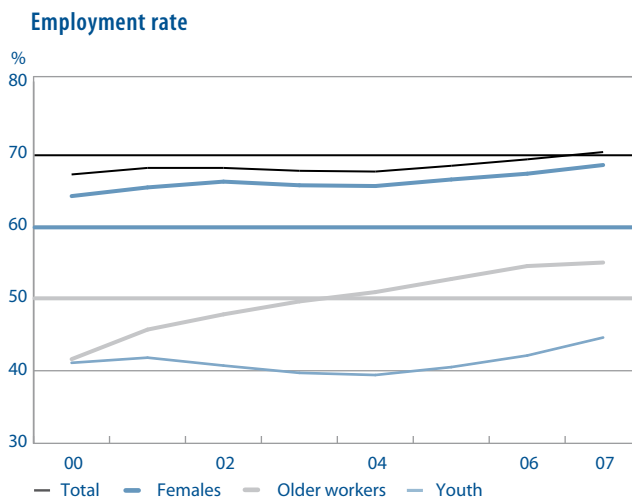
national economy and sustainable development. The authorities will have a more significant role than usual in the promotion of energy and environmental technology. Official regulations influence the development of new technologies and their demand, and market prices can be influenced by economic control measures. In addition, the Joint Implementation (JI) and Clean Development Mechanisms of the Kyoto Protocol can be used to introduce new technology globally.

## 4 Employment policy: raising the employment rate and improving market efficiency

### Employment situation

Good economic development raised the employment rate sharply in the period 2005–2007. In 2007 the overall employment rate was 70.3 per cent, the employment rate for women 68.5 per cent and for 55–64 year-olds 55.0 per cent.

In 2007 both women's and men's unemployment fell from the previous year. The women's unemployment rate was 7.2 per cent and the men's unemployment rate 6.5 per cent. Together with open unemployment, the number of concealed unemployed and the whole reserve of labour has fallen. Unemployment has fallen in all areas over the last two years.



Source: Eurostat

Without the increased participation in work, the labour force would have already declined. The supply of labour has been increased by under 25 year-olds actively seeking employment and by baby boomers staying in the labour market significantly longer than their predecessors. In 2007 the average retirement age increased to 59½ years.

In 2007, 13.4 per cent of employees were in part-time work. Of these, nearly two thirds were women. One third of those in part-time employment consisted of those working part-time reluctantly or those who had been laid off and were working a shortened week. Those working on fixed-term contracts accounted for 16.0 per cent of employees. The number of permanent employees, however, has increased more quickly than the number of fixed-term employees.

The 132,000 foreign citizens permanently resident in Finland are a significant labour market resource. Of this group, 79 per cent are of working age. The employment rate among this group is around 50 per cent and the unemployment rate 20 per cent. Around 30 per cent are outside the labour force. The Government immigration policy line is to promote permanent work-based immigration as one labour market measure among the other measures required.

### Quality of working life

In Finland the quality of working life is considered an important productivity factor and the goal is to develop the working organisation, well-being in work and productivity simultaneously. According to the 2007 Working Life Barometer, the quality of working life has improved slightly compared with the previous two years. Further investment must be made in well-being in work and accident prevention. As the employment situation has improved, individuals' uncertainty about keeping their own jobs has decreased, while equal treatment and incentives, innovation and mutual trust have increased. Individuals' assessments of the adequacy of their own resources have, on the contrary, weakened steadily during the last four years. Men rate women more highly in their workplaces. Women give men weaker ratings in equal treatment and in adequacy of resources.

One in two employees has participated in training paid by the employer; each employee as an average of 5-6 days of training per year. Individuals, overall, have a strong belief that they can find work that corresponds to their expertise.

Work-time flexibility increased in 2007. Some 62 per cent of employees have an opportunity to accumulate and save hours exceeding normal working hours to be used later for free time. The proportion (51%) of employees doing overtime has grown. One quarter of employees also did other work. Of those who are employed, the proportion accounted for by those in temporary agency work has risen from around 2 per cent to 4.1 per cent.

## Main lines of employment policy

The Government's target is to raise the number of employed by 80,000–100,000 by 2011, in which case the employment rate would rise to 72 per cent.

One administrative step was the merger of the Ministry of Employment and the Ministry of Trade and Industry into the new Ministry of Employment and the Economy at the beginning of 2008. The objective is to achieve synergy benefits in services developing innovation and productivity as well as labour skills and business activity, and in support to growth companies.

Efforts have been made to increase employment through a pension reform that encourages people to remain in work, through job-seeking activation measures, projects to develop working life and training, and by promoting labour mobility and work-based immigration.

The employment strategy is cross-administrative. The instrument for its implementation is the policy programme for employment, entrepreneurship and working life, one aim of which is to prevent as effectively as possible a threatening reduction in labour input. Major reform projects connected with the programme include the comprehensive reform of social security and benefits, the reform of vocationally oriented adult education, the development of the Finnish flexicurity model, the reduction of labour matching problems and an increase in work-based immigration.

The 2005–2008 National Reform Programme set as its key employment policy targets the raising of the employment rate and the improvement of labour market functioning. Measures aimed at achieving these objectives were grouped into three priority areas, which are also the employment policy priorities of the 2008–2010 reform programme, namely:

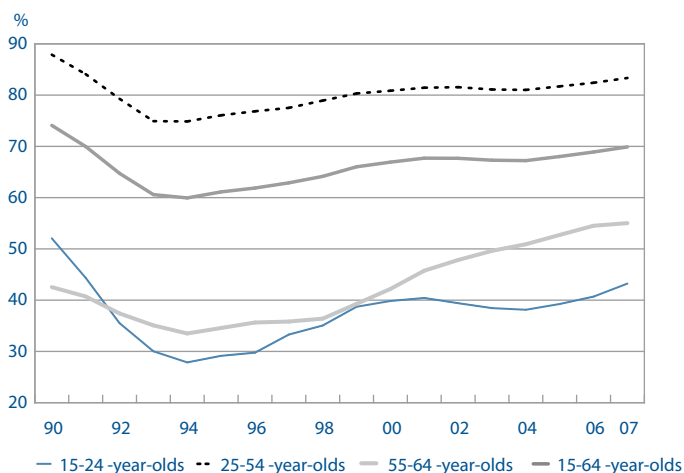
- Extending working careers,
- improving the incentive effect of tax and benefit systems and wage formation and,
- improving the balance between labour demand and supply.

### 4.1 Extending working careers

The long period of fast economic growth has improved the employment situation at the extreme ends of the working career. The employment rates of both older people and young people have risen. Young people's employment rate in particular rose in 2007.

The changes made to pension security in the 1990s and 2000s have been raising the employment rate of older people for some time now. The 2005 pension reform was the biggest single changes. The reform is outlined in Section 2.1.

Employment rate by age group



Source: Statistics Finland

Government Programme states that an evaluation will be made during this parliamentary term to assess whether sufficient provision has been made for the ageing of the population. If additional reforms are needed, the Government is committed to implement them during this parliamentary term. In 2007 a study was initiated of possible additional measures necessary to promote the employment of older people and of the employment impact of various alternative measures. The study is scheduled to be completed by the end of 2008.

The entry of young people into working life will be accelerated by developing student selection and study guidance, reforming the benefits system and directing vocational education better to meet the demand for labour. Funding will be allocated particularly to increasing the number of student places in basic vocational education and supplementary education, to immigrant's preparatory training for basic vocational education and comprehensive education, and to additional training for teaching staff. Part of the low-wage subsidy appropriation was reallocated to measures aimed at preventing social exclusion and employment among young people. Apprenticeship training and the youth workshop system have been enhanced.

## 4.2 Improving the incentive effect of tax and benefit systems and wage formation

### Incentive of the tax and benefit systems

One task of the committee working on social security reform (the SATA Committee, appointed in June 2007) is the need to reform taxation, basic security (including housing allowance) and unemployment security.

The aim is for social security to encourage students to move from studying to working life more quickly than at present, to shorten periods of unemployment, to make the acceptance of periodic employment profitable, to facilitate the employment of the physically impaired, to delay retirement and to encourage those who are retired to participate in working life more than at present, and to improve work productivity.

In its guidance to the committee, the Government stated that the national pension is a long-term form of social security and that this must be taken into account when determining the level and development of the national pension. When developing the social security system, it is also necessary to assess how the purchasing power of income transfers intended to cover costs will be maintained.

The Government has also stated that the fairness of social security legislation must be improved, customers' applications must be processed without delay, and the application method must be made easier than at present. This will require the fragmented social security legislation to be collated in a clear and coherent package. In this context, the nature of the Social Insurance Institution of Finland's task as the payer of basic security and the periods required for processing social security matters will also be reviewed.

The validity of the Act on Work Sharing has been extended by two years. From 1996 to the end of 2007, more than 130,000 people had participated in work sharing.

A study has been made of conditions for the employment of those whose working capacity is impaired. The proposals contained in the study report will be discussed in the Social Security Committee.

In addition, a review of the entire tax system and an identification of reform needs is under discussion. The intention is to complete this work by the end of 2010, to ensure that citizens can make their choices in the 2011 parliamentary elections on the basis of the various parties' positions.

### Wage formation

Pay systems have changed and the size of pay is nowadays based less commonly on years of employment alone. Particularly in the public sector, major

reforms of pay systems are under way. Assessment methods of work demands and productivity have been taken into use. Work-time flexibility also increased in 2007. Some 62 per cent of employees have an opportunity to accumulate and save hours exceeding normal working hours to be used later for free time.

Following the expiry of the 2005–2007 collective agreement, employer and labour organisations have made sector-specific collective agreements, of which most have contained locally agreed wage increase provisions. In autumn 2008 discussions, led by the Prime Minister, will be held on safeguarding macroeconomic stability in a situation where wages are agreed in a decentralised way.

The number of personnel funds grew in 2007 and at the end of the year the register contained 54 funds with around 123,000 members. In 2007 a record EUR 107.9 million was paid in profit bonuses. For the comprehensive reform of the Personnel Fund Act, a tripartite working group has been appointed to promote the increased use of profit bonus schemes payable to all employees. The right of personnel to participate in the administration of companies or cooperatives was clarified in the case of cross-border mergers and demergers within the European Economic Area.

### Flexicurity

The adaptation of European flexicurity principles to Finnish conditions will be prepared by a tripartite Flexicurity Group. The working group's term will expire at the end of 2010.

The key aims of Finnish flexicurity are:

- Quickly from job to job – good conditions for continuing employment,
- from outside the labour force into work – putting labour resources and expertise to better use, and
- high quality of working life – a key factor in extending working careers and improving competitiveness.

According to flexicurity indicators, opportunities for use of flexible working hours are, on average, significantly greater in Finland than in other EU countries. Similarly, the number of employees participating in education is, relatively speaking, significantly higher than in EU countries on average. Measured with other flexicurity indicators, Finland is positioned around the average of the EU country average.

A study completed in 2007 gives a positive picture of the overall implementation of the model. Early intervention of the labour administration, activation of job-seeking and rapid utilisation of training measures are perceived as particularly positive.

The Finnish flexicurity model is outlined in more detail in Appendix I.

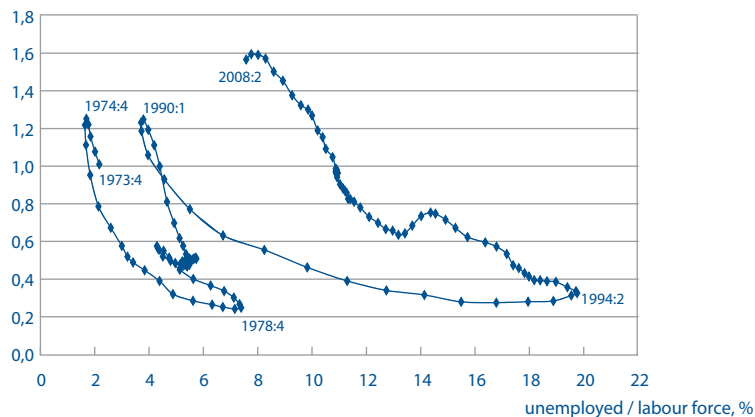
### 4.3 Improving the balance between labour demand and supply

At the same time as the availability of labour has tightened, structural unemployment is appearing in many sectors. To remove matching problems, the present and previous Governments have implemented numerous reforms. The taxation on work has been eased, the incentive effect of benefit systems improved, and conditions for the vocational and regional mobility of labour improved.

An effort has been made to increase the labour supply through, for example, measures to promote entrepreneurship and curb growth in labour costs, tax cuts, increasing the household work deduction, and employment subsidies. The position of low-paid older workers in the labour market has been improved through a subsidy that lowers employer's indirect labour costs. New measures have been developed to alleviate sudden structural change. Cooperation between administrative areas has also been increased in order to react to problems as quickly as possible. A special appropriation was allocated to sudden structural changes for the first time in the 2007 State budget.

**Beveridge curve, quarterly, trend**

job vacancies / employed, %



Source: Statistics Finland (Labour Force Survey), Ministry of Employment and the Economy (Employment Service Statistics)



As the working age population declines, it is necessary to be able to predict labour demand as well as possible and to take these estimates into account in solutions relating the content and amount of training. Development work aimed at improving the forecasting system for labour and training needs has been initiated in the form of a joint project of the employment and the economy administration and the education authorities. In autumn 2008, a working group will make the first proposals for the development of a forecasting system.

In 2007 employment offices were set the target of conducting the first job-seeking interview within two weeks of individuals registering as job seekers. In addition, a profiling model to help identify the risk of prolonged unemployment was introduced. The job-seeking interview assesses the job seeker's service needs, which accelerates the placement of job seekers on the open job market and helps employment offices to evaluate the service needs of its customers and to plan services and operating practices. Obligatory job assignments for job seekers were increased in 2007.

The 2009 budget proposal includes measures to improve matching. The number of student places in basic vocational education will be increased in 2009, particularly in the Helsinki Metropolitan Area and in other population growth centres. At the same time, steps will be taken to target basic vocational education regionally according to age group development, so that supply corresponds to the needs of each region's young people and labour market.

A vocational adult education reform project (AKKU) is under way. Furthermore, adult education is being revamped via the NOSTE programme. Information and guidance services, e.g. electronic services particularly for information purposes, will be developed through ESF measures in the period 2007-2013 Structural Fund period.

To secure the availability of labour and to curtail the development of social exclusion, some of the places in basic vocational education and in preparatory training for vocational education will be directed towards immigrants, and information and guidance tailored particularly for young immigrants in upper-stage comprehensive school and thereafter will be enhanced.

Labour mobility has been supported by, among other things, expanding the right to deduct commuting expenses and by introducing a discretionary grant for removal expenses, up to maximum of EUR 700, from the beginning of 2007.

In the 2009 budget proposal, part of the appropriations earmarked for the expansion of the low-pay subsidy are allocated to support the solution of labour market matching problems. To promote the employment of immigrants who move to Finland in adulthood and who are resident in Finland, the supply of training implemented through educational establishments as well as apprenticeship-type and work-oriented arrangements will be increased from 2009.

One of the most successful ESF projects of the previous structural fund period was the SPECIMA project, which focused on accreditation training for highly educated immigrants. Accreditation training will be continued to

improve the availability of labour (e.g. doctors, dentists, pharmacists, nurses and other care staff).

The Act on the Contractor's Obligations and Liability When Work is Contracted Out (Contractor's Liability Act) entered into force at the beginning of 2007. The purpose of the Act is to prevent adverse effects arising to companies from the black economy and unhealthy competition, and to ensure at the same time that subcontractors and labour hire agencies adhere to employer obligations.

Reductions in unjustified fixed-term employment relationships were pursued through amendments to the Employment Contracts Act and legislation relating to occupational health and safety. The aim is that employers should consider more carefully the justification for the fixed-term nature of an employment contract and that employees should be better informed about this justification. The means of supervision available to occupational health and safety authorities were increased.

Employment protection legislation has been completely reformed since the turn of the millennium. The Employment Contracts Act, which entered into force in 2001, lays down provisions on redundancy and termination principles, procedures relating to the ending of employment, and the consequences of illegally ending an employment relationship. The Act on Cooperation with Undertakings, which entered into force in 2007, lays down provisions on the procedures that the employer must follow when giving notice of termination to employees on production and financial grounds.

The establishment of the Ministry of Employment and the Economy facilitated better regionalisation and implementation of measures relating to the quality of working life via the Employment and Economic Development Centres. Quality of working life and the simultaneous improvement of productivity are now part of the training directed at regional government business advisors. The training is implemented on the basis of tripartite cooperation.

Discontinuing the Transition Period Act in 2006 and permitting the free movement of labour from Bulgaria and Romania after their accession to the EU in 2007 increased foreigners' opportunities to work temporarily in Finland.



## 5 Regional development and support of structural fund policy for finland's national reform programme

### The state of regional development

The development of the regions has been reasonably balanced. The central areas of several regions have developed positively, and production and employment have improved significantly. Moreover, mass migration has evened out between regions, even though rapid economic growth has slightly increased migration towards the major population centres. Of the regions, those that have done best are the strong growth areas such as Uusimaa, South-West Finland and Pirkanmaa, but smaller regions such as Central Finland, North Ostrobothnia and Ostrobothnia have also done well. Despite a relatively similar development picture between the regions, within them strong local differences are evident, particularly between the regional centres and their surrounding districts. Population ageing and the municipalities' financial problems will reinforce this development trend.

Employment development has been regionally balanced. Unemployment has fallen in all regions and subregions. Unemployment has fallen fastest in a number of high-unemployment subregions, which is in turn due to a decline in labour caused by ageing. The labour force in Etelä-Savo, Lapland and South Karelia has already begun to decline as a result of ageing and migration losses.

Strengthening retirement of labour will reduce regional labour resources and slow business development opportunities. The working age population in a number of areas has already begun to fall due to ageing and migration losses and this trend will strengthen in the next decade or so. Nevertheless, the working age population is still growing in around 25 subregions and population forecasts indicate that the working age population will still be growing in 15 subregions in 2020.

### National regional policy priorities

The priorities of the national regional policy were adjusted in December 2007, when the Government decided on the national regional development targets for 2007–2011. The decision specified the key guidelines and measures by which the Government intends to achieve the set targets during the planning period.

The regional policy priorities are industrial and entrepreneurial activities, expertise and labour, and services and networking. The objective is to strengthen the regions' national and international competitiveness and economic growth, promote the expertise of regions, improve their strengths and specialisations, encourage cooperation between actors and inter-regional networking, and develop the quality of the living environment.

A further objective is create a regional structure based on strong regions and an efficient city network, which will strengthen the vitality of urban and rural areas and facilitate more uniform economic growth and employment throughout Finland.

In accordance with the target decision, the key priorities of regional development for 2007–2011 are as follows:

- Strengthening regions' national and international competitiveness.
- Strengthening the vitality of regions and reducing regional development differences.
- Solving the special challenges of regions.

One part of the target decision is strengthening the regional development system and the more efficient and effective targeting of its resources. The key measures include preparing a long-term strategy for regional development up to 2020, updating ministries' regional strategies, simplifying the regional development programme structure, implementing a comprehensive reform of regional government, merging the State's regional government authority performance negotiations and the regional programme implementation plan negotiations into a single entity, defining regional funding, regionalising State functions, and developing the forecasting and evaluation of various measures.

Moreover, the municipalities' role as very significant implementers on a practical level of public service measures, such as measures relating to education, health care and the operating environment for businesses, is also of prime importance for the success of regional policy.

### Support of Structural Fund Policy for Finland's National Reform Programme

In the period 2007–2013, Finland will receive around EUR 1,716 million in structural fund subsidies, which is approximately one fourth less than in the previous period. Together with national funding, a total of EUR 3,726 million of public funding is committed to structural fund programmes, which will be used to implement the Regional Competitiveness and Employment target as well as the Regional Cooperation in Europe target (incl. ENPI).

A total of EUR 1,596 million is available for regional competitiveness and employment measures, of which the European Regional Development Fund (ERDF) contribution is EUR 977 million and the European Social Fund (ESF) contribution is EUR 618 million. The ERDF contribution to Regional Cooperation in Europe measures is EUR 120 million.

Finland's national structural fund strategy is to strengthen national and regional competitiveness, employment and well-being. In accordance with the strategy, the objective of the structural fund period is to promote expertise, technology, regional competitiveness and employment, and secure skilled labour in each priority area. The priorities of the strategy are:

- Promoting business and enterprise (ERDF),
- promoting innovation and networking, and strengthening competence structures (ERDF),
- expertise, labour, employment and entrepreneurship (ESF), and
- improving the accessibility and operating environment of the regions (ERDF).

A preliminary estimate indicates that overall around 88 per cent of the available funding from the Structural Fund will be used directly for measures in accordance with the Lisbon goals. The highest portion is in the Mainland Finland action plan, in which around 96 per cent of measures are directly in accordance with the Lisbon goals. In regional ERDF action plans the portion varies by programme, with the average being around 80 per cent. In addition, other measures will clearly be linked to supporting measures in accordance with the Lisbon strategy and this will indirectly promote the achievement of the Lisbon goals.

ERDF action plan appropriations will be allocated more than in the past to supporting key business activity and clusters of expertise in terms of regional development and competitiveness as well as to projects promoting regionally more comprehensive expertise, innovation and networking. The key aim of the plans is to promote business and enterprise as well as innovation, networking and expertise structures. A preliminary estimate indicates that at least 80 per cent of the available ERDF funding will be directed to measures in accordance with these priorities.

In the development of business competitiveness and expertise, the focus will particularly be on new companies with a desire and potential to grow and on their capacity to commercialise new innovations. In addition, conditions for companies to participate in various cooperation networks – regional, nationally and internationally – will be promoted.

Innovation and expertise will be supported, for example by strengthening transfers of technology and expertise as well as product development services. Similarly, innovation services specialised in commercialisation will be developed, and company-oriented projects to develop innovation and competitiveness will be initiated in areas of expertise important for regional development. Funding will be used, among other things, for supporting key joint projects for the development of projects created via centre of expertise and regional centre programme innovation networks as well as for promoting networked clusters of expertise.

A characteristic feature of structural fund programmes for the 2007-2013 programme period is their thematic content. In the regional ERDF programmes the aim is to develop clusters of expertise based on regions' own strengths and competencies as well as to link up with other regions' clusters of expertise for their mutual benefit. The Mainland Finland ESF action plan is characterised by theme-specific national coordination. Thematic entities are implemented in development projects throughout Finland coordinated on a national level. They are cross-administrative, strategic and goal-oriented entities consisting of several projects. National development projects are linked to the different priority areas of the programme and cover, for example, the promotion of entrepreneurship and employment, and the development of expertise.

The Government approved both the National Structural Fund Strategy and the related action plans in February 2007. The Commission approved the plans in autumn 2007, after which the implementation of the plans could be initiated in full. Before this, project decisions could be made from June 2007 for company projects in ERDF action plans (Priority 1: Promoting business and enterprise). During summer 2008, implementation has become more active and the regions have many projects awaiting final project decisions.

## APPENDIX I

# The finnish flexicurity model

The adaptation of European flexicurity principles to Finnish conditions will be prepared by a tripartite Flexicurity Group. The working group's term will expire at the end of 2010. The objective is a common understanding of different parties on the principles by which working life and legislation will be developed. The work will be coordinated with the committees and working groups currently reviewing the comprehensive reform of social security, the comprehensive reform of adult education and the improvement of labour market matching.

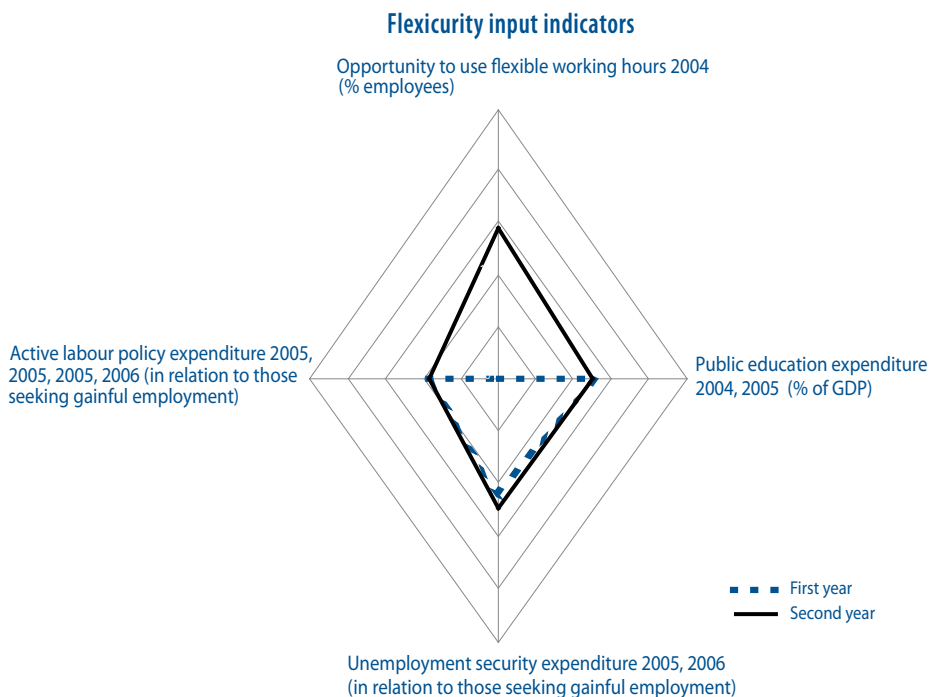
The key aims of the Finnish flexicurity model are:

- Quickly from job to job – good conditions for continuing employment,
- from outside the labour force into work – putting labour resources and expertise to better use, and
- high quality of working life – a key factor in extending working careers and improving competitiveness.

### Input indicators for flexicurity measures

The flexicurity input indicators used are: the opportunity for workers to utilise flexible working hours, public funding (% GDP) used for education, and funding available for active labour market measures and unemployment security for those seeking gainful employment (= unemployed + reserve of labour). In Finland the values are close or slightly above the EU15 average, with the possibility to utilise flexible working hours significantly above the EU15 average.



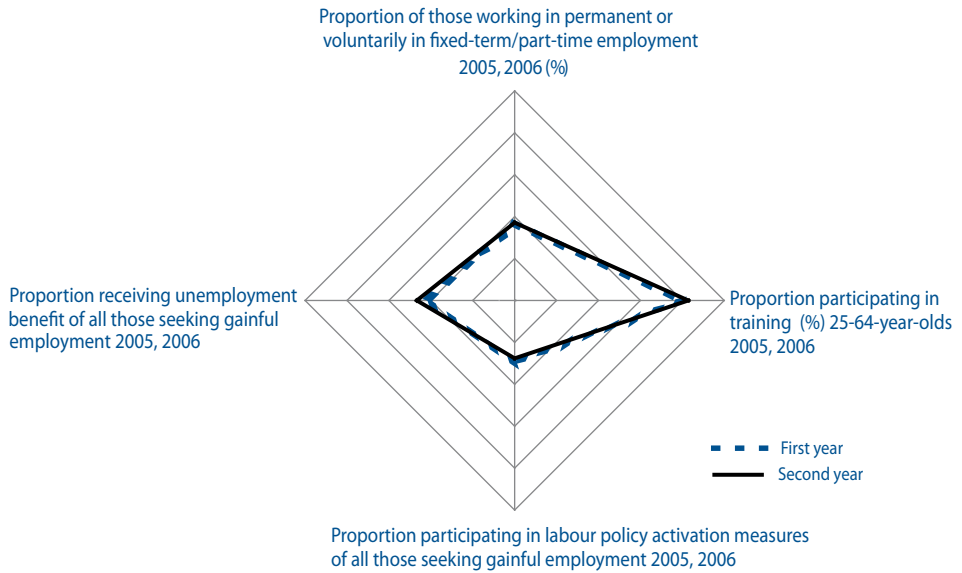


The EU 15 average is second ring in the diagram

### Indicators describing flexicurity measures

The indicators describing the flexicurity process are as follows: the proportion of employees working in permanent employment or voluntarily in fixed-term/part-time employment (the proportion of 'good' employment relationships in all employment relationships), the proportion participating in training, the proportion participating in labour policy activation measures, and the proportion receiving unemployment benefit of all those seeking gainful employment. In Finland the proportion of workers participating in training is significantly higher than the EU15 average, while the number participating in labour policy activation measures is slightly lower than the EU15 average.

### Indicators describing flexicurity measures



The EU 15 average is second ring in the diagram

### Quickly from job to job – good conditions for continuing employment

Employment protection legislation has been completely reformed since the turn of the millennium. The Employment Contracts Act, which entered into force in 2001, lays down provisions on redundancy and termination principles, procedures relating to the ending of employment, and the consequences of illegally ending an employment relationship. The Act on Cooperation within Undertakings, which entered into force in 2007, lays down provisions on the procedures that the employer must follow when giving notice of termination to employees on production and financial grounds.

Employment protection provisions also include provisions relating to employment operating practices. Employment contracts valid until further notice are the main type of employment relationship, but entering into fixed-term contracts is permitted when there is a justified reason, referred to in law, arising from the nature of the task or from the employer's operations. Agency hire of labour and use of subcontractor work are therefore possible employment operating practices. Legislative reforms of recent years have been aimed at preventing unhealthy competition through terms of employment and at putting employers in a mutually equal position.

Incentivising tax, social security and pension systems are an important part of flexicurity. The aim of the social security reform currently under way is to take into account fragmented and diversified forms of work as well as social security in the zone between entrepreneurship and employment so that it is always advantageous to work.

The key elements of the flexicurity element are unemployment security and an active labour policy. The objective is that employees who lose their jobs are employed again quickly (from job to job).

The objective of change security, introduced in 2005, is to accelerate the re-employment of workers who lose their jobs for production or financial reasons by tightening cooperation between employers, workers and the labour administration in such cases. The key objective is to re-employ workers as quickly as possible with a new employer. This objective is pursued by offering employment services during the employee's period of notice.

The Ministry of Employment and the Economy and labour market organisations are currently cooperating in developing change security. Plans will be prepared for all regions and localities to make provision for sudden structural changes. Efforts will be made to improve the opportunities for employees of SMEs in particular to participate in training before their employment finally ends. Workforce training implemented in cooperation with companies will be increased.

A study completed in 2007 showed that the change security model has worked relatively well. The overall picture of the implementation of the model is positive. Early intervention of the labour administration, activation of job-seeking measures and rapid utilisation of training are perceived as particularly positive. The biggest problems relate to publicising the model and to skills deficits as well as the readiness of both employers and employees to take advantage of change security. These aspects in particular will be taken into account as a change security is developed.

### From outside the labour force into work – putting labour resources and expertise to better use

Incentivising unemployment security combined with an effective active labour policy plays a key role in preventing structural unemployment. Opportunities for those who are on disability pension to try and return to working life will be pursued as part of the comprehensive reform of social security.

Employers operating in Finland are relatively free to employ labour from abroad. The functioning of the labour market can be promoted by improving conditions for recruitment from abroad. At the same time, efforts will be made to ensure that the terms of employment applied in the labour market are in accordance with legislation and sector-specific collective agreements. The Contractor's Liability Act, which entered into force in Finland in 2007, imposes a duty on companies who use foreign labour to ascertain that the contracting party offering labour fulfils its employer's obligations in relation to the authorities and its workers. Particular attention will be paid to the effectiveness of the Contractor's Liability Act when monitoring its application in practice. It is essential to improve the security experienced both by different groups within the labour market and by workers who are outside the labour market.

### High quality of working life – a key factor in extending working careers and improving competitiveness

Developing workplaces in order to improve their innovation capacity and productivity is part of the Finnish flexicurity model. Labour legislation and collective bargaining now provide broad opportunities to agree terms of employment, such as working hours and other organisation of work, also taking into account the flexibility and security needs of parties on the local level.

In addition to legislation and agreements, operating practices and workplace culture, such as management and work organisation, have an impact on flexibility and security. In order for it to succeed, flexicurity requires parties to prepare for and anticipate changes.

The working age population is already extensively involved in adult education. In the comprehensive reform of adult education currently under discussion, it is important from the perspective of flexicurity that training is offered more widely also to groups which are outside the core labour force, such as the unemployed and those returning to working life from household work and retirement, and that the personnel of companies of all sizes have equal opportunities to participate in developing their skills.

Due to the changing age structure of the population, the significance of the quality of working life and innovations is growing in the promotion of employment and work productivity. Working hours and the pay received for

working are just as important, but alongside them employees are increasingly interested in work-quality factors such as working conditions, working autonomy, opportunities to exert an influence in work and the challenging content of work. New flexible forms of work organisation often require an increase in workplace training.

The opportunities for Finnish employees to influence the organisation of their work are good by European standards. The number of employees who discuss their work performance with their supervisors is high compared with a number of EU countries.

The establishment of the Ministry of Employment and the Economy at the beginning of 2008 facilitated better regionalisation and implementation of measures relating to the quality of working life via the Employment and Economic Development Centres. Quality of working life and the simultaneous improvement of productivity are now part of the training arranged for regional government business advisors. The training is implemented on the basis of tripartite cooperation.

## APPENDIX II. INTEGRATED GUIDELINES

Broad Economic Policy Guidelines	Situation	Objectives	Measures
<b>Guideline 1:</b> To secure economic stability for sustainable growth	<ul style="list-style-type: none"> <li>- central government finances in surplus but clearly declining</li> <li>- slower economic growth poses risk to local government finances, large disparities between individual municipalities</li> <li>- Finland's economic upswing has levelled off and economic growth is slowing down fast. Inflation will gradually decelerate next year, industrial cost competitiveness weakening.</li> </ul>	<ul style="list-style-type: none"> <li>- a structural surplus equivalent to 1% of GDP by the end of the government term in 2011</li> <li>- Finland's tax policy stance must not jeopardise long-term sustainability in general government or the obligations set out in the Stability Programme.</li> <li>- changes in taxation will be scheduled bearing the economic cycle in mind, with a view to securing economic growth that is as stable as possible. In addition, pay settlements will be taken into account when determining the magnitude and timing of the planned income tax cuts.</li> <li>- central government finances must never show a deficit of more than 2½% of GDP even in a weak economy</li> </ul>	<ul style="list-style-type: none"> <li>- the Government is committed to observing the system of spending limits</li> <li>- central government spending limits decision for 2008-2011</li> </ul>
<b>Guideline 2:</b> To safeguard economic and financial sustainability as a basis for increased employment	<ul style="list-style-type: none"> <li>- population of working age will start shrinking towards the end of the government term and labour supply will diminish as a result of population ageing</li> <li>- mounting pension expenditure and increasing expenditure pressures in health and social care services as population ages and service demand grows</li> </ul>	<ul style="list-style-type: none"> <li>- sustained by a resolute policy and providing the world economy remains buoyant and wage trends help perk employment, it is possible to create 80,000 to 100,000 new jobs over the current parliamentary term</li> <li>- to boost the employment rate to 75% in the long term</li> <li>- to raise the average age of retirement in the longer term by 3 years from the current 59½ years</li> <li>- to adjust pension expenditure to higher life expectancy</li> <li>- assessment of whether sufficient provision for the ageing of the population has been made, and any reforms required will be implemented during this government term</li> <li>- ensure funding for social security and access to social welfare and health care in the long term, make work pay and reduce incentive traps.</li> </ul>	<ul style="list-style-type: none"> <li>- Government policy programmes for employment, entrepreneurship and worklife (see Employment Guidelines)</li> <li>- pension reform introduced at the beginning of 2005, incl. a life expectancy factor that will impact new pensions as of 2010</li> <li>- restructuring of municipalities and services (see Guideline 3)</li> <li>- basic public services programmes for 2007-2011, 2008-2011 and 2009-2012</li> <li>- reforms in education system (see Employment Guidelines 18, 20)</li> <li>- updates on computations for impact of ageing on expenditure by the end of 2008</li> <li>- social protection reform (2008-2011), to be drafted by tripartite committee appointed by Government</li> <li>- measures in the ESR programme for 2007-2013 will be used to respond to demographic changes and to secure availability of competent labour</li> </ul>

<p><b>Guideline 3:</b> To promote a growth and employment orientated efficient allocation of resources</p>	<ul style="list-style-type: none"><li>- population of working age will start shrinking and labour supply will diminish as a result of population ageing</li><li>- mounting pension expenditure and increasing expenditure pressures in health and social care services as population ages and service demand grows</li><li>- in international comparisons and poll results among end-users, the standard of service provision in Finland is rated very highly, both in terms of quality, effectiveness and cost efficiency</li></ul>	<ul style="list-style-type: none"><li>- to increase productivity and efficiency in central government, by 2011 on average two thirds of government vacancies created through natural attrition will be filled</li><li>- to boost efficiency in ministries as outlined in the productivity programmes</li><li>-restructure municipalities and services to secure access to quality services in the future.</li><li>- to allocate resources to education, science, technology and innovation policy in order to strengthen know-how (cf. Guidelines 7, 8)</li><li>- make labour demand and supply match better and improve working life</li><li>- to develop unemployment security to encourage rapid re-employment</li></ul>	<ul style="list-style-type: none"><li>- Productivity programme: productivity programmes in administrative branches to curb rising expenditure and to reallocate resources by 2011</li><li>- restructuring municipalities and services; amendments to the Act on Restructuring Municipalities and Services (framework law), Act on Local Authority Boundaries and Asset Transfer Act came into force on 23 Feb. 2007.</li><li>- Statistical data collection on and research into productivity in public services and administration have been both stepped up and improved</li><li>-the Government will increase public R&amp;D funding with a view to increasing private and public R&amp;D contributions to 4% of GDP.</li><li>- to boost labour supply and working life as outlined in the Government Programme (see Employment Guidelines 17-21)</li><li>- revamping unemployment security under the reform of the social protection system</li></ul>
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<b>Guideline 4:</b> To ensure that wage developments contribute to macroeconomic stability and growth	<ul style="list-style-type: none"> <li>- wage settlement is the responsibility of the social partners. The comprehensive collective bargaining agreement contracted in December 2004 expired on 30 Sept. 2007. In the light of the spring 2008 collective settlement, the rise in the wage level has accelerated from the past decade</li> <li>- Labour costs in Finland will rise faster than in the EU and euro area on average both this year and next</li> </ul>	<ul style="list-style-type: none"> <li>- aim to reach wage formation that is favourable to macroeconomic stability and competitiveness.</li> <li>- pay settlements will be taken into account by government when determining the magnitude and timing of the planned income tax cuts – aim to enhance local level wage settlement.</li> </ul>	<ul style="list-style-type: none"> <li>- The Government is committed to further developing the wage bargaining system in collaboration with the social partners.</li> </ul>
<b>Guideline 5:</b> To promote greater coherence between macroeconomic, structural and employment policies	<ul style="list-style-type: none"> <li>- the compatibility of different economic policy sectors is reviewed on a regular basis e.g. in connection with the spending limits process, the drafting of the budget, the stability programme, and the Government's annual strategy document</li> </ul>	<ul style="list-style-type: none"> <li>- to improve the functioning of the labour, product and capital markets</li> </ul>	<ul style="list-style-type: none"> <li>- government inter-administrative policy programmes to promote administrative collaboration</li> <li>- the Ministry of Employment and the Economy was set up at the beginning of in 2008, allowing to improve policy coherence in executing policies in industry, employment and regional affairs</li> </ul>
<b>Guideline 6:</b> To contribute to a dynamic and well-functioning EMU	<ul style="list-style-type: none"> <li>- instability on the financial markets but ECB monetary policy gained market confidence</li> <li>- euro area general government deficits shrunk during upswing but few member state have taken extra measures to boost public finances</li> <li>- Finland has had positive impact on the development of the euro area</li> </ul>	<ul style="list-style-type: none"> <li>- to strengthen the capacity of the economy to adapt</li> <li>- to meet the obligations of the Stability and Growth Pact</li> </ul>	<ul style="list-style-type: none"> <li>- cf. macroeconomic policy guidelines</li> </ul>



<p><b>Guideline 7:</b> To increase and improve investment in R&amp;D, in particular by private business</p>	<ul style="list-style-type: none"> <li>- Finnish R&amp;D investment has been at 3.5% of GDP for a number of years now, private sector accounts for about 70%</li> <li>- Finland has the EU's highest number of people working in R&amp;D as a proportion of the total workforce and the largest proportion of technology and natural science students (about 30% of all tertiary level students)</li> <li>- Public funding for R&amp;D has been increased as outlined in the 2007 spending limits decision</li> <li>- R&amp;D expenditure in industry still growing; business base in R&amp;D work is narrow</li> <li>- Since GDP is growing faster than R&amp;D funding, the ratio of R&amp;D resources to GDP will remain at about the same level (3.5%) and attaining the goal of 4% seems difficult.</li> <li>Finland has moved from pure R&amp;D policy to an expanding R&amp;D&amp;I policy (cf. Guideline 8), meaning that innovation resources will no longer be registered in full in R&amp;D gauges.</li> <li>- structural reforms in universities and in sectoral research in progress.</li> </ul>	<ul style="list-style-type: none"> <li>- to increase ratio of R&amp;D investment to GDP to 4% by 2011</li> <li>- R&amp;D funding growing steadily and impact improving</li> <li>- to increase the volume of external funding in government research institutes</li> <li>- R&amp;D&amp;I funding will be made more extensive as outlined in the national innovation strategy</li> <li>- more companies involved in R&amp;D work</li> <li>- government research institutes receiving more external funding for research</li> <li>- to strengthen the role of VTT Finland in the implementation of innovation policy</li> </ul>	<ul style="list-style-type: none"> <li>- funding for R&amp;D and innovation will be increased by 5 per cent a year between 2008 and 2011; this target is included in the Government's spending limits decision for 2008-2011 made in May 2007</li> <li>- business companies are encouraged to develop their R&amp;D&amp;I operations by selectively offering them public funding on good terms and by allocating public funding on a competitive basis to the best projects</li> <li>- to develop monitoring indicators for gauging the effectiveness of R&amp;D&amp;I resources</li> </ul>
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<p><b>Guideline 8:</b> To facilitate all forms of innovation</p>	<ul style="list-style-type: none"> <li>- shortcomings in the performance of the innovation system, especially in the productization and commercialisation of innovations, consequently inputs in R&amp;D, do not yield good enough results in terms of new businesses or increased business turnover, jobs, and exports</li> <li>- Government proposal for innovation strategy drawn up in June 2008; the aim in launching an innovation strategy is to have an impact on the effectiveness of innovation policy; Parliament will discuss the content of the strategy in autumn 2008.</li> </ul>	<ul style="list-style-type: none"> <li>- knowledge-based innovation policy will be promoted and structural reforms in R&amp;D will be made to further foster it</li> <li>- innovation policy strategies and measures of those executing them will be harmonized to the basic range of options in the national innovation strategy.</li> <li>- to encourage new forms and areas of demand-based and user-oriented innovation activities (incl. public and private services) within the innovation policy, such as expanding innovation policy to the service sector, incl. fostering innovations in social welfare and health care services.</li> <li>- strengthening of the link between internationalization and innovations</li> <li>- overall development of the operating environment of growth companies within the scope of a broad-based innovation policy (better entrepreneurial atmosphere, more serial entrepreneurship, more private venture capital and stronger competence basis for growth entrepreneurship)</li> <li>- bring together regionally dispersed R&amp;D&amp;I activities into networks of innovation communities and create strong regional innovation clusters on the basis of national content selection and the strategic strengths of each region</li> </ul>	<ul style="list-style-type: none"> <li>- Government statement to Parliament on a national industrial and copyright strategy will be prepared by the end of 2008</li> <li>- Knowledge innovations</li> <li>- In line with the decisions made by the Science and Technology Policy Council of Finland in June 2006, internationally competitive science, strategic technology and innovation clusters of centres of excellence will be set up in Finland in core areas of competence from the viewpoint of industry and society (energy and the environment; metal products, forestry, health care and wellbeing, the ICT industry and services); Forest Cluster Ltd was founded in spring 2007 and TIVIT Ltd (information and communications technology) and Fimece Ltd (metal industry) in spring 2008; two more clusters are under preparation</li> <li>- to carry out international assessments of innovation policy structure as of autumn 2008 within the scope of implementing the national innovation strategy.</li> <li>- to promote broad-based innovation by introducing multi- and interdisciplinary curricula: the deed of foundation on the merger of Helsinki University of Technology, Helsinki School of Economics and the University of Art and Design Helsinki that will form the Aalto University Foundation was signed in the summer of 2008 and will start operating on 1 September 2009.</li> <li>- to develop a highly advanced learning environment and climate in Finland that widely encourages innovation</li> <li>- to bolster research capacity in universities and polytechnics by means of additional government funds</li> <li>- Decisions related to the university reform will be made at the latest by 1 September 2009.</li> </ul>
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<b>Guideline 8: To facilitate all forms of innovation (cont'd)</b>		<p>Demand-based and user-oriented innovations</p> <ul style="list-style-type: none"><li>- start implementing the national pioneer market initiative in autumn 2008</li><li>- based on an initiative by the Commission, start national discussion on the use of standardization as an instrument in innovation policy</li><li>- a financial instrument for innovative public procurement is being prepared by TEKES</li><li>- government bill on broader use of vouchers in public services issued in June 2008</li><li>- as outlined in the government programme, R&amp;D more funds will be allocated to the service sector and to non-technological innovations. A technology programme called Innovations in the 'Social and Healthcare Service System' was launched in May 2008 and a technologically-oriented one called 'Serve - Innovative Services Programme' in 2006.</li></ul> <p>Innovation sector</p> <ul style="list-style-type: none"><li>- between 2007 and 2013 the centres of excellence programme (OSKE) will focus on creating key national clusters and internationally more advanced centres of excellence in selected areas</li><li>- the networking of actors beyond larger urban areas to larger clusters will be improved by means of the instruments available in development programmes</li><li>- regional innovation strategies (e.g. in larger urban areas) will be used to select key areas of interest to create a world-class innovation environment in Finland.</li></ul> <p>Innovations and internationalization</p> <ul style="list-style-type: none"><li>- to strengthen the international network of innovation centres (FinNode); in addition to the FinNode centres set up between 2005-2008 (in China, USA, Russia and Japan) the possibility of setting one up in India will be examined.</li></ul>
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	<p><b>Guideline 9:</b> To facilitate the spread and effective use of ICT and build a fully inclusive information society</p>	<ul style="list-style-type: none"> <li>- objectives set in the previous Government's information society programme (one million broadband subscriptions by the end of 2005, basic IT skills for all, secure online services and networks, information society skills in the workforce, R&amp;D to support the development of the information society, quality of public administration, ICT use in all organisations, international impact) already achieved or soon to be achieved.</li> </ul>	<ul style="list-style-type: none"> <li>- to develop the communications infrastructure mainly on commercial terms and through competitive technologies</li> <li>- to promote competition in and between all communications networks</li> <li>- broadband to account for over 90% of all connections, with connection speeds of at least 8Mbit/s in 2007</li> <li>- to promote the ability of individuals and enterprises to use eServices.</li> <li>- encourage confidence of individuals and enterprises in everyday IT services</li> <li>- to strengthen the IT skills of teachers and researchers; to make effective use of ICT in research and education</li> <li>- special emphasis on the status of children and youths in the IT society with a view to securing a digital environment that is safe for everyone.</li> <li>- Particular attention paid to client-oriented reform of service structures in the public sector through extensive use of ICT and through procedural reform.</li> <li>- the range and interoperability of e-services will be increased, the use of open interfaces will be promoted in a competition-neutral way in the information and communications systems of the public administration</li> <li>- moderation in reforming radio frequency usage with a view to achieving more flexibility and</li> </ul>	<p>Growth entrepreneurship</p> <ul style="list-style-type: none"> <li>- in line with the government programme and the innovation strategy proposal, the particular needs of innovative companies with internationalisation and rapid growth potential will be assessed.</li> <li>- hallitusohjelman ja valmisteiden</li> <li>- as outlined in the government programme, reviews on ways to eliminate tax barriers for venture capital and on tax concessions on capital gains for private equity; the Ministry of Finance and the Ministry of Employment and the Economy will use the reviews draw up a proposal by the end of 2008.</li> <li>- draw up programme focussing on the practical implementation of the comprehensively drafted information society strategy, and a ministerial committee will be appointed to head it.</li> <li>- improve access to rapid data connections by fostering construction of optic fibre cable and wireless networks and develop IT society service infrastructure.</li> <li>- access to versatile and high quality communications services will be ensured throughout the country by promoting network development with public funds in areas where no commercial supply can be created.</li> <li>- secure operating conditions for enterprises under all circumstances by developing the operating security of critical infrastructure and enhancing protection of trade secrets.</li> <li>- Legislation on easy-to-use electronic authentication will be amended</li> <li>- changeover to digital television broadcasting in end 2007</li> <li>- to launch an extensive experimental project aimed at providing every comprehensive school pupil with a personal computer for use as a key learning tool.</li> <li>- to assess the future of radio and TV operations with due consideration given to the requirements in financing, licensing and copyright imposed by Internet TV, mobile TV and HDTV.</li> <li>- to improve interoperability of public IT systems and productivity within the scope of boosting public service production</li> <li>- electronic and online projects in social welfare and health care, such as creating a nation-wide electronic medical documentation system for clients by the end</li> </ul>
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			efficiency.	<p>of 2007.</p> <ul style="list-style-type: none"><li>- increasing broadband access in libraries and resolving problem with shadow areas in customer computers</li><li>- work to bring employment services online will be continued and the contents of these services developed</li><li>- to construct electronic search systems for different levels in the educational system</li><li>- A new electronic data system (UMA) to be introduced in immigration matters in the course of 2009.</li></ul>
<b>Guideline 10:</b> To strengthen the competitive advantages of its industrial base	<ul style="list-style-type: none"><li>- globalisation brings constantly new challenges to the economy's capacity for regeneration and adaptation</li><li>- productivity has grown fast in Finnish industry and the manufacture of ICT equipment in particular, but in the service sector there is still room for improvement</li></ul>	<ul style="list-style-type: none"><li>- to make the basis for productivity growth broader</li><li>- to maintain an internationally competitive business environment in Finland</li><li>- to strengthen national clusters</li></ul>	<ul style="list-style-type: none"><li>- steps to strengthen the operating environment through the promotion of innovations, the functioning of markets and working life, competition and entrepreneurship</li><li>- The programme to promote wood products and wood construction is effective until the end of 2010</li><li>- a strategy project (2008-2011) known as 'Forest Sector 2030' was launched to revamp the forest cluster</li></ul>	

<p><b>Guideline 11:</b> To encourage the sustainable use of resources and strengthen the synergies between environmental protection and growth.</p>	<p>- Finland has carried out all the measures required under international agreements for the prevention of climate change</p>	<p>- to secure favourable, ecologically and socially sustainable economic development</p>	<ul style="list-style-type: none"> <li>- Finland's climate and energy strategy has been launched as outlined in the new Government Programme</li> <li>- decision related to Finland's maximum carbon dioxide emissions specified by the EU Commission for the next emissions rights reduction in preparation</li> <li>- the programme proposal by the National Commission for Sustainable Consumption and Production was completed in June 2005 and a follow-up report will be drawn up on its implementation. The programme will be updated on the basis of the follow-up report in 2010.</li> <li>- a national ETAP plan has been drawn up and its implementation is being supervised</li> <li>- a service centre for efficient public procurement set up in connection with MOTIVA Ltd</li> <li>- Tekes, Academy of Finland and Ministry of the Environment research programmes, Sitra environment programme</li> <li>- Finnish Strategy for Sustainable Development was revised and the Finnish National Commission on Sustainable Development endorsed it in June 2006; Government approved a government resolution drawn up on the basis of the Strategy in December 2006.</li> <li>- the government programme for 2008-2011 on consumer policy includes measures to promote consumer information that fosters sustainable consumption</li> </ul>
<p><b>Guideline 12:</b> To extend and deepen the internal market</p>	<ul style="list-style-type: none"> <li>- Finland does not delay in implementing EU regulations at the national level</li> <li>- Finland will participate in the Internal Market Problem Solving System (SOLVIT network) to resolve Single Market barriers and improve collaboration between authorities in the member states by means of the Internal Market Information system (IMI)</li> <li>- new directives relating to public procurements shall be implemented into national legislation</li> <li>- national implementation of the</li> </ul>	<ul style="list-style-type: none"> <li>- to meet the EU's 1.0% implementation deficit target</li> <li>- aim to ensure internal market rights for citizens and businesses and enable effective collaboration between authorities to implement obligations set out in Internal Market legislation.</li> <li>- to increase flexibility and competition in public procurement</li> <li>- to create effective and efficient legislation to enhance the functioning of the service markets</li> </ul>	<ul style="list-style-type: none"> <li>- implementation of the directives will be constantly monitored and measures taken if and where necessary</li> <li>- to draft strategy on Single Market policy with a view to creating more efficient horizontal exploitation of the Internal Market</li> <li>- to offer citizens and businesses assistance in cross-border problems and to a pilot project within the context of the Internal Market Information system (IMI) related to the Directive on the initial qualification and periodic training of drivers of certain road vehicles for the carriage of goods or passengers</li> <li>- a broad working group set up in March 2008 is preparing national implementation of the Services</li> </ul>

	<p>Services Directive started in 2007</p> <ul style="list-style-type: none"><li>- Community legislation applies to free movement of labour</li></ul>		<p>Directive. Significant issues related to assessment of licensing and administrative requirements and setting up a centralized location for transactions for service business operators.</p> <ul style="list-style-type: none"><li>- national implementation of the Directive on the initial qualification and periodic training of drivers of certain road vehicles for the carriage of goods or passengers completed on 1 January 2008.</li><li>- to draft legislative work permit simplification and clarification provisions related to the immigration policy programme.</li><li>- to simplify the residence permit system so that the permit includes right to work and study. Revoke consideration of the availability of labour in stages</li></ul>
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<p><b>Guideline 13:</b> To ensure open and competitive markets inside and outside Europe and to reap the benefits of globalisation</p>	<ul style="list-style-type: none"> <li>- higher prices than in the EU on average, low consumer purchasing power</li> <li>- low productivity and lack of competition in certain service branches, although recent academic studies give a more positive perspective on the situation</li> <li>- 97% of subsidies to the manufacturing industry and services go to the</li> <li>- promotion of horizontal objectives</li> <li>- one quarter of enterprise subsidies in industry and services allocated to development of R&amp;D activities; aim to raise R&amp;D ratio to GDP to 4% by 2011</li> </ul>	<ul style="list-style-type: none"> <li>- to improve the functioning of markets and achieving efficiency gains to increase consumer purchasing power, to improve service productivity</li> <li>- to integrate competition policy as part of comprehensive industrial policy</li> <li>- to remove restrictions to competition</li> <li>- to coordinate state subsidies policy and cut the total amount of subsidies</li> <li>- more widespread use of voucher system and domestic work deduction, promoting the creation of well-functioning service markets</li> </ul>	<ul style="list-style-type: none"> <li>- a working group appointed by the Ministry of Employment and the Economy will examine by the end of 2008 the need to amend the Act on Competition Restriction to ensure efficient implementation of competition policy</li> <li>- a report by a working group assessing competition-neutrality between public and private economic activities completed in October 2008</li> <li>- voucher system to cover home nursing services by beginning of 2008</li> </ul>
<p><b>Guideline 14:</b> To create a more competitive business environment and encourage private initiative through better regulation</p>	<ul style="list-style-type: none"> <li>- Finland's strengths are the openness, flexibility and efficiency of its system</li> <li>- according to the Government Programme, by improving the regulatory environment and simplifying legislation it is possible to foster business competitiveness</li> </ul>	<ul style="list-style-type: none"> <li>- to translate the goal of better regulation into concrete measures</li> <li>- to identify, measure and reduce the administrative burden of enterprises more comprehensively and with clearer goals</li> <li>- better impact assessments</li> <li>- more systematic evaluation of alternatives in the regulatory environment</li> <li>- transparency of law drafting and more opportunities for stakeholders to participate</li> <li>- promoting more responsible operating and production modes at in the work environment and in business activities</li> </ul>	<ul style="list-style-type: none"> <li>- the government legislation plan (2007) specifies the key legislative policy measures and key legislative projects</li> <li>- a national action programme to reduce the administrative burden of enterprises will be completed by the end of 2008; the administrative burden will be eased by simplifying legal provisions and improving transactions with authorities</li> <li>- administrative burdens for SME employers have been reduced by increasing access to online transactions with authorities</li> <li>- new standard instructions on the impact assessment of legislative proposals were published in November 2007. The instructions apply to the assessment of their legislative impact on economic, administrative, environmental and other social aspects. Practical application of the instructions will be facilitated by means of training, electronic information dissemination and through networks of experts. The Ministry of Justice will supervise how well the instructions are followed.</li> <li>- the project to assess the regulatory impacts of legislation on business (SÄ VY) will be continue to operate</li> <li>- set up a national committee for public and corporate social responsibility in 2008-2011 to foster corporate social responsibility policy</li> </ul>



<p><b>Guideline 15:</b> To promote a more entrepreneurial culture and create a supportive environment for SMEs</p>	<ul style="list-style-type: none"><li>- by international standards, the proportion of businesses that are created as microfirms and that die as microfirms is still all too high in Finland; only few businesses develop into medium-sized or large enterprises</li><li>- the lack of appeal of careers in entrepreneurship and the perceived incentives compared to the risks of setting up in business discourage ambitions to put innovative business ideas into practice and convert them into growth-minded ventures</li></ul>	<ul style="list-style-type: none"><li>- to make Finland one of the most attractive business environments in Europe</li><li>- to strengthen incentives for entrepreneurship</li><li>- and to increase the appeal of a career in entrepreneurship, including academic entrepreneurship</li><li>- to strengthen the desire of business companies to grow and to improve the preconditions for growth-oriented entrepreneurship</li><li>- to promote the conversion of innovations into products and new businesses</li><li>- to improve access to financing</li><li>- to ensure competition conditions that favour entrepreneurship as well as the predictability of the regulatory environment</li><li>- to reduce the bureaucratic burden in entrepreneurship</li><li>- to encourage women to become entrepreneurs</li><li>- entrepreneurship for immigrants will be promoted as outlined in the working group report of the Ministry of Employment and the Economy</li></ul>	<p><b>Financing</b></p> <ul style="list-style-type: none"><li>- the Act on Discretionary Government Transfers, aimed at generating more new businesses, entered into force on 18 June 2007. The funding will be allocated primarily to SMEs to further improve their expertise, technological competence and internationalisation potential and to improve their operating environment, and for companies with growth potential.</li><li>- Finnvera plc was granted income tax-exemption, which can be seen in the price of funding and risk-taking</li><li>- TEKES has launched a financing programme for start-up technology businesses.</li><li>- start-up grants periods for new entrepreneurs were made longer</li><li>- the pilot project for grants to sole entrepreneurs has been broadened</li></ul> <p><b>Taxation</b></p> <ul style="list-style-type: none"><li>- reforms in business and capital income taxes introduced in 2005</li><li>- net wealth tax was abolished in 2006</li><li>- tax cuts implemented in 2006 to make generational changeovers easier, and under the new Government Programme, the tax will be abolished in certain cases of generational changeovers in businesses</li><li>- amendments to inheritance and gift taxes</li><li>- Finland is participating in the EU experiment on lowering the VAT rate for certain labour-intensive services</li><li>- Regional experimentation on social security contribution exemptions will be pursued</li><li>- legislative provisions governing temporary low-wage subsidies for employers came into force in 2006</li></ul> <p><b>Economic incentives</b></p> <ul style="list-style-type: none"><li>- social security of entrepreneurs will be further developed in line with the Government Programme.</li><li>- The amended Restructuring of Enterprises Act entered into force on 23 January 2007. The purpose is to create better conditions for successful restructuring and speed up processing of</li></ul>
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		<p>restructuring applications. The Act on the Adjustment of the Debts of a Private Individual was enacted at the beginning of 2007 with a view to encouraging entrepreneurs under debt restructuring to earn extra income</p> <ul style="list-style-type: none"> <li>- entitlement of members of an entrepreneur's family to unemployment benefit will be improved in October 2007</li> <li>- the sick leave quarantine days for entrepreneurs reduced to 4 days, which is the same as for wage earners; entrepreneurs became eligible for partial sickness allowance from the beginning of 2007; moreover, medical care is now included in occupational health care for entrepreneurs</li> <li>- the cost of family leaves will be divided more equally between the employers operating in male- and female-dominated sectors</li> <li>- new Self-Employed Persons Pensions Act was adopted by Parliament on 24 November 2006; pension provisions for entrepreneurs include no significant amendments and the provisions remain largely the same as in the earlier Act</li> </ul> <p><b>Innovation in SMEs</b></p> <ul style="list-style-type: none"> <li>- see Guideline 8</li> </ul> <p><b>Public enterprise services and entrepreneur training</b></p> <ul style="list-style-type: none"> <li>- public enterprise services will be further developed in line with the web-based on-line business service portal (EnterpriseFinland.fi); the aim is to create functions based on close collaboration between business service organisations and efficient electronic services.</li> <li>- the regional and local level organization of the Ministry of Employment and the Economy will be overhauled; services will be brought closer to enterprises.</li> </ul> <p><b>Employment and SME employers</b></p> <ul style="list-style-type: none"> <li>- system introduced at the beginning of 2006 offering access to A web-based on-line payment service system (<a href="http://www.palkka.fi">www.palkka.fi</a>) for SME employers. It allows SMEs to pay wages and to deal with red tape with authorities in electronic form</li> </ul>
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			<ul style="list-style-type: none"> <li>- headed by the Ministry of Labour, recommendations for strengthening the competence in labour law of employers of microfirms were completed</li> <li>- recruitment threshold for sole entrepreneurs promoted by introducing trial subsidy in summer 2007; trial system extended in line with the government programme from the beginning of 2008.</li> </ul> <p><b>Regulatory environment and administrative burden</b></p> <ul style="list-style-type: none"> <li>- The Limited Liability Companies Act and the Auditing Act were amended in 2006; the new Limited Liability Companies Act allows for the founding of a 'minimal company', which makes it easier to draw up articles of association for a new business. The minimum equity requirement for a limited company was lowered from EUR 8,000 to EUR 2,500, and under the new Auditing Act it is no longer compulsory for small enterprises to have an auditor.</li> <li>- common consolidated corporate tax base will be introduced in 2009</li> <li>- The 'one-stop shop' principle in submitting annual final accounts to the authorities will be implemented in 2009.</li> <li>- the administrative burden of enterprises will be eased and the impact assessment of new legislation on businesses will be enhanced, cf. Guideline 14.</li> </ul> <p><b>Other measures</b></p> <ul style="list-style-type: none"> <li>- projects to promote entrepreneurship among women and the creative sectors have been launched by the Ministry of Employment and the Economy</li> <li>- The ESF programme 2007-2013 aims to foster SME activities and the competence and adaptability of their staff and to boost entrepreneurship</li> </ul>
		<ul style="list-style-type: none"> <li>- to develop and focus the TEN programme</li> <li>- to develop cooperation among energy companies in the Baltic Sea area</li> <li>- to maintain the cost competitiveness of the energy infrastructure, including energy transfer</li> </ul>	<ul style="list-style-type: none"> <li>- second electricity transit connection between Finland and Sweden is in the licensing stage</li> <li>- Finnish administration participated in preparing European protection programme for critical infrastructure</li> <li>- assessment work on natural gas pipeline between Finland and Estonia is progressing</li> </ul>
		<ul style="list-style-type: none"> <li>- not always sufficient incentives to build networks</li> <li>- low level of TEN energy funding compared to the level of investments required</li> <li>- national list of projects on transport investments within the TEN system</li> </ul>	
		<p><b>Guideline 16:</b> To expand, improve and link up European infrastructure and complete priority cross-border projects with the particular aim of achieving a greater integration of</p>	

national markets within the enlarged EU	- Eurovignette system for road traffic		<ul style="list-style-type: none"><li>- the last western sections of the TEN traffic network E18 motorway are nearly complete and the plans for the remaining eastern sections of the motorway are in progress.</li><li>- a report will be drawn up on the introduction, extent and impact of a trial for road tolls on the E18 motorway</li></ul>
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<p><b>Employment guidelines</b></p> <p><b>Guideline 17:</b> To implement employment policies aiming at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion</p>	<ul style="list-style-type: none"> <li>- the employment rate was 78% in summer 2008, exceeding the intermediate Lisbon target. The Lisbon 2010 employment targets have been reached for women (68.5%) and for the age group 55-64 (55.0%).</li> <li>- the unemployment rate, which in 2007 was 6.9% (women 7.2%), is declining, but high structural unemployment remains a major problem</li> <li>- regional differences in unemployment and employment have decreased in the 2000s</li> </ul>	<ul style="list-style-type: none"> <li>- the government aim is to create between 80 000 – 100 000 new jobs and to raise the employment rate to 72% over the parliamentary term 2007 - 2011</li> <li>- the system of unemployment security will be revised in cooperation with the collective organizations with a view to promoting effective re-employment: under preparation in a committee appointed to reform social protection (SATA Committee)</li> </ul>	<ul style="list-style-type: none"> <li>- the goal of strengthening employment applies across all policy sectors</li> <li>- earned income taxation and the tax wedge reduced in order to support employment</li> <li>- ESF programme 2007-2013</li> <li>- policy programme for employment, entrepreneurship and worklife</li> <li>- harmonization of social benefits and work, especially low-wage work will be assessed in connection with the social protection reform (see Guideline 2).</li> </ul>
<p><b>Guideline 18:</b> To promote a life-cycle approach to work</p>	<ul style="list-style-type: none"> <li>- the potential to increase employment rates is greatest at the beginning and at the end of work careers</li> <li>- youth unemployment rate is high but decreasing (16.5% in 2007) and youths enter the labour market late in life</li> <li>- the employment rate among older people (55-64-year-olds) has increased (55.0% in 2007), but the average age of retirement is still low (exceeds the EU15 and EU27 level though)</li> <li>- employment and unemployment differentials between men and women minimal, but wage differentials exist and have not narrowed down</li> <li>- opportunities to alternate between work and training are fairly good, but not used to their full potential</li> <li>- small proportion of men apply for family leave</li> <li>- excess weight and excessive use of intoxicants are a threat to the work capacity of the population</li> <li>- mental health problems account for a significant amount of in sick leave and early retirement figures</li> </ul>	<ul style="list-style-type: none"> <li>- the Government's goal is to raise employment rates in all age groups (excluding those in education) and in different regions</li> <li>- the aim is to push up the age of retirement by around 3 years in the long term, and to speed up graduation from higher education by at least one year</li> <li>- to reduce wage differentials significantly between men and women and to promote gender equality in the labour market</li> <li>- to prevent marginalisation of young people from education and working life</li> <li>- to promote work capacity, health and wellbeing of population of working age</li> <li>- to foster the welfare of children, youths and families</li> <li>- encourage men to use family leave</li> </ul>	<ul style="list-style-type: none"> <li>- social guarantee for young people (since 2005) whereby young unemployed people are offered a training or workshop place within three months of unemployment</li> <li>- child and youth policy development programme to be completed by end 2007. Programme used as a basis for the policy programme for the welfare of children youths and families.</li> <li>- measures to improve study placement (e.g. electronic application to educational institutions, wider choice in degree, more collaboration in selection)</li> <li>- measures to increase early start in university studies (e.g. raising the percentage of new students to 55% of most recent school-leaving graduates in 2008)</li> <li>- measures to accelerate graduation, e.g. introduction of personal study plans and better student guidance in the course of studies</li> <li>- working group appointed to reform of adult vocational education (AKKU)</li> <li>- pension reform introduced in 2005</li> <li>- to improve quality and productivity in working life by means of comprehensive Tykes programme (2004-2009), ESF 2007-2013 to help people stay in work</li> <li>- ESF: development programme and projects for better information, advice and guidance services for adults 2007-2013</li> <li>- NOSTE programme (2003-2007) to raise the</li> </ul>

		<p>educational level of adults</p> <ul style="list-style-type: none"><li>- implementation of the new Gender Equality Act from June 2005 (e.g. workplace equality plans)</li><li>- policy programme to promote health 2007-2010</li><li>- occupational health 2015 to be implemented, cooperation between occupational health care and rehabilitation will be enhanced, measures to promote health at work, assessment of industrial safety strategy in 2007</li><li>- policy programme for the wellbeing of children, youth and families (2007-2010)</li><li>- provisions governing family leave amended (eg. paternity leave extended)</li><li>- launching of a wellbeing at work forum 2008-2011 to promote interest in work, wellbeing, safety and working life.</li></ul>
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<p><b>Guideline 19:</b> To ensure inclusive labour markets, enhance work attractiveness, and make work pay for jobseekers, including disadvantaged people, and the inactive</p>	<ul style="list-style-type: none"> <li>- the 'hard-to-employ' account for 39,1% of those out of work and placed in active measures, although the numbers are slowly decreasing</li> <li>- the rate of long-term unemployment (1.6% in 2007, women 1.4%) is below the EU average, and the target for activating the long-term unemployed has been exceeded (33.0% in 2007)</li> <li>- the activation rate for the unemployed was 29.1% and for people with disabilities 26.3%</li> <li>- the unemployment rate for immigrants (approx. 21% in 2007) exceeds the average for all unemployed</li> <li>- altogether 3.6% (women 2.8%) of the unemployed aged under 25 remained without a new start in activation measures 6 months after unemployment, and the same figure over 12 months of unemployment was 6.4% (women 4.9%) for the under-25s.</li> <li>- employment through active measures and especially from training has improved</li> <li>- socio-economic health differences have either remained large or in some cases become even wider</li> </ul>	<ul style="list-style-type: none"> <li>- to create more job opportunities for immigrants</li> <li>- during their integration period, immigrants acquire necessary language and other skill required for working</li> <li>- to strengthen the demand for labour in low-productivity jobs</li> <li>- special focus on groups at risk of social exclusion and ease suffering and social exclusion in children, youths and families</li> </ul>	<ul style="list-style-type: none"> <li>- establishment of 39 labour force service centres for the hard-to-employ in 2004-2006</li> <li>- reform of the labour market support system from the beginning of 2006 and simplification of employment subsidies</li> <li>- educational and social guarantee for young people, development of workshop activities and other measures aimed at young people</li> <li>- to improve the impact of employment policy by raising the percentage of people placed in the labour market after activation measures to 40%.</li> <li>- a national action plan for social protection</li> <li>- obligations on age restrictions of rehabilitative employment activities will be abolished and content of activities will be developed to better correspond to individual needs of participants</li> <li>- ESF programme 2007-2013</li> <li>- the Non-Discrimination Act, which came into force in 2004, promotes equal opportunities for everyone in the workforce (irrespective of age, ethnicity or origin, nationality, language, religion, conviction, opinion, state of health, handicap or sexual orientation)</li> <li>- to develop education opportunities for immigrant adults and those at risk of social exclusion</li> <li>- ESF: better early stages guidance services for immigrants project 2007-2013</li> <li>- to draft an action plan for immigration policy</li> <li>- to draft skeleton law for integration and impact of integration and a follow-up system on integration an ethnic relations (January 2008)</li> <li>- to develop the intermediate labour market so that they help some customers find employment in the open labour market and jobs that improve work capacity and life management for some, incl. ESF/national development programme</li> <li>- restructuring protection system introduced in 2005</li> <li>- Act on Social Enterprises came into force in 2004</li> <li>- policy programme for the wellbeing of children, youths and families (2007-2010)</li> <li>- action plan on bridging the gap in people's health status launched in 2007</li> <li>- the Act on Social Enterprises will be extended so that it applies to immigrants living in Finland, as presented in a statement by Parliament</li> </ul>
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			<ul style="list-style-type: none"> <li>- Equal Pay Programme</li> <li>- Government Action Plan for Gender Equality for 2008 – 2010</li> <li>- Report on equality between men and women 2010</li> <li>- to improve the link between employment services and business services by means of the new employment and economic development units</li> <li>- making better use of labour and education demand projections</li> <li>- reform of the employment services concept by the end of 2006, set up job brokerage centres</li> <li>- reform of the employment services concept by the end of 2006, set up job brokerage centres</li> <li>- draw up operational guidelines to develop employer services and job brokerage</li> <li>- introduction of restructuring protection as from July 2005 to speed up the re-employment of people made redundant for financial reasons, study on functioning of restructuring protection concept in 2007</li> <li>- utilising the European Globalisation Fund 2007</li> <li>- developing flexible, work-oriented training and funding mechanisms</li> <li>- create more adult labour market training opportunities in collaboration with companies and authorities involved in employment issues and the economy</li> <li>- immigration policy programme endorsed by Government on 19 Oct. 2006</li> <li>- pilot on work-related immigration in ESF programme between 2007-2013. Create a guidance system for immigrants and their families coming to work in Finland</li> <li>- exploiting the EURES network in the EU/EEA to promote mobility</li> <li>- Arranging European Job Fairs events in Finland</li> <li>- Participation in Job Fairs events in other EU/EEA countries</li> <li>- to launch EURES Cross Border project between Estonia and Finland in 2008</li> </ul>
	<ul style="list-style-type: none"> <li>- to strike a balance between labour demand and supply in different regions and branches in the short and long term</li> <li>- to promote labour mobility in the EU and the EEA</li> <li>- to promote employment-related immigration, to create guidance system and to facilitate recognition of competence acquired abroad</li> </ul>		
	<ul style="list-style-type: none"> <li>- the number of job vacancies is high when compared to the unemployment rate and the ratio has further deteriorated (There were on average 0.29 vacancies per unemployed in 2007.)</li> <li>- some branches and occupations are having difficulty finding competent people</li> <li>- the market share of public employment services is 65%</li> </ul>		
<b>Guideline 20: To improve matching of labour market needs</b>			



<p><b>Guideline 21:</b> To promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners</p>	<ul style="list-style-type: none"> <li>- working life has developed favourably in recent years, but the sense time pressure and lack of resources has increased in the workplace (on a scale of 4 to 10, wage earners gave their jobs an average grade of 7.97 in 2007)</li> <li>- the percentage of people in fixed-term employment fell slightly in 2007, recorded at 16% (348,000 people), of which nearly <math>\frac{2}{3}</math> were women. The percentage of people in part-time jobs was 13% (292,000, of which nearly <math>\frac{2}{3}</math> were women.</li> </ul>	<ul style="list-style-type: none"> <li>- to develop working life with a view to improving productivity at work and the quality of working life in close cooperation with labour market organisations</li> <li>- to keep the level of sickness absence days at 3.9%</li> <li>- to supervise closer the terms of employment and working conditions of foreign labour</li> <li>- to promote measures that will reduce labour market segregation by gender</li> </ul>	<ul style="list-style-type: none"> <li>- reorganise the balance between flexibility and protection in a tripartite working group between 2007-2010</li> <li>- steps to boost productivity by developing procedures and working methods in the workplace through programmes such as Tykes (see Guideline 18)</li> <li>- to integrate equality of working life and productivity as part of tripartite cooperation training designed for business advisers.</li> <li>- monitoring of changes in the quality of working life by means of a working life barometer 2008</li> <li>- reform of the Act on Cooperation within Undertakings came into force on 1 July 2007</li> <li>- Government proposal on measures relating to fixed-term employment issued in autumn 2007</li> <li>- amendments in the Employment Contracts Act and Act on Occupational Safety and Health Enforcement came into force on 1 January 2008.</li> <li>- Government proposal on special provisions governing temporary agency workers presented in spring 2008.</li> <li>- working group appointed to examine status of temporary staff employed through agencies</li> <li>- securing minimum employment conditions for foreign workers and stepping up related control measures (which also ties in with the goal of preventing undeclared work), e.g. 12 new supervisors appointed in the Occupational Safety and Health Inspectorates</li> <li>- tripartite Equal Pay Programme 2006</li> <li>- act on the purchaser's verification obligations and responsibilities when employing external work force came into effect on 1 Jan. 2007</li> <li>- legal provisions of amending the Posted Workers Act came into force at the beginning of 2006, those on amending the Occupational Safety and Health Act in February 2006</li> <li>- promoting versatile working hour arrangements and facilitating the system of banking working hours as well as the rotation of work and leisure periods, incl. continuation of switch leave system as of 1 Jan. 2008 (fixed-term two-year legal provision)</li> <li>- Better opportunities for parents of small children to spend time with them, raise the partial child care</li> </ul>
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			<p>allowance sum in 2010, make it applicable to entrepreneurs, extend paternity leave by two weeks, improve opportunities for families with children to receive home help services.</p> <ul style="list-style-type: none"> <li>- review work on care leave for family carers started in spring 2008</li> <li>- promote working time arrangements in employment policy that will boost employment and help reconcile work and family, encourage development of system of working hours bank</li> <li>- extending eligibility for start-up grants in business to employed persons and the economically inactive in 2005.</li> <li>- reform of the Act on Personnel Funds in progress, deadline at beginning of 2009.</li> <li>- issues related to equal treatment in working life integrated as part of the overhaul of the legal provisions on non-discrimination</li> </ul>
<b>Guideline 22:</b> To ensure employment-friendly labour cost developments and wage-setting mechanisms	<ul style="list-style-type: none"> <li>- unemployment among people with a low level of education is relatively high although decreasing, and wage differentials are quite small</li> <li>- see Guideline 4</li> </ul>	<ul style="list-style-type: none"> <li>- to improve the employment prospects of low-productivity labour to find employment</li> </ul>	<ul style="list-style-type: none"> <li>- reducing the labour costs for people aged 54 or over earning less than 2,000 euros a month by means of low-wage subsidies</li> <li>- tax cuts on earned income 2003-2007</li> <li>- expanding the tax deduction system that is aimed at supporting household, care and renovation services</li> <li>- developing student and study counselling as well as student selection e.g. by reforming the joint application system for secondary level education and by setting up a nationwide joint application system for university admission</li> <li>- developing adults' professional skills and competencies so that they can stay on the job (e.g. NOSTE)</li> <li>- proposals of preparatory working group set up by the Ministry of Education and the Ministry of Employment and the Economy to develop IT services, advising and instruction in adult education</li> <li>- ESF: development programme and projects between 2007-2013 for IT services, advising and instruction in adult education (cf. Guideline 18)</li> <li>- intensifying admission into education after basic level education</li> <li>- reducing the dropout rate by reforming the degree structure and funding mechanisms that emphasise results and performance</li> <li>- developing education for immigrants</li> <li>- ESF programme 2007-2013</li> </ul>
<b>Guideline 23:</b> To expand and improve investment in human capital	<ul style="list-style-type: none"> <li>- by international comparison young people in Finland have a high level of education, and Finland has reached the EU targets with respect to educational level and dropout rates for young people</li> <li>- in older age cohorts the level of education is relatively low</li> <li>- Finland has reached the EU target for life-long learning</li> <li>- adult education is unevenly distributed</li> <li>- gender division in fields of study, which is then reflected onto the labour market</li> </ul>	<ul style="list-style-type: none"> <li>- intensify admission into education and to reduce the dropout rate so that 97% of those completing basic education move on to further education</li> <li>- to increase the participation of working-aged people in education so that 60% of those of working age participate in adult education in 2008</li> <li>- to reduce regional differences in participation in adult education</li> <li>- to improve adult guidance and information services</li> </ul>	

<p><b>Guideline 24:</b> To adapt education and training systems in response to new competence requirements.</p>		<ul style="list-style-type: none"><li>- to make the education network more compact</li><li>- to develop the qualifications system</li><li>- to lower dropout rates and to increase educational throughput at all levels of education</li><li>- to improve gender equality awareness in basic education and integrating gender education in teacher training and child care training</li></ul>	<ul style="list-style-type: none"><li>- degrees and degree components will be developed into pathways leading to professional competence</li><li>- teachers' periods in working life and training of workplace advisors</li><li>- increasing learning in the workplace (on-the-job learning, apprenticeship training, practical training, work-oriented training)</li><li>- developing a system that recognizes qualifications acquired earlier and developing earlier competencies</li><li>- developing the network of universities and other educational institutions</li><li>- implementing the measures proposed in the library strategy 2010: reforming library administration, increasing customer terminals, defining services that are nationally produced and acquired, supplementary training for personnel</li><li>- quality assurance systems in place in vocational and higher education institutions</li><li>- to improve international exchange of students, teachers, lecturers and researchers</li><li>- to promote continuing education for teaching staff</li><li>- to develop R&amp;D activities in higher education institutions</li><li>- to set up an innovation university</li><li>- ESF programme 2007-2013</li></ul>
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